

Welcome to




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Some Background...

- IKEA is a privately held international home products retailer
 - Trust members are unknown to the world
- Founded by Ingvar Kamprad in Sweden in 1943
- “To create a better everyday life for the many people.”




Some Background...

- IKEA has 278 stores worldwide
 - Employs over 128,000 worldwide
- IKEA currently has 35 stores in the United States
- IKEA has 13 stores in Canada
- IKEA will be opening two more stores in the USA in the next few months in Tampa, FL and Charlotte, NC



Some Background...

- IKEA stands for:
 - I** = Ingvar (First name)
 - K** = Kamprad (Last name)
 - E** = Elmtaryd (City)
 - A** = Agunnaryd (County)



Some Background...

- Started business - originally IKEA sold pens, wallets, jewelry
- Furniture was added in 1948
- 1955 IKEA started designing their own furniture
- All furniture is made specifically for IKEA



The Competition

Home Furnishings:	Furniture:
• Wal-Mart	• Wal-Mart
• Target	• Art Van
• Home Goods	• Gardner White
• Bed Bath & Beyond	• Target
• Williams Sonoma	• K-Mart
	• La-Z-Boy
	• Buy Buy Baby

*Once a month – competitor comparison shopping



Manufacturing Process

- Design
 - All in house
 - Designed in Sweden
 - Needs to be “flat packed”
- Design Objective:
 - Low/Affordable price



How a product comes to be

- Design Process:
 - Article is chosen (Sofa)
 - Sofa will cost no more than X amount
 - Discuss how this can be accomplished
 - Research and Development
 - Redesign product to meet price criteria
 - Manufacture
 - Adjust design based on raw material availability
 - Test it to make sure the design works how it is supposed to



Sourcing

- Products are built all over the world
 - Countries include:
 - Poland, Iran, Viet Nam, Sweden, United States
 - How are suppliers chosen:
 - Capabilities & Location to markets



Example of Supplier Choice by Capabilities

IKEA's Poang Chair
Manufacturer also
manufactures ski's



Suppliers

- Suppliers do not design
 - Only influence is if raw materials are not available for proposed design (substitute pine for ash)



Suppliers

- Some suppliers produce solely for IKEA
 - IKEA will finance 0% loans to improve facilities that do not comply with their standards
 - IKEA does this because:
 - More control over product and facility layout
 - Investing in themselves
- Products incur 52 lines of cost before they make it to your cart!



Suppliers

- IKEA outsources all production except for a few of the top selling products



IKEA Swedwood

- Made in IKEA's Swedwood facilities
 - U.S. facility just opened in Virginia
- Makes Expedit and Lack series (big volume)



Quality

- All products are stamped with quality guarantee
- All products tested in Delft
- First product's off of production line are sent to Delft for rigorous quality testing



Delft

- Ensure all products for US sale comply with California standards
 - (California standards are highest standards in USA to comply with)
- In Delft products are tested to ensure they can be assembled based on directions and tools it says are necessary
- Endurance testing
- Passes Delft – Sale of products begin



What if it fails?

- Try to isolate the problem
- Do not allow any sale of already made products until problem can be solved
- Work to solve problem in a timely and cost efficient manner



Coming to America

- Nothing is flown to USA
 - All products arrive in containers via ship
- Arrive in one of four ports
- West Coast:
 - Tacoma, Washington
- East Coast:
 - Baltimore, Maryland
 - New York, New York
 - Savannah, Georgia



From the Port to the DC

- All products go through Customs
 - Some take longer than others:
 - Textiles from Asia
 - E.g. Persian Rugs from Iran
- Once out of customs...
 - Containers are put on nearest and most efficient or responsive mode of transportation to a DC
- 30% of products to IKEA Canton go from Port to Store – 3-6% is saved by skipping DC's



The DC's

- IKEA has six U.S. DC's and two in Canada
 - Each DC supplies 10-15 stores
 - Stores are supplied by 3 DC's
 - One for "high flow" (Top 1500 products)
 - High volume products shipped on full pallets/slides
 - One for "low flow"
 - Low volume products shipped "plock"
 - One for "CDO" or Special Orders
 - Very low volume products sent directly to a store based on customer order (1.8% of store sales are here)



DC Organization

- Definition of high and low flow depends on store



Getting it to the store

- IKEA does NOT own its own transportation
 - IKEA outsources to multiple third parties
 - Each store is serviced by multiple trucking companies
 - Allows for flexibility based on seasonal demand
 - No idle trucks
 - Too expensive for IKEA to operate



Why Outsource Transportation

- ☞ Cost & efficiency
- ☞ Insurance is serviced by 3rd party
- ☞ Maintenance (upkeep)
- ☞ Fluctuations in demand can still be transported timely to the store (enough trucks that can absorb demand shifts)
- ☞ Intermodal transit network for international deliveries



Time to get to a store

- 2-10 months from corporate ordering to getting to a customer cart
- 2 weeks from port to port
- 5 days lead time for IKEA Canton to receive orders from DC
 - 3 days to prepare for shipment
 - 2 days to arrive at store



How trucks are aggregated

- “NO AIR” in trucks
 - Each truck has 60-70 cubic meters
 - Most trucks hit 66 cubic meters
 - Truck Load shipments (TL)
- Not all products coming in are palletized – some must be palletized



NO travel across USA!

- TOO EXPENSIVE!
- IKEA will rarely receive products that come in from Tacoma
- IKEA has multiple suppliers for each product so East Coast stores receive products from factories in Virginia or Western/Eastern Europe



Unique Pallets!



The “IKEA” Pallet



The “EURO”



What happens when a Truck Doesn't Show?

- There is a level of safety stock – about 10% of sales
- Proprietary matrix used to estimate buffer stock



What happens when a Truck Does Show?

- 75% of products that are received are “door to floor” or JIT
 - Corporate goal is 70%
- Part of competitive advantage is lowering handling costs



How a Store is Born

- Household income in proposed community must be more than \$50,000
- Then, store must be located near a major interstate
 - Consumer buying habits are more important
- Stores are located near urban areas but NOT in them
 - Tax savings for business and employees



DC location secondary

- DC locations are more fixed and adjust to location of stores
 - Should another DC be necessary – it is an after thought after a store is built
 - Proposed DC in Cincinnati, OH

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Then we have a store!



IKEA SINGAPORE

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IKEA Range

- Four different “types” of products
 - Scandinavian – Light woods
 - Very popular in Europe
 - Modern – bold and square
 - Very popular in Urban living
 - Country – American traditional
 - Very popular here
 - Young Swede – Iconic IKEA
 - Popular with younger people

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Product Demand

- Demand forecasts are based on a similar store in a similar market
 - Used since demand would be unknown for a new store
 - Not a perfect system
 - Canton opened – carried large volumes of the wrong items

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Demand for new Products

- Use a focus group and test products in select stores to estimate worldwide demand
- Not always a good system
 - Sometimes you may get stuck with a lot of extra stock on a dog – Canton thought a duster would be popular – now they have over 10,000 of them...

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Changes in Demand

- Two sales a year (Winter and Summer) to move discontinued “dogs” and overstocks
- NO BUYBACKS to DC’s

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Push/Pull Boundaries

- Pull for special orders made by customers
- Push is initiated by forecasted demand to a supplier
 - Products are pushed to DC's
- From a DC – Stores pull products
- Push from DC only for overstocked/discontinued products
 - Received on slowest days at stores



Manual Store Ordering

- Does happen – but most is done through proprietary computer system
 - Managers manual orders must go through in store logistics first for approval
 - This is to avoid over ordering



Managing Products

- 10 Departments – Each has a “Shopkeeper”
- Store carries approximately 10,000 products
 - Average of 1,000 for each shopkeeper to manage
- In-store logistics SUPPORTS shopkeepers in regards to ordering and inventory



Avoiding the Bullwhip

- Many stages are set up to avoid the bullwhip effect:
 - Logistics manager MUST approve a “jump” in ordering
 - Computer spits out a report of order requests that are “unusual” – allows Logs 1-2 days to cancel order
 - DC can question and hold overly large shipments
 - Supplier can question unusual orders and hold production



Mistakes Happen...

The “Brattby Duster” slipped by and now the store is stuck with too many they cannot sell...



Avoiding the bullwhip...still

- Information Sharing:
 - Email and Memo are HEAVILY used for communication
 - Phone calls are less reliable in getting a hold of people
 - Email and Memo are QUICK and EFFICIENT



Inventory Management

- Receiving:
 - Products are manually scanned by a store proprietary computer system
- Receiving errors:
 - Human error
 - Scanning, writing, typing, entering errors
- Inventory Counts
 - 2x cyclical
 - “Problem” items and “small” items (hinges) 8x



Inventory in Stock

- “Rule of Thumb”
 - \$100M store runs on about \$10M in inventory at all times



IKEA’s E-Business

- All E-Business is managed through the Baltimore, MD Call Center
 - Call center handles all “800” calls for all over USA
 - Online orders go through Call Center
- Online order forecasting is done through the call center
 - Orders are shipped from Baltimore DC to a store if it is near the customer – from store home delivery or shipping is arranged
 - If a customer is NOT near a store – all products are shipped from Baltimore DC to you (high cost incurred)
 - Think UPS shipping on a 200lb. Item....



Recommendations

- Over reliance of historical data to forecast demand
 - Suggest: Store management having more “hands-on” influence in ordering
- Over reliance on single supplier for top products
 - Suggest: Multiple source suppliers



Recommendations Part II

- Geographic locations of suppliers to match markets served more timely
 - Suggest: Locate multiple suppliers in multiple geographic locations because:
 - Suppliers in locations with political uncertainty
 - E.g. Iran, Viet Nam, China, Russian Republic
 - Reduce lead time (order to USA port: 2-10 months)



Questions?



