

# Distribution of ikea products marketing essay



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Distribution plays a vital role, not only for physical movement and flow of goods, but also for maximizing efficiency, analyzing and managing supply chain issues and maintaining quality control throughout the supply chain, from the manufacturer to the customer in the warehouse and retailers. There are over 42 distribution centers in 36 countries (IKEA Corporate Structure n. d.) Distribution centers are located worldwide to cater to demands of its retail stores. Its distribution centers track and manage its inventory effectively with the help of barcodes as well as automated robots and machineries which eliminates the need for manpower. Thus, cost effective management of distribution centers is their competitive advantage.

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In the process of distribution, suppliers of IKEA use third party logistics companies to transport their products to various IKEA locations. The role of transportation is important as it provides the critical links between these organizations, allowing goods to flow between their facilities. The international logistics services company Maersk Logistics, part of the Danish AP Moller Group has the duty to manage the Swedish furniture and home accessories group at IKEA's distribution centre in Valls, Spain. Maersk Logistics and IKEA have similar cooperation in place in Sweden and also Malaysia (Maersk Logistics to manage IKEA's new distribution centre in Spain 2002).

How IKEA's Vision is supported across the Organization (Source: ARC Advisory Group; click to enlarge)

The IKEA group provides modern home furniture. Their products sold are flatly-packed or known as ready-to-assemble furniture. IKEA is able to store large inventory of products because the products are flat packed by automated machines which work on 24 hours, in 365 days a year. The application of robust machineries leads to minimal labor, thus it is practical and cost-saving. Flat packed inventory save storage space and cost. Therefore, IKEA manage to have a low warehouse cost. This strategy maximizes efficiency and fully utilizes the packaging capacity. The packed goods are then transported to their distribution centers. IKEA creates distinctive products that are also designed for low-cost manufacturing. Most furniture is designed for the customer to assemble, and they are also designed to fit into an efficient packaging cube for low-cost transport, which benefits both the customer and IKEA. Due to the fact that IKEA is a very high volume retailer, thus it is able to set a low price on its products for end-users on what it procures.

Another unique feature of its logistics function is that IKEA's retail stores act as warehouses, which means the retail store is also the warehouse itself. The company has a unique structure for its retail stores. It offers distinctive product designs, while its retail stores have a typical warehouse format on the ground floor. The first and second floors provide a comfortable environment like a showroom with furniture displayed nicely to enable customers to browse its home furnishing concepts. On the ground floor, customers can browse for inventory and select them to purchase. Unlike many furniture retailers, IKEA has ready inventory to meet customers' demands. Therefore, the Cost of Lost Sales (COLS) in IKEA is very low.

IKEA also minimizes logistics cost by having customers as part of their supply chain. Customers collect their furniture from self-serve area without long waits and assemble the furniture themselves. The products selected by customers are picked off from a floor pallet location racking as high as the typical person could reach. Some additional spare parts are stored in reserve racks above these locations. For safety reasons, forklifts and pallet jacks are not used during store hours. About one third of the lower level is comprised of a warehouse off limits to customers. This area contains items too bulky for customers to load without assistance. Since IKEA intends to implement its concept of self service as much as possible, it tries to minimize and limit the number of items in this bulk storage area (Banker 2009).

IKEA's store operations are supported by high-flow facilities which focused on the 20 percent of SKUs that account for 80 percent of the volume and low-flow warehouses that are more manual. In its high-flow warehouses, IKEA adopts the system of automatic storage and retrieval systems (AS/RS) to force down its costs-per-touch (Banker 2009).

Furthermore, IKEA also employs logistics personnel at its stores. There is an in-store logistics manager who is in-charge for procurement and ordering process. There is another store-goods manager who specializes in material handling logistics. Having logistics personnel work in stores is rare, therefore we can see that IKEA differentiates its stores with other home furnishings retailers to have warehouse in its retail stores (Banker 2009).

The efficient flow of goods within an IKEA store is essential to ensure high sales as well as to maintain high level of availability of goods in order to

enhance customers' loyalty. The duties of the logistics personnel are to monitor and record deliveries, carefully check delivery notices, sort and separate the goods and get them off to the correct sales area or designated overstock locations (IKEA Logistics 2011)

The in-store logistics manager uses a proprietary system developed by IKEA to manage and respond to the store-level inventory reorder points (min and max settings), which is also fairly unique. Most retailers forecast at the distribution center (DC) level and inventory replenishment logic. For instance the system works as minimum order quantity before reordering or maximum amount of a particular product to reorder at any one time, which also resides at the DC level.

Due to the fact that IKEA group does not fill up its inventory in the day which is during the store hours, the logic of its min/max is based on having a bin large enough to cover all the sales for one whole day. In IKEA, what is sold is recorded in its Point of Sales System (POS) and what is added into the store is also managed by the Warehouse Management System (WMS). Therefore, the advanced technology of information systems leads to very little cycle counting needed.

However, IKEA's system is able to detect irregularity. If the system expects a certain volume of a particular product to have sold out in a short period of time, and much less has sold, the system will notify the in-store logistics manager to go to the location and conduct a manual stock checking process. IKEA believes that its inventory control process and system allows for the right goods to be in the store with greater certainty, and at a lower cost,

than the other traditional retail forecasting and replenishment process (Banker 2009).

In this competitive world, advances can be effortlessly imitated and implemented by competitors. But IKEA has a clear vision supported by complementary cross-functional logic. Thus, this not only differentiates IKEA from its peers, but also provides it with a competitive advantage that is difficult to be duplicated by others.

## **Key Challenges and Issues**

IKEA's quick expansion has been tremendous and sales are still growing with more customers recognizing their low prices yet distinctive furniture.

Currently IKEA plans to open 10-20 new stores every year aiming to double sales within the coming five years. Considering the rapid expansion and growth in sales, the many stores and warehouses, and the fact that some business areas change up to 30% of its assortment every year, supply chain planning is a real challenge to IKEA.

The IKEA supply chain is primarily make-to-stock (MTS) and only a few products are made to customer orders. Consequently, the whole supply chain is greatly dependent on forecasts. IKEA faced the problem of inaccurate forecasting, with the emphasis on local optimization due to limited transparency within supply chain. The regions and the stores used to have a high level of local freedom in terms of planning and replenishment control. This has led to a fragmented supply chain planning with local optimization and a lot of manual intervention with plans throughout the supply chain planning process.

The main reason for the problem of inaccurate forecasting to exist is the fact that forecasting has been conducted on a regional level with approximately 120 users striving for different goals and using different methods. Part of the explanation to this is that IKEA has lacked a uniform and structured tactical planning of demand and replenishment. In terms of capacity planning, all different parts of the supply chain such as stores, warehouses and etc. tried to optimize its own part of the supply chain which caused a set of imbalanced supply with a low and unstable total throughput with long replenishment times for the supply chain as a whole (Jonsson, Rudberg & Holmberg 2008).

Besides that, lack of accurate forecasts caused many regions and stores to follow a reactive behavior in managing its inventory with fluctuating goods availability. As a result, some stores would face frequent shortages while some would overestimate demand and face the issue of overstock. Hence, some markets have suffered from stock outs during long periods, whereas other markets have ended up with obsolete inventories.

Another issue faced by IKEA is the lack of central coordination, instead emphasis on local autonomy which believed to be easier for regions stores to plan and replenish their own inventories. However, IKEA has used extensive manual work in its planning processes and the planning was based on fragmented and unreliable planning information. This information makes it harder to manage setup and holding costs. Hence, there was a lack of trust between different parts of the supply chain, which even further have enhanced the bullwhip effects in the IKEA supply chain (Jonsson, Rudberg & Holmberg 2008).

Other issue related to the supply chain performance was difficulties to get enough attention of data maintenance, which eventually leads to inaccurate forecasting. Insufficient maintenance of lead time data gave wrong input to need calculation and caused stock out problems in stores. Process improvement was difficult because of incompatible data capture and lead time measurements throughout the supply chain. In addition there is also a lack of proper follow-up tools to supervise forecast deviations. Besides that, it is challenging to change mindsets among users to form a central coordination due to the many participants in the supply chain.

## **Recommendations**

IKEA is growing globally and fast gaining market share. The firm has a total of about 12, 000 products in the entire product range. It has over 200 stores in 30 countries around the world. This requires exceptional logistics and outstanding support staff as well as the best solutions. IKEA has 1, 600 suppliers in 55 countries, and trades through local IKEA purchasing offices in 33 countries. In order to make sure that the supply chain remains integrated and at its maximum efficiency level, it must incorporate the best technology and the right human resource.

To reduce supply chain costs as much as possible, the retailer has to rely on supply and demand optimization solutions from JDA Software, including JDA Demand and JDA Fulfillment. The suggested solution is believed to help IKEA maintain its position as the world's leading home furnishing retailer with an agile and responsive supply chain strategy. Through the application of JDA software, the demand planner could help IKEA to forecast their sales globally and ensure that their production is able to meet their global demand. On the <https://assignbuster.com/distribution-of-ikea-products-marketing-essay/>



other hand, the need planner helps IKEA to balance what they need accordingly to the global demand. With the help from the software, the number of forecasters is believed to reduce from 120 to 30. Consequently the accuracy of demand forecasts would improve to drive profits and efficiency of their supply chain is increased. It also support other roles in IKEA's planning organization with accurate and up-to date information net requirements, stock levels, safety stock calculations, and replenishment needs.

Coordinated planning is recommended where replenishment of goods is directly linked to inventory levels. Hence, real time updates on inventory levels helps to prevent stock outs, overstock or double counting. The real time updates can minimize the possible cost of lost sales. Thus, allow IKEA to synchronize replenishment with their suppliers, thus reducing lead time.

Furthermore, a global and regional supply planning system would enhance better performance for a coordinated and consolidated sales, capacity, and distribution planning while having them directly linked to replenishment. The solution would also allow IKEA to consider all inventories in the need calculations and to have supply chain visibility in the order management process. Hence, the new planning concept could reduce risk of imbalance between commitments and demand.

To further improve the planning and supply chain, IKEA needs to update the maintenance of better data quality which can enhance better performances. As a response to the difficulties to maintain good data quality, a new lead time concept that assigns clear responsibilities was recommended to be

implemented. A focused group can be formed with parties involved across the supply chain deciding on operational methods, lead time issues and a web-based application in order to visualize lead times and exceptions on missing lead time data.

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