

**PURCHASING & PROCUREMENT MANAGEMENT**

**SBS MBA SPECIALIZATION**

**ASSIGNMENT I**

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**Total Marks: \_\_\_\_\_\_\_ /40**

The IKEA Group, a Swedish company founded in 1943 with its headquarters in Denmark, is a multinational operator of a chain of stores for home furnishing and house-wares. It is the world’s largest furniture retailer, specializing in stylish but inexpensive Scandinavian designed furniture.  The IKEA group owns over 2700 stores in 35 countries, with sales in 2007, £13,414.0 (million), and sales growth of 21.7%.  It has 118,000 employees.  It has been hugely successful since its origin in 1943 as a mail order catalogue featuring locally produced furniture.

**Some of the key reasons for IKEA’s success include:**

The IKEA brand is associated with simple, low cost, stylish products.  The concept was furnishing products and house-wares that had wide appeal to a variety of markets and segments, both consumer and the business market exclusively.  Both markets were looking for well styled, high quality furniture that reasonably priced and readily available.

Initially, IKEA did not customize its products to local markets, but kept to standardized products and operations worldwide.  This standardized strategy of internationalizing minimized costs.

IKEA developed a model for the business, where it was able to keep costs low.   From the customer point of view, they were able to buy low cost furniture, however they had to assemble and collect the flat-packed furniture from stores.  IKEA to was able to reduce costs, as this costly part of the value chain was carried out by the customer.

IKEA had excellent international procurement. Thirty buying offices were created to source from over 1,400 suppliers worldwide, IKEA negotiated prices that were between 20-40% lower than competitors for comparable goods. IKEA was successful at i) identifying worldwide suppliers and ii) managing quality and iii) prices with suppliers, to keep margins low.

It had excellent supply chain management and utilized the latest IT infrastructure.  Due to the sheer number of orders and components required by the company - IKEA developed an efficient system for ordering from suppliers, integrating them into products and delivering them to stores.  This was achieved by a world network of 14 warehouses.  Inventory was stored - and the IT system managed supply and demand to stores, keeping inventory costs low.

Anticipating the needs and wants of customers. IKEA was successful in product design and ensuring ranges were modern and of good quality.

**Challenges and outlook for IKEA:**

Its expansion into the US market. It adopted an ethnocentric strategy for going international - where it had standardized products and standardized operations. This helped to keep costs low, but ignored the different tastes and preferences of the US market and the way they purchased furniture. IKEA had to change the model of operating, giving greater ownership to its US subsidiary, to become polycentric - stores in the US had the ability to adapt furniture and customize to suit the local market. Costs increased as a result, but this localization approach was necessary for sales.

IKEA has looked towards emerging markets e.g. China for growth. Further adaptation to products has been necessary - including pricing strategy. Income levels of consumers is lower and stores needed to be located within the cities as car ownership is lower. IKEA has experienced greater competition from national brands.

**ANSWER ALL THE QUESTIONS( 2 x 20= 40marks)**

1. Assume that you are a competitor of IKEA, discuss what all procurement strategies you adopt to beat the competition.
2. Discuss how the new procurement and purchase strategies will help you in business