



# Analysis and Reflection of IKEA's Supply Chain Management

Ximeng Han

University of Glasgow, Glasgow, United Kingdom, G12 8QQ

hxm0130@163.com

**Abstract.** This paper will analyze the strengths and weaknesses of IKEA's supply chain management, and discuss the future development direction of IKEA in the context of the home furnishing industry based on related literature. The result shows that, as a furniture retailer, IKEA has become an industry giant due to its advantages in supply chain management. Firstly, Ikea's supply chain is sustainable, using IWAY management principles while introducing energy-efficient materials on the production side. Secondly, Ikea's supply chain has always been customer-centric. However, there is also a great deal of room for improvement in IKEA's supply chain as a multinational company, such as controlling costs in entering new markets. At the same time, the outbreak of COVID-19 also reflects the lack of flexibility in Ikea's supply chain. Finally, this paper believes that the future development direction of furniture will be more and more closely combined with e-commerce, people can choose more and more convenient ways.

**Keywords:** Supply Chain, IKEA, Sustainability, Future Furniture Industry.

## 1 Introduction

IKEA has been the world's largest furniture retailer for 79 years, since it opened its doors in 1943. It sells flat-packed furniture, accessories, kitchen and bathroom products, and offers a wide range of products that are attractive, practical, and affordable. As of July 2022, IKEA has 472 stores in 64 markets around the world [1], with the majority of shops located in economically developed countries in Europe, the Americas, and Asia, and is in the process of opening more diverse shops in more countries [1]. It is worth noting that IKEA's stable growth, efficient operations, and high levels of customer satisfaction are inextricably linked to its effective supply chain management. At present, there are many studies on supply chains in the academic community, such as the specific analysis of IKEA's strategic management, the research on sustainable development, and the research on the advantages and disadvantages of IKEA's supply chain management under the condition of COVID-19. These studies lay the foundation of this paper to a certain extent, indicating that IKEA's supply chain lacks some flexibility while being sustainable, but at the same time, there is a certain gap in the development direction of the future home furnishing field. This paper will analyze the strengths and weaknesses of IKEA's supply chain management and, to some extent,

discuss the adjustment and development that IKEA may make to remain the world's leading home furnishing retailer. It will then discuss the future of the furniture industry in the context of IKEA's development.

## **2 Advantages**

### **2.1 Sustainability**

Sustainable supply chains mean that companies strive to consider the environmental and human impacts of their products throughout the supply chain, from raw material procurement to production, storage, delivery, and every transportation link in between [2]. As people realize the importance of protecting the environment, IKEA has begun to work towards transforming itself into a circular business and has set a new goal to be circular and climate positive by 2030 which affects the entire IKEA value chain and the sourcing of energy and materials [3]. IKEA's supply chain is sustainable and responds positively to global development goals. First and foremost, IKEA has introduced the IWAY (IKEA Way on Purchasing Home Furnishing Products) principles, which are centred on the continuous development of a framework with suppliers to achieve the goal of responsible sourcing and a more sustainable IKEA value chain. To date, IKEA has worked with around 1,600 suppliers [4]. This principle, which is based on international conventions, not only ensures that IKEA is able to source products, services, materials, and components responsibly, but also that the interests of its suppliers are safeguarded. It even makes a significant contribution to society by preventing the use of child labour and providing a healthy and safe working environment for workers. In September 2020, IWAY6 will be fully upgraded to include topics such as biodiversity and conservation, animal welfare, and the development of workers' competencies [4]. Secondly, IKEA is safeguarding the sustainability of its products by refurbishing and innovating their original products. IKEA has introduced energy-efficient materials such as SOLHETTA LED bulbs, which are 35% more energy-efficient than previous LED bulbs; laminated veneer lumber (LVL), which reduces wood use by up to 40%, and MISTELN water nozzles, which reduce water use by up to 90% [1]. These product improvements ensure an energy-efficient user experience while at the same time achieving energy savings. It is worth noting that data from 21 years of financial reporting shows that 73% of raw materials are renewable or recyclable, with 56% being recycled and 17% recyclable [3].

### **2.2 Customer Focused**

Generally speaking, the IKEA supply chain is customer-focused. Customers are the key people in the supply chain. Their needs, values and opinions will influence the decisions of suppliers and the items to be supplied [5]. In addition, understanding the customer requires a close relationship with the customer, which depends on the company's strategic strength in identifying its customers' needs and the company's level of commitment to meeting those needs [6]. As a matter of fact, IKEA measures customer satisfaction through direct customer interaction and feedback from its website to determine

customer needs, and makes adjustments to its products based on the number of complaints, the number of returns and customer suggestions [7]. The impact of digital technology has changed consumer choice, and this has given rise to a large number of e-commerce initiatives, including in the home furnishing industry. There is a preference for an omnichannel approach when buying furniture, resulting in higher competitive costs and personalized design and service. Consumers expect the advantages of both online and offline to maximize the benefits of their purchases, and IKEA has adapted to this [8].

In fact, the traditional IKEA shop offers mainly scenario-based shopping, offering large furniture as well as small furniture, where customers can discover, touch, and use the entire IKEA collection, with facilities such as restaurants, children's playgrounds, etc. Also, for this reason, the retail shops have a large footprint and are generally located in suburban areas, which are relatively inaccessible and take some time for customers to reach by car. It takes time to get there. However, statistics show that more and more people are moving to city centers, and by 2030, 70% of the population will be living in cities. To maintain accessibility and affordability for its customers, IKEA has launched IKEA.com, an online IKEA shop, as well as small shops in shopping centers, city centers where takeaways can be ordered, and mobile pop-up shops with different themes [10]. It also uses excellent e-commerce to provide a more modern and convenient service to customers by combining websites, shops and all other touch points to work together to provide a diverse and efficient shopping experience through online payment and offline collection or home delivery.

### 3 Challenges

#### 3.1 The Challenge of Entering a New Market

IKEA's global expansion has many unknown challenges. The IKEA Group is pursuing a global expansion strategy, but faces many unknowns and challenges whenever it enters a new market due to the extent to which culture, quality, and supply chain standards differ from country to country.

**Competition from Local Brands.** There is the competition from local furniture brands. For example, before opening in Korea, IKEA faced strong resistance from local furniture companies who feared that IKEA's prices would force them out of business [11].

**Legal and Cultural Barriers.** They face local legal or cultural barriers in different countries. For example, IKEA was planning to enter the Indian market back in 2006, but because of a law that had been in place at the time that prohibited foreign retailers from entering the Indian market. IKEA needed to keep a long-term eye on the market dynamics until this law was changed in 2011, and only in 2018 did it successfully enter the Indian market, opening its first shop in Hyderabad [12]. At one point during the 12-year period, the company wanted to abandon its entry into the market, which also meant the risk of paying without return.

**Cost.** Most importantly, when entering a new market, IKEA has to spend a lot of money to understand the the new market and to study the home lives of the local consumers. At the same time, it requires a lot of resources to get the local population to understand IKEA. It is only through this process that IKEA can reposition itself as a locally relevant brand. In this case, it is important not only to offer meaningful offers and limited products that fit the local character, but also to maintain the core IKEA philosophy of offering a wide range of beautiful and functional home furnishings that are affordable to the general public [11]. It is worth noting that at the time of IKEA's entry, the furniture industry in the Indian market was fragmented, with only about 4% being organized, and there was low acceptance of this form of home retailer, so IKEA made changes for this [12]. Among other things, IKEA learned that Indians like to sleep on hard mattresses and gathered local mattress suppliers specifically to work with [12]. IKEA specifically lowered its prices, and it was estimated that 7,500 items were cheaper than anywhere else, with 1,000 products under Rs 200 and 500 hell Rs 100, which also led to a consequent reduction in profits [2].

### 3.2 Inflexibility

Flexible supply chains can help companies easily adjust production levels, raw material procurement, and transportation capabilities, and when organizations achieve supply chain flexibility, potential disruptions in the supply chain can be considered and planned for, making companies more efficient and able to respond quickly [13]. As the IKEA supply chain is a global supply chain, steps in production, transportation, and distribution can occur in different countries. Also, the creation of the New Crown epidemic has put significant pressure on the global supply chain [14]. According to statistics, 94% of Fortune 1000 companies faced disruptions in their supply chains as a result of Covid-19, and 75% were negatively affected [15]. IKEA was one of these companies, unable to face changes in exceptional times due to the lack of resilience in its supply chain. On the one hand, there was a supply-side shock, as production plants in China, the main manufacturing country for IKEA and the country where Covid-19 was first discovered, had to be stopped [14]. This left IKEA's supply chain facing a production standstill due to labour shortages, while raw material prices were rising sharply and other production plants were also affected, which in turn led to a significant negative impact on inventories. Secondly, Europe, IKEA's main retail market, relies on transport companies and drivers to deliver goods to warehouses and shops, but a shortage of drivers has affected transport, leading to disruptions in the supply chain [16]. On the other hand, there was a demand side shock, during Covid-19 the home was the main place where people lived and there was a growing interest in improving home life and demand for IKEA products, requiring more IKEA products to be produced and delivered than before the pandemic. However, the inability to deliver goods first due to supply chain resilience issues has caused delays in product shortages, which has also affected the IKEA value chain [16]. In summary, the occurrence of Covid-19 reveals that there is much room for improvement in the resilience of IKEA's supply chain.

## **4 The Future Direction of IKEA Development**

### **4.1 Online Shopping**

Generally speaking, with Covid-19, retail has been reset and the future of retail will be presented as an omnichannel shopping model [17]. Along with the continued growth of e-commerce, more and more customers are choosing to shop online. As a matter of fact, it is estimated that 58% of consumers expect to shop online more than before after the epidemic [18]. However, brick and mortar shopping has many advantages that cannot be replicated in other shopping channels, as people can view, touch and test products before committing to them [17]. As technology continues to evolve, the home retail industry is also moving towards omnichannel shopping, continuing to explore ways to connect with digital devices and the virtual world.

### **4.2 More Closely Integrated with E-commerce**

IKEA, a giant in the furniture retail industry, is also continuing its efforts to move towards omnichannel shopping. IKEA has launched online platforms and apps to provide more shopping options. According to IKEA's FY 2021 report, the online channel welcomed more than 5 billion visitors and online sales increased by 73%, accounting for 26% of IKEA's total sales and a growing trend [19]. However, with the rise of online shopping, IKEA's most prominent feature over other companies, "scene-based service", will also disappear. To maintain this advantage in the future, IKEA could join forces with VR companies to launch a new type of shopping experience "reality+virtual". The offline scene-based service will remain, and people will be able to touch the products themselves, providing a realistic experience. But whether it is customers who prefer the offline experience or those who are unable to shop offline due to distance or lack of time, a single offline shopping experience is not always the best option. Moreover, with the development of society, customers can choose more and more goods. Many customers like to match themselves with the products they choose to match, but the effect of the products they choose to match may only be limited to their imagination, and the actual effect may not be as good as they think. The offline shopping mall space is too limited to show all the choices and the customer's own designs and ideas. It is worth mentioning that VR can help with this. VR simulates the environment through a computer so as to give people a sense of environmental silence, and people can choose products online and arrange them on the internet through VR technology, providing a new kind of "scenario-based service" [20]. Finally, once a product is identified, customers can choose to go offline to view and pick up the goods themselves, or choose to have them delivered to their homes, depending on their needs.

## **5 Conclusion**

In summary, there are advantages and disadvantages to IKEA's management of its supply chain. Firstly, IKEA's supply chain is sustainable. In response to the global goal of

protecting the environment, IKEA has transformed itself into a recycling company, refurbishing and improving its products to ensure that they are sustainable, using recycled cocoa and recyclable materials to achieve energy efficiency and environmental protection. At the same time, the IWAY principles are continually updated and links with suppliers are maintained. Secondly, IKEA is acutely aware of the importance of the customer in the supply chain, and its customer-concentric approach keeps it in close contact with its customers. On the downside, firstly, as an international home furnishing retailer, IKEA has to spend a lot of time, money and manpower to enter new markets due to the different cultures, laws and competitive markets in different regions, and there is also a significant risk of zero return. Secondly, Covid-19 revealed that IKEA's supply chain is still inflexible and unable to solve problems in the event of fluctuations in supply and demand. It is worth noting that the occurrence of Covid-19 has led to a reset of the retail approach, with the future of the retail industry being presented as an omnichannel shopping model. IKEA could seize this opportunity and, in keeping with its unique "scenario-based service", could combine the web and VR companies to offer a new "reality+virtual" scenario-based service. It is worth mentioning that this research has certain limitations. There are many uncertainties caused by natural causes in the future development of the world. For example, the generation of COVID-19 in 2019 is unexpected, and leads the home living industry to a new direction — Omnichannel shopping Model. At the same time, it is only limited to the situation where the development of e-commerce is good and there are some changes caused by human factors, such as making it more high-tech, convenient, and appropriate than the current e-commerce. The occurrence of these uncertainties will change the development direction and focus of the future home and home industry.

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