

# Strategic Supply Chain Management Implementation: Case Study of IKEA

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**Abstract:** The case study research is mainly concerned with implementation of supply chain strategy through discussion of IKEA's strategic business purpose. Thus, the case intends to analyze supply chain management and competitive strategy applicable to IKEA. It has been observed how the worldwide leader in furniture retailing gapped through imperatives and innovations and still expanding by shaping best practice of business processes.

**Keywords:** Supply Chain, Strategy, Implementation, IKEA.

## 1. Introduction

As defined by Cox (1999), and Harland (1996), Supply Chain Management (SCM) refers to a process of managing an interconnected business network which provides goods and services to the end customers. In this context, the case study focuses on the manner in which the SCM process of IKEA takes place. The company mainly engages in the distribution of furniture products and it also offers other household items. As observed, the concept of strategic supply chain management and its application is under discussion. Stephen (1997) argues that the supply chain perception and most of its functions demonstrate a significant uncertainty to the concept's definition and scope. It correlates with Tan (2001) who considers that still there is inadequacy of generally accepted term of strategic supply chain management.

From this perspective, the case study would initially discuss the IKEA's supply chain by focusing on its business purpose. This would entail its SCM and competitive strategy, customer fulfillment, environmental scanning and supply chain processes thinking and order fulfillment.

## Research Review

### 1. Supply Chain Management and Competitive Strategy

#### 1.1 The Environment, Resources, Objectives, and Feedback Decisions Used in the Strategic View

**Environment** - IKEA's main competitors of the company consist of both retail and online furniture stores. Accordingly The One, Home Depot, and Pottery Barn are the main retail competitors in the furniture industry, whilst Amazon and Alibaba Group. It is noteworthy, that although most of the designs of IKEA products are made in Sweden, manufacturing has been outsourced to China and other Asian countries (IKEA Group, 2016a).

**Resources** – The company's outlets around the world have features that enable both the company and the customers to benefit through the shopping activities. Also, IKEA has 27 trading service offices in 23 countries, 33 distribution centers and 15 Customer distribution centers in 17 countries and 43 industry production units in 11 countries (IKEA Group, 2016b). The employees of the company are given intense training in order to ensure that the quality is maintained in the overall SCM process (i.e. procuring, storing, manufacturing, and delivery processes). Accordingly, competent and experienced professionals are employed by IKEA to ensure that its resources are used efficiently. Moreover, the partners and franchisees are directed to conform to a set of international established standards which proliferate the IKEA concept and values.

Objectives - It is noteworthy that a majority of the company's stores are located in the economically developed countries in Europe, America, Asia, and the Middle East, and thereby focuses on operating in highly lucrative markets. In this context, the company develops its strategies in line with the requirements of the individual international markets it operates in, and also concentrates aligns its global operations on its expansion and profit earning objectives (IKEA Group, 2016c). Thus, the company emphasizes on offering a range of products with high quality, as the IKEA brand is promoted as a one stop furniture shopping experience. Focus is laid on minimizing wastage and errors during the operation. This enables IKEA to increase the operational efficiency continuously. The operational efficiency enables IKEA to implement its policy of reducing the prices annually (Inter IKEA Systems B.V., 2016a). Thereby, the main objectives of the company include: ensuring high quality in products and operations, maintaining high efficiency in managing resources and providing services, increasing customer attraction and developing sustainable stakeholder relationships, accomplishing the quarterly and annual financial goals, and improving the brand image.

Feedback decisions – IKEA's customer centric strategy entails obtaining feedback from customers continuously. This helps the company to identify its strengths and deficiencies and thereby satisfy the requirements diverse customer segments and ensure customer satisfaction (IKEA Group, 2016a). Also, the company engages in constant research and development in order to obtain the perceptions of the employees and to identify the areas that it could improve in its operational processes. Moreover, the feedback obtained from the customers, employees, and external stakeholders enables the company to adapt to dynamic market environments by implementing innovative measures.

## 1.2. Supply Chain of IKEA

IKEA's supply chain process is depicted in the figure 1 below. It portrays that the operations are performed through different stages. This involves the primary, secondary and tertiary sectors that engage in procurement of raw material, manufacturing, distribution, and retail sales to the end customer, respectively.

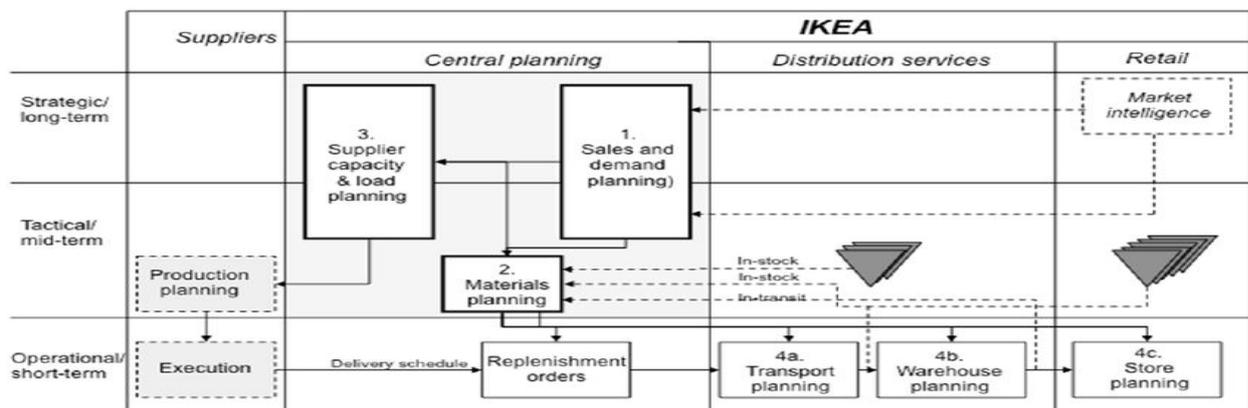


Figure 1. IKEA's global supply chain planning processes

## 2. Customer Fulfillment and Environment Scanning

### 2.1. Creating Value for Customers through the Supply Chain

The company focuses on ensuring customer satisfaction through the provision of immense convince and value during the overall shopping experience. Accordingly, goods that meet the requirements of the customers are provided along with services that help the customers to easily identify, purchase, transport, and use the products. In this context, a wide range of products are available at the stores for the customers to choose from and the stores are designed to enable customers to easily browse the products. The employees are placed in different sections within the outlets to help the customers. Also, convenient packaging is facilitated through self-assembly flat packs which contain the necessary instructions and instruments (Inter IKEA Systems B. V., 2016b). Moreover, IKEA has established facilities such as facilities for parking, a food court, supervised children's play area, the mini cinema, etc., to provide the customers high convenience in their shopping activities and add value to the brand (IKEA Group, 2016b).

## 2.2. How IKEA Monitors Customer Satisfaction and Deals With its Partners

Customer satisfaction is constantly monitored by IKEA through the feedback obtained by directly interacting with customers, through the customer care services, and from the websites. Accordingly, the company analyzes aspects such as the number of complaints, returned products, and customer suggestions in order to measure the level of customer satisfaction (Inter IKEA Systems B. V., 2016c). Importantly, the company monitors the demand for the products at different price levels, in order to ensure that prices are set in a manner which would attract higher numbers of customers (Abbas, 2014).

When dealing with partners, focus is laid on efficient production and constantly working to lower logistics costs. IKEA needs to deal with suppliers from over 50 countries, and this involves constantly developing partnerships through trust, respect and transparency (Inter IKEA Systems B. V., 2016d). “IKEA Range & Supply” works throughout the whole value chain - from supplier to customer. Accordingly, purchasing and logistics are integrated with the business. Thereby the company emphasizes on aspects such as affordability, accessibility, sustainability and quality, when dealing with its partners (Inter IKEA Systems B. V., 2016b). Also, the company’s global trading service offices globally ensure that the raw materials conform to the appropriate quality standards and ensure that the transactions with the partners are performed in line with the agreed terms (Inter IKEA Systems B. V., 2014).

## 2.3. Environmental Scanning for the Company

Strengths	Weaknesses
Large and diverse product portfolio. International operations. Globally recognized brand image. Ability to generate high levels of customer satisfaction. Continuous emphasis on innovation (Inter IKEA Systems B. V., 2016b). Strategies of low wastage, low cost, minimal environment pollution, and attractive pricing. Highly integrated supply chain. Long term relationships with suppliers and partners.	Annual price reducing strategy impacting profitability. Differences in quality standards in different markets. Customization of products is low – due to standardization of products. The low cost strategy could affect product quality in the long term.
Opportunities	Threats
Expand operations in the existing markets. Emerging markets in Asia and South America could be tapped into. Expand the use of online markets. Enhance the presence in the food industry. Focus on entering new industries which competent the current product portfolio.	High level of competition in the global markets. Growth in competitive substitutes. Global economic downturns. Increased regulatory barriers in different markets.

## 2.4. Important Forces of Change Influencing the Supply Chain Strategies

IKEA’s SCM strategies are influenced by its ability to maintain the appropriate quality standards, efficiently satisfy customer requirements, minimize environmental impact, and generate higher returns in long run (IKEA Group, 2016a). In this context, emphasis is laid on adapting to the changing requirements of the customers by updating the product portfolio annually. Also, the company focuses ensuring that the customers are able to obtain and use the products with utmost convenience. Long term relationships are maintained with the suppliers and partners in order to ensure that the raw material conform to the quality standards and quantity requirements. Having a large number of suppliers helps in increasing competition among suppliers. Suppliers and partners are integrated into the company’s process of ensuring environmental sustainability (IKEA Group, 2016b). Moreover, emphasis on low cost enables to minimize wastage and errors and complements the company’s price reduction strategy – whereby increasing operational efficiency and customer attraction.

### **3. Supply Chain Processes Thinking and Order Fulfillment**

#### **3.1. Strategies Used By the Firm as Part of Its SCM**

The main strategies used by the company are cost leadership and product diversification. Accordingly, it focuses on minimizing its production costs through the following measures;

- Lowering costs borne on procuring raw materials ([Inter IKEA Systems B. V., 2016b](#)).
- Minimizing wastage.
- Decreasing operational errors by increasing employee efficiency.
- Stakeholder integration and commitment towards quality – by adhering to the IWAY (IKEA Way of Purchasing Home Furnishing Products).

Product diversification has been ensured by focusing on innovation and annually introducing a large range of new products ([Inter IKEA Systems B. V., 2016b](#)). Also, the company has entered the food industry which in turn has enabled it to expand its operations, increase its product and service offerings, and add new avenues to develop financially ([IKEA Group, 2016c](#)).

#### **3.2. The order fulfillment processes according to the SCOR model**

Activities pertaining to the order fulfillment process are mainly performed by IKEA Range & Supply.

- Plan – Identifying the production requirements according to the demand and determining the relevant costs and the logistics required ([Inter IKEA Systems B. V., 2016b](#)).
- Source – Ordering the necessary raw material from the relevant suppliers.
- Make – This entails efficiently allocating the resources for the production activities and subsequently manufacturing the products in line with the quantity and quality requirements.
- Deliver – Distribution processes are used to deliver the products to the storage units, sales outlets, and the end customers.
- Return – Customers are provided with a warranty for the products they purchase. If the products are faulty and/or don't conform to the required standards, customers are able to return the products or obtain a replacement.
- Enable – Integrating all members in the SCM process by making them conform to the IWAY code, conducting constant research identify and remedy any shortcomings, and involving employees in the innovation process ([IKEA Group, 2016c](#)).

#### **3.3. The Sourcing Processes**

The company sources raw materials from its suppliers. Having a large number of suppliers (i.e. 998) helps the company to create competition amongst its suppliers. This enables the company to procure the raw materials at the lowest possible prices. The efficiency in the logistics activities help in reducing transport costs and any unwanted hindrances – as the products are shipped directly from suppliers to the IKEA stores ([Inter IKEA Systems B. V., 2016b](#)). Also, by making the suppliers adhere to the IWAY code, the company ensures that the quality of the materials conform to the appropriate standards. Importantly, the close relationships IKEA has with its suppliers helps in obtaining better products and services within a shorter time period. In order to maintain long term relationships with suppliers the company enters into contractual agreements which specify the roles and responsibilities of each party. As a result, the average number of years a supplier has been a partner to IKEA is 11 years ([Inter IKEA Systems B. V., 2016d](#)). Moreover, by using of an automated system to manage inventory, the company is able to communicate the contemporary requirements, whilst simultaneously ensuring that the necessary payments are made to the suppliers on time. This in turn ensures that the company obtains the required products on time, it possesses adequate storage facilities, and that it fulfills its financial commitments towards the suppliers.

### **4. Conclusion**

Analyzing IKEA's supply chain illustrates that it offers a wide range of products to the end customers. Also, the high demand for the products that the company offers, necessitates it to maintain high quality standards in its products and operational activities. IKEA's market position in the global markets is due to its strong brand image, international presence, efficient financial management, customer centric policies, and innovation, and strong relationships with its suppliers and partners. Importantly, the efficiency and prudent policies involved in the SCM process has enabled IKEA to derive financial benefits and enhance its competitive capabilities. This in turn has ensured that the company's fulfills its organizational objectives whilst continuing to augment its position in the market.

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