

# Ikea's global sourcing challenge



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IKEA's history illustrates a very versatile organization carving out a business niche which it proceeds to maintain at great costs. IKEA's baffling management style transforms this once small furniture production and sales company into an international furniture production firm in under five decades. IKEA's secret to success begins with a need to beat competition hinged on cost. The adventure drove Kamprad the founder and CEO of IKEA to seek ways of effectively and profitably keeping IKEA in business. Faced with Swedish large furniture retailers' resistance, Kamprad who had mass produced and introduced a new furniture concept 'the knockdown' was forced to seek for new sources eventually contracting a number of furniture factories in Poland. IKEA re-invented these polish factories bringing in their processes and machinery. Soon Poland became IKEA's largest source with mass production that still kept the prices low. IKEA learning from this adopted a new approach whereby they sought to develop close ties by supporting their suppliers through making loans available to them at reasonable rates which were repayable through future shipments. However this policy was modified when various east European suppliers terminated their contracts with IKEA after the collapse of the Berlin wall. IKEA found themselves in supply chain problems and the loss of substantial investment led to IKEA transforming into an internal company Swedwood to maintain delivery stability. However legislation was to allow only a limited amount of IKEA's purchase at 10% to be sourced from Swedwood. IKEA's suppliers had the understanding that they were to remain competitive in order to keep their contracts with IKEA. Later on in quest to lower prices IKEA developed new ways of identifying new sources. Based on this fact IKEA's philosophy encouraged the purchasing manager to seek out for seasonal manufacturers

with spare off- season capacity. IKEA ended up matching products to supplier capabilities and in that event prided in helping good management within these supplier organizations develop their own capacity. Later Kamprad IKEA's CEO expanded and opened a store in Stockholm which proved a suitable suburban location providing the advantage of sizable parking space for IKEA's customers. This was in itself a clever way of cutting assembly and home delivery costs. Afterwards IKEA expanded into Oslo Norway and Switzerland. The expansion was rapid leaping from 2 stores at inception in 1943 to 114 stores in about three decades. IKEA's concept evolved further during this time of expansion becoming more formalized. IKEA also introduced customer suited concepts to their products to cater for a whole range of customer needs for home furnishings. As their production demand expanded internationally the company maintained a very distinct organizational culture and management style. This style of management would often put people under pressure to perform due to the fact that there was no security available behind status. Attention to detail and simplicity were also emphasized at IKEA. Cost consciousness was also another emphasis at IKEA and wastage of resources was considered unacceptable and was greatly discouraged. IKEA also highly valued creative solutions with Kamprad once stating that bureaucracy was the root result of fear of making mistakes and as such an enemy of all evolution (Barlett, Ghoshal & Beamish, 2006). In 1976 Kamprad documented IKEA's philosophy which would later be used as blueprint by IKEA specially trained ambassadors holding key positions in their widely dispersed supplier units. After successfully seeking new sources IKEA sourced approximately 11, 200 products working with 2, 300 suppliers in 70 countries. At around this time as organizations began to

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concern themselves with environmental as well as social issues, some of IKEA's products became questionable and later IKEA suppliers had accusations leveled against them concerning their use of child labour. A foremost regulation by the Danish authority defining the acceptable limits of formaldehyde emission an adhesive compound used for some of IKEA's materials like plywood and particle boards was put in force and found IKEA's levels of emission from these products exceeding the limits. A fine was imposed on IKEA for this breach leading to a drop in their sales in Denmark by 20%. IKEA in trying to impose stringent requirements related to the minimum emission limits on its suppliers did not bear much success causing them to directly deal with the companies that produced the adhesive compounds. Later on another case of emission violation against IKEA surfaced this time due to the presence of lacquer on their bookshelves. IKEA stopped production and the error rectified though the losses incurred ran into millions of dollars fro IKEA (Barlett, Ghoshal & Beamish, 2006). Trying to re-assert their competitive advantage IKEA chose to engage directly in broader environmental issues surrounding the main sources of their raw material the forests. They collected stipulated standards by Greenpeace and WWF incorporating them in their raw material supplier requirements. This in effect meant that IKEA were to engage themselves in the task of tracing the origins of all the wood used in making IKEA products. IKEA appointed forest managers to execute this task. They also pinpointed other environmentally sensitive areas and established measures to maintain environmentally acceptable standards within these areas related to product range, suppliers, transport and distribution and storage. Their continued relationship with WWF resulted into numerous global conservation projects all aimed at

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painting a positive image a powerful corporate social responsibility strategy. However in 1994 IKEA was besieged by controversy this time round involving a social issue, child labour. The footage by a Swedish television documentary showing children in Pakistan working at weaving looms for carpets for various companies IKEA included took everyone at IKEA by surprise. Child labour is the practice of employing children below a certain minimum age which varies between countries. Among the developed countries this practice is outlawed and discouraged as it is considered exploitative and inappropriate. During the industrial revolution period children as young as four years were in child labour most often under very dangerous and fatal conditions. This was later outlawed. During this period children worked up to 16 hours a day starting at age six. Most of them were beaten to keep them awake while others were mutilated and killed as a result. Working in coal mines was from a tender age of 5 and most died before the age of 25. UNICEF estimates about 150 million children under age 14 years in child labour. The United Nations and the International Labour Organization presently considers child labour prohibited based on UN's article 32 of the convention on the Rights of the Child (CRC). According to statistics child labour constitutes 32% in Africa, 22% Asia, 17% Latin America and 1% in Canada, America and Europe. A UN convention on the Rights of the Child had just been ratified recently and IKEA had not fully understood the implications. However IKEA chose to respond to the documentary footage by offering an apology for their ignorance and took responsibility committing themselves to doing something about the footage. IKEA constituted and sent a legal team to Geneva ILO. The findings indicated that Convention 138 was adopted by ILO in 1973 and was ratified by 120 countries excluding Pakistan,

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India and Nepal. IKEA modified their supplier contracts indicating a penalty in manner of cancellation of those suppliers found employing child labour. IKEA proceeded to appoint a 3rd party agent to monitor child labour practices concerning their suppliers in India and Pakistan. In their finding IKEA noted that an estimated 200, 000 children were employed in the carpet industry where they were bonded and placed under servitude due to debts incurred by their parents. IKEA chose to involve themselves in a concerted campaign against child labour targeting India, Nepal and Pakistan. IKEA encountered and later became a signatory to the Rugamark Foundation which was an industrial response to child labour problems in the carpet industry in India (Barlett, Ghoshal & Beamish, 2006). IKEA continues to remain a leader in furniture and home furnishings having expanded their presence into Europe, North America and Asia. IKEA runs businesses on a franchise basis in most of these countries in order to optimize in profits. The current market point to the fact that IKEA is able to provide complete furnishing solutions to meet the clients' needs. The furniture kits employing the innovative and simple knock down concept have continued to draw in sales and set new market trends for other furniture producers. The simplicity in their products and their consistency based on the lowest possible cost concept has continued to make IKEA a household name in complete home furnishing in Europe and the world over. IKEA's direct involvement in their global sourcing system largely contributed to their enormous success where they positively addressed every drawback that seemed to affect their production by establishing their presence at the source. Their consistent approach to production and their policy of production at lowest cost possible has established IKEA as an authority in home furnishings. They continue to diversify making products

from recyclable material a trend that is becoming a demand on the world market today. IKEA's turnover has steadily increased topping at 22, 713 million euros in 2009 from 20, 685 million euros in 2007 (Inter IKEA Systems BV, 2009). IKEA's case is unique in its own way unraveling the fact that often franchise business encounters complex challenges along the supply chain. This case reveals how IKEA used every weakness in their supply chain and turned it into an opportunity and later to their advantage. Consistency, innovation and low cost production have finally brought IKEA where they presently are. IKEA which started small by Kamprad in 1943 probably has today changed the situation where once a disproportionately large part of all resources was used to satisfy a small population.