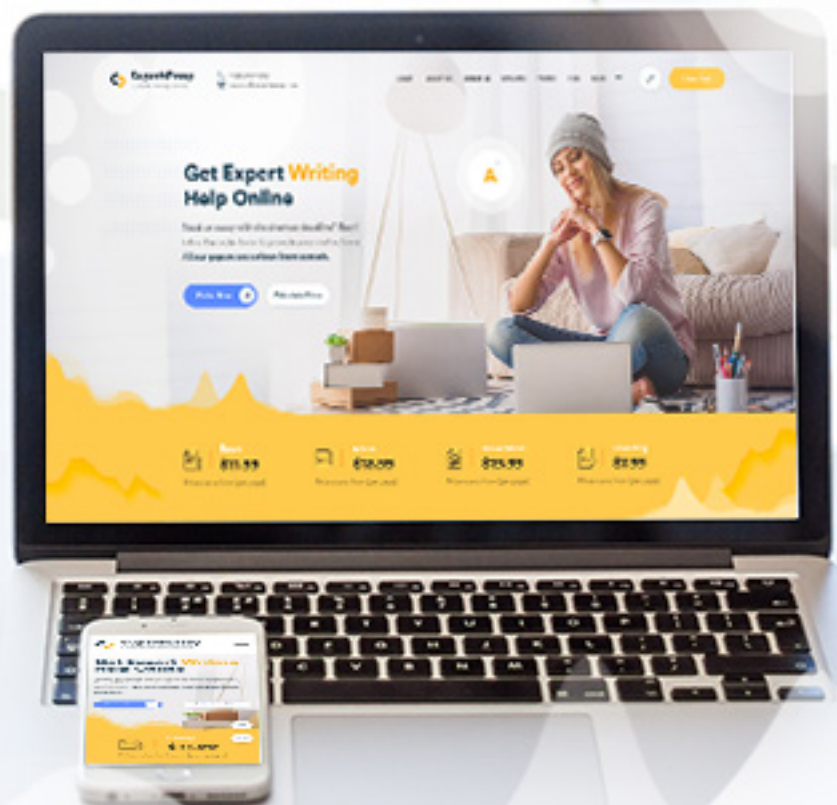


# Supply Chain Problems IKEA

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Student's Name:

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# Introduction

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IKEA is a private Swedish retailer, which specialises in selling and designing ready to assemble furniture. The IKEA Group is controlled by INGKA Holding B.V. that belongs to Stichting INGKA Foundation (Ikea.com). It was established in 1943 by Ingvar Kamprad, since then it has entered many new countries and became one of the leading furniture retailers in the world operating in 38 countries with more than 301 stores (some are operated by franchisees). There are more than 2000 suppliers that manufacture 10,000 goods for IKEA, that are then distributed through 30+ distribution centres to large stores and are sold to customers directly at the shop or delivered to their homes (Statisticbrain.com, 2007). Most of IKEA stores also have a restaurant, which opens on average 30 minutes before the actual store does.

The company faces numerous challenges in its operations. On each and every operational level of the company, there are associated problems. There are problems that relate to the supply chain, problems that relate to the primary sector, those that relate to the secondary sector, and finally those that relate to the tertiary sector.

This paper aims at looking at such problems as they are in their different sectors and levels, and provide their solutions and recommendations.

## Supply Chain

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The company has not been able to guarantee that customers get their goods in the right time and in their best condition. For an international company it is vital

to ensure that supply of goods and parts is debugged to perfection, reducing the chance of human error and guaranteeing that customers get their goods. There needs to be a good coordination from the company during production to the suppliers, and lastly to consumers. Lack of a well coordinated system has led to some customer complains that some products do not meet the expectations since products do not reach consumers in the right time and in the right conditions (Rachan 2012).

The company should ensure that its supply chain is well coordinated and that there are regular checks to ensure that it operates in the intended manner. Checks and balances should be put in place to ensure that the strategy regulates itself. This can be achieved through the use of computer programmes that can be used to monitor the process. A program can be developed that will ensure that the company can monitor all stock that is received and sold at each and every store as they wish (Chandra & Grabis 2007). Cost implications of this would be high, but this move would ensure that there is close monitoring of products, thus ensuring that quality is delivered to customers.

Since some of the stores are operated by franchise, the company does not have close control of operations of these stores. At times, these stores may operate in such ways that IKEA would prefer and the problem of getting the right franchisee. Most franchisors have faced a problem of building a strong infrastructure in different regions on which these franchises will be established.

For example, the brand name needs to be well known in the region before establishing a franchisee, which leads to incurring advertisement and other related costs. Establishing these structures before they can franchise would be expensive for the company, but running operations in such regions would be less expensive than it would have been when the company operated by itself. Therefore, this would be a good long-term move since the franchisee will have gotten a good will in the market.

In order to achieve that, IKEA should put more emphasize on stock control, collaboration, and integration within the supply network both locally and globally. It is important to note that there has been a collaboration of US suppliers. In the USA, IKEA has gotten a handful of suppliers that work together and ensure both on-time delivery and high quality, instead of competing among each other and risking contracts with IKEA. However, this is not only viable in the US, but also in almost all countries in the world, where the company can collaborate with already established suppliers, and the number can also be increased to accommodate for the vast market that is available worldwide. More so, in developing countries like Africa, the market for furniture is increasingly developing with most of them seeking such furniture supplied by this company. Establishing such relationships in these countries as they have started in the USA would help increase their sales in these regions, thus increasing their market ratio (Domínguez 2008).

IKEA has come up with an elaborate supply chain. Therefore, they should never underestimate the importance of each step of this supply chain and should try to extract the maximum potential out of each one not only through cutting cost and making more profits, but also by being efficient and eco-friendly. This will ensure that there will be smooth running of supplies to customers leading to customer satisfaction.

Throughout the whole supply chain, IKEA mainly should use three types of transportation: road, sea, and rail. These three types, when chosen by IKEA, will lower costs compared to air because sometimes large amounts of goods are being transported, for example raw materials or finished goods. These could, however, take more time to deliver the products to their designated destination than air transport would (Mangan, Lalwani, & Butcher 2008).

I would recommend that IKEA should increase the number of trading offices that will negotiate with suppliers, check quality, choose a method of

transportation, and complete other tasks. These offices should be constructed strategically throughout the world to establish a close contact with all aforementioned stakeholders. These offices can spot the best opportunities in their areas of operations and alarm their head office, who will take necessary steps to take advantage of them (Kalb 1992).

IKEA should also come up with innovative ways that will make some of its products easy to pack and made them compact by making them fit into one another, which allows higher volumes of transportation per full container load (FCL). This can be achieved by making products that can be re-assembled easily when they reach their customers. Products such as tables can be made in such a way that will ensure that they fit into small packages.



## Primary Sector

Primary sector is mostly associated with gathering raw materials in order to continue to next stage manufacturing. However, for IKEA it is essential to be creative and set targets for primary sector suppliers, meaning that at the earliest stage of the product life cycle, i.e. design, the right type of wood or colour of plastic is picked. Therefore, in case of IKEA, it is possible to say that design and primary sector suppliers are interlinked.

Today, gathering materials is not only about how cheap the company can get them, but more often is a question of how sustainable the company and its suppliers are. This has been difficult. Most raw materials are becoming expensive, and suppliers are becoming unreliable. This has been the case due to several countries banning sale of wood, bearing in mind that most products of the company are made of wood. Another reason for this has been an increase in

inflation all over the world that has led to an increase in prices of most raw materials.

For this reason, IKEA needs to take care of its image and make certain that the use of cheap labour, poor quality and so called “using, but not renewing” does not happen. In order to strengthen and sustain their reputation, IKEA should strongly advise their suppliers to use their supplier source of conduct called IKEA Way of Purchasing Home Furnishing Products (IWAY), which lays out basic environmentally friendly principles that suppliers should follow at all stages of supply chain. Using their reputation, which is highly regarded, the company can get reliable suppliers all over the world (Clegg 1999).

Food can also be thought of as a raw material because a chef needs to “manufacture” a meal for the client to consume. As I have mentioned above, IKEA has restaurants in most of its stores, a big scandal hit IKEA at the end of February 2013 that was about horse meat in their “famous” meatballs. At first, the public used to think that horsemeat was only a problem in the EU, however, studies have shown that horse meat was found in IKEA stores in the USA and Canada (Babej 2013). This is a bad publicity for IKEA, which resulted from neglect from suppliers and violation of IWAY and other legislations.

This allegation tarnished the name of restaurants, and an effective strategy would then be required to ensure that consumer trust is restored. First, the company should apologize in front of their customers and explain reasons behind the issue. Since studies show that there is actually horse meat sold in the restaurants owned by the company, it is necessary to apologize and present explanation for this. This will ensure that customers realize that the company regrets that it made a mistake. Then the company should take measures that will ensure that there is no repetition of such an occurrence in the future. This can be done by ensuring that suppliers are reliable and can be trusted to deliver the best quality meat. The company can also do follow ups to ensure the same. In a

word, the company should ensure that this situation is never repeated.

IKEA should also emphasize its use of the follow up as explained in the diagram below. The process is called an e-Wheel, which is used to ensure that the company is able to monitor the product throughout the life cycle of the same. The first step is from resource extraction to production, to usage, then to either recycling or end of life of this product. In the event that the product is recyclable, the cycle starts again. This will ensure that the policy of the company aimed to maximise environmental conservation is maintained.

## Secondary Sector

After goods have been designed and raw materials are gathered and delivered to a factory, manufacturing takes place to produce final products and package them accordingly. These final products then need to be supplied to customers who are spread out across the world. The major challenge here is delivering them to these customers. In some countries, the company does not own factories, since it could be expensive to operate in such countries.

Since IKEA operates internationally, it is thus important that the company has to offshore and outsource its manufacturing (Rushton & Walker 2007). IKEA should only establish factories in countries where it is actually more advantageous to do so and then offshore all of its manufacturing in that region to that factory/ies. On the other hand, in some countries it is just more costs-efficient to completely outsource manufacturing to third parties and work on contract basis where manufacturer acts as a supplier (Bolstorff & Rosenbaum 2007). This will ensure that operations of the company are not using more resources than they could have used for maximization of company's returns.



IKEA has in some cases been accused for not obeying legislation in each country it operates. Unethical conducts can backfire from decades ago. The example of this was a relatively recent scandal regarding the use of forced prison labour to make furniture back in 1980s (The Independent 2012). Ernst & Young came to a conclusion that IKEA, which is a Swedish company, with due knowledge actually got benefits from the forced labour of people in the former East Germany that were used in the manufacturing of some of its products back in 1980s. IKEA then commissioned a report that was released in May after numerous allegations involving both political and criminal prisoners to make components of IKEA, such as furniture, and that a number of employees from the company knew about the same (Nytimes.com 2013). This report shows that today it is crucial to maintain a positive company image because due to this scandal IKEA shares have fallen and public relations campaign had to be launched to recover the damage that has been done to company's name. This report revealed the events of more than two decades ago, but the impact has affected the company much. Most people would not like to be associated with a company with such allegations. According to a report published in the New York Times, the company actually admitted that this happened (Nytimes.com 2013).

The company explained that they used prisoners in an attempt to reduce their costs of operations. Although this was a good move going by their intentions, it was a violation of human rights. The company should then apologise for their actions and work out a plan how these people would be compensated. If they are deceased, their estates can be compensated on their behalf. This will help improve public image of the company, which would encourage not only most of their customers but their workers as well. As explained in the report by Ernst & Young, public relations campaign is crucial to ensure that the image of the company is not tarnished.

# Tertiary Sector

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As it was mentioned before, there are more than 30 distribution centres and more than 300 stores. Maintaining these stores properly and ensuring that goods are delivered to the stores or to customer's homes on time and there are no delays and, therefore, potential missed sales is the biggest challenge that the company faces. This is where supply chain management becomes essential for IKEA.

IKEA has come up with "High-flow Distribution Centres (DCs)". For example, there are 6 stores in Belgium and 12 in Netherlands, which are served by 2 main warehouses located in those countries (SB 2011). Therefore, the idea behind High-flow DCs is that goods with the highest demand are transported to shops where extras are stored in case regular amount of stock is not enough. This becomes useful on holidays, school breaks, and other seasons when there is more demand than usual. In countries where the company does not have any factories, it can set up warehouses that can be shared by two or more stores. It is important to note that a single store cannot economically hold enough number of products that would cater for the needs of all customers, mostly those who buy products in bulk. For this reason, the company should construct warehouses similar to those in Netherlands across the world to cater for the stores that are geographically far away from factories. This will enable the stores to access products in due time for their delivery or collection by customers when they run out of stock rather than waiting for products to be delivered from factories or warehouses that are far away from these stores as this would increase the lead time (Mendes 2011). However, this implies high cost as setting up and running a warehouse might be expensive. Despite cost implications, the advantages that are yielded by this move overcome them. The company would be able to deliver products in due time, which improves customer relations and increases their trust.

With a big number of shops and distribution centres come big variable costs, for example electricity bills. This, therefore, becomes an issue on such a large scale. Therefore IKEA would have to look for a sustainable way how to cut down on its bills. IKEA decided to install solar panels on the roofs of both stores and distribution centres in order to use some of free solar energy and cut down their costs and environmental impact. This has proven to be a great idea, which reduced electricity costs by around 50 % throughout operations in tertiary sector.

## Conclusion

Over the years that IKEA has been in business, the company has made several mistakes that have gone to affect it adversely. However, there are remedies to this. The company can still learn from these mistakes to regain what they had lost as a result of these mistakes. For example, the horse meat scandal was the most recent one, but the company can get through by assuring their staff and customers that enough measures have been put in place to avoid a repetition of the same.

IKEA's supply chain is so complex that it is difficult to manage despite having more than 120,000 employees and more than 2000 suppliers worldwide. The supply chain should not only work as a clock without supervision, but it should not stop IKEA's staff from becoming more innovative to improve what has already been achieved. IKEA is still a world leader in cheaper half-made furniture and they need to ensure that they do not let competition to take over their market share.

As mentioned earlier, increasing number of trading offices that will negotiate

with suppliers, check quality, choose a method of transportation, and complete other tasks will enable the company to become more profitable. When these offices are constructed strategically throughout the world, they will establish a close contact with all stakeholders and will be able to spot the best opportunities in their areas of operations and alarm their head office, which will take necessary steps to take advantage of them. These offices will also be in a position to come up with the best solutions to most of challenges that company's operations face in these regions and give reliable recommendations.

There are still some drawbacks, but the company should stick to its vision: "To create a better everyday life for many people" and move towards fulfilling its obligations and aims in the future.



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