CASE STUDY #2: IKEA

Since its 1943 founding in Sweden, IKEA has offered home furnishings of good design and function at low prices so most people can afford them. Due to economics of scale and advanced technology, IKEA can offer standard products of reasonable quality at a low price to their customers, without comprising function or design. With more than 9,500 products in stock in every store, the supply chain needs to be efficient and flexible to meet customers' expectations.

The supply chain for IKEA is very complex with hundreds of companies involved in every step of the way from the collection of natural resources to the finished products. Along the way there are many phases involved before the finished product reaches the consumer, in one of the 412 IKEA stores in 49 countries. Starting with more than 1,800 suppliers in 50 countries, responsible for supply the needed raw materials to produce Ikea's own products, following the manufacturing phase, the products are shipped to distribution centres, who support several retail stores. Although distribution centres play a critical role in the chain, since each retail unit has a warehouse on the premises so they can store large quantities of products and reduce the frequency of replenishment, direct delivers to the distribution centres are a strategic target for the company.

IKEA'S INVENOTRY MANAGEMENT

IKEA relies on a minimum/maximum settings inventory replenishment process. This system responds to reorder points within the inventory, setting accurate reordering triggers for the minimum products available before reordering, as well as the maximum amount of a particular product to be ordered. They use this information to forecast sales for the next couple of days and order products to meet the forecast demand.

The warehouse is divided into automated facilities for fast-selling items and manual facilities for slow-selling items. The automating restocking processes take place for "high-flow" items. The company due strong efforts to align technology to their daily procedures, mainly in terms of inventory and ongoing analysis of stock performance. One of the first efforts was the implementation of Vendor Management Inventory with their suppliers, in 1996, with the main goal of incrementing the service level while reducing supply chain's inventory costs. Currently, 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. IKEA uses a cost-per-touch inventory strategy that encourages customers to select the products in the store and take them to checkout themselves, instead of having staff retrieve it for them. In the world of inventory management, it is a well-known rule that the more hands touch the product, the higher the inventory management costs.

Global sales information is centrally analysed, and forecasts are created on a global, regional and national level. Then forecasted demand information is circulated along the supply chain. Each store adjusts these figures at a local level. IKEA's forecasting is based on historical data, seasonality from previous sales and combined with a moving average. Planners along the supply chain make daily inputs adjustments about demand and forecast, which are fed back centrally to increase forecast accuracy.

1.   Draw IKEA's supply chain network, representing the material and information flow between supply chain entities.

2.   Regarding the inventories polices given in the theoretical class contents, what strategies do you identify? Discuss advantages and disadvantages.

3.   Discuss IKEA's information structure and link it with the bullwhip effect. Give examples of measures implemented by the company to improve supply chain information sharing, highlighting some possible advantages and challenges that Ikea had faced when implementing it.