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

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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:
• Wal-Mart
• Target
• Home Goods
• Bed Bath & Beyond
• Williams Sonoma

Furniture:
• Wal-Mart
• Art Van
• Gardner White
• Target
• 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” Pallet

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

Then we have a store!

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

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

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…

Changes in Demand

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