

Case Study #4: IKEA

IKEA buys products from more than 1,800 suppliers in 50 countries and uses 46 manufacturing units. While most of the designs of IKEA products are made in Sweden, where 12 full time designers work, hand in hand with-in house production team, manufacturing has been outsourced to low-income countries such as Poland and China. The company owns a few manufacturing units of wood and flat line products in mainly former Eastern European countries, only a few cases of joint-venture in mainly Sweden and, in 2013, IKEA opened its first wholly owned manufacturing facility in China, to support its expansion in Asia.

Although Ikea fosters competition among suppliers to ensure they attain the best prices and materials, it believes in making long-term business relationships with them by signing long-term contracts, thus lowering prices of products and buying larger quantities. All IKEA products are manufactured in accordance with a specially designed Code of Conduct “The IKEA Way on Purchasing Home Furnishing Products” (IWAY), which provides a basis of the company’s relationships with its global suppliers. Beyond the training and monitoring, IKEA also conducts regular surveys of its suppliers and audits them on a regular basis. Giving this close relationship, in some circumstances IKEA can support suppliers by providing financial assistance to maintain its level of quality, sending technological help from IKEA's company headquarters.

Alliances with suppliers are more than a smart business move; they are the key to IKEA’s highly successful cost-cutting strategy. There are many technological solutions which are applied by IKEA to develop sustainable relationship with their suppliers. One example was the development of an Enterprise Resource Planning system to plan and programme Ikea’s entire business, that integrates all the management information systems across the entire organization. In addition, share accurate information about market trends sales and orders, and the development of collaborative forecasts, are some examples of information shared between the parties.

One of the first efforts to promote a more efficient and collaborative Supply Chain 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.

IKEA use third party logistics companies to transport their products to various IKEA locations. Partners as CEVA Logistics and DHL are some examples. CEVA and IKEA have worked together since 2015 with successful working partnerships in the UK and Australia. In the last year celebrated the opening of a new Customer Distribution Centre (CDC) at Staten Island, on the US east coast, for delivering items to customers who order products online or purchase larger items at an IKEA store or Planning Studio for home deliver. CEVA will provide warehouse management and fulfilment services.

In the last years, Ikea make innovative collaborations with different companies not even operating on the sector. The most successful collaborations include partnership with Apple to explore the possibilities of Augmented Reality as a tool for home-furnishing; partnership with LEGO for new product development and partnership with Adidas in knowledge sharing about customer behaviour. In April of 2020 Ikea, one of the leaders among retailers when it comes to adapting to tech innovations that impact its business, has acquired Geomagical Labs, a Silicon Valley-based development company of 3D and visual AI technology for interactive home furnishings. Its first product, which allows a user to quickly scan a room using any smartphone, render that into a panoramic 3D picture in a few minutes, remove all the furniture in it, and then, add new items to scale to create more accurate visualizations of customers’ spaces. That is the kind of technology that is always useful, but perhaps especially right now, when physical stores are being shut down in many countries around the world to stave off spread of the coronavirus.

In 2017, Ikea acquired TaskRabbit in Canada, a start-up founded in 2008 that let users hire temporary workers to deliver purchases, clean homes and even assemble furniture. Given its success, in 2018 Ikea establish a partnership with Australia’s largest online community marketplace Airtasker, to help shoppers save time, energy, and relationships by sending out a DIY-er to assemble your newly bought furniture.

Given the information provided and the previous knowledge you have on the company, please discuss the following topics:

1. Correlate the case study with the strategic alliances and discuss the ones that were made by Ikea on the last past few years. Present an analysis about the need, advantages and disadvantages of considering strategic alliances.
2. Discuss and characterize the relationship between Ikea and his suppliers.
3. Discuss the outsourcing decisions made by Ikea identifying advantages and disadvantages.