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WEEK 1: A SECTOR REVIEW OF THE AT HOME GROUP

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Business Strategy in Home Furniture Industry: A Literature Review

The home furnishing industry has expanded to a greater extent over the last few years due to rising demand in the market. The furniture companies like, At Home use various merchandising strategies for improving their businesses, which helps them in listing the latest products with great deals that attract customers. Also, The furniture company, IKEA uses a unique business model for meeting the needs of customers with a low-cost business strategy. These companies have been expanding their businesses through constant enhancement of the store base, sales, and digital initiatives to enhance the customer’s shopping experience while encountering and overcoming threats and challenges. The home décor companies have been working towards improving their furniture imports and exports to various countries, based on the geographic demands.

Some trends were observed, the physical stores generated more sales that increased gradually between 2017 to 2020. Also, the majority of the people were inspired due to offers on social media. Moreover, the e-commerce segment in the furnishing industry is forecasted to yield higher profits over a while. Recently, it was observed that the average size of homes has increased, which is followed by higher income, and hence, the demands in the furniture industry have increased. However, there are some threats faced by these industries, for instance, the e-commerce sector has advanced to a greater extent than, there are specific companies that help customers with virtual designs that help the customers and also increases the sales for the store at the same time. The industry is facing issues in trading their products and tariffs, as the retailers will have to find out ways to manage added costs of goods. These challenges have been overcome by the furniture companies through effective business models and business metrics like managing warehousing costs, customer retention practices, etc. The literature review focuses on highlighting the business models used by furniture industries and then comparing the strategies to analyze their approach used to overcome risks.

**Industry Review about At Home Group Inc.**

The At Home group has been a leading provider in the furniture and home décor industry. The company is on the verge of expanding to 600 locations within the United States, which means that, the company has been gaining great profits over the years. The company uses an effective operational strategy that is optimal in terms of improving profitability and reducing the risks, by tracking on-trend products which are valued by their highly skilled engineers to provide attractive deals to the customers. The company has gained profits to expand their stores through the site selection model where the company acts quickly by targeting locations as they become available, using detailed market maps. This strategy has helped in launching new stores, thereby increasing their profits, as customers become more brand aware. This has helped in increasing the net sales growth to 20% in the past quarters. In addition, this business model has helped in yielding huge margins with reduced net capital investment.

The company has gained great sales in the past 20 quarters, averaging 5% growth. This was performed through effective advertising, which targeted specific customers based on their demographics. Moreover, the company had on-trend products which attracted customers and improved their sales. Since the company was focused and aware of the demographics and customer buying patterns, they had a well-planned inventory which helped ineffective supply of the products as needed. Moreover, the company provided regular deals to their customers which increased overall sales per day. Furthermore, the customers are being rewarded with loyalty points and promotional offers. The company has made great improvements by launching the At Home brand, and to improve awareness, the company invested in marketing strategies, thereby increasing their net sales from 0% in 2013 to 2.5% in 2017, and have been focusing on creating more awareness through their marketing strategies which attracted both new and existing customers.

Since the e-commerce segment has been gaining high demands due to increased customer attention on online platforms and websites. The company has been keeping with the current customer needs and analyzed their database and websites, which has helped them in providing relevant details to customers online. Moreover, the company launched programs that provided customers with birthday and anniversary offers annually. Moreover, the company has been using data mining and market basket analysis to understand the buying patterns of customers on their websites, thereby promoting more products by recommending them with similar products at checkout. This has helped the industry grow online, along with the growth in the local stores.

The company has gained great sales and profits and is expected to gain an annual growth rate of 3.1% between 2018 to 2022. The company has been keeping up with its competitors by providing better deals and discounts to the customers than its competitors. Moreover, the company has been selective in retaining its employees and has a highly skilled workforce within the work environment which has given great scope for the company’s improvement over the years. Some risks and threats which the company is facing are the chances of diversion of customers from home décor to other industries, this could drastically reduce the company’s sales. Furthermore, the company has the risk of failing to manage the inventory operations which will impact the company’s operations and customer satisfaction. In addition, the company could impact its business if the distribution network fails. Since the company is highly dependent on the financial markets, any problem with these markets can adversely affect the company’s operations. Also, the company is at a higher risk of being incurred with higher interest rates, due to sudden changes in tax regulations within the country. The company seems to have a strong foundation as its business model, with a centralized distribution center rather than having geographical centers, which will lead to reduced loss. Moreover, the company has planned its finances and investments which would help the company as a backup in the future.

**IKEA Business Strategy**

IKEA is a furnishing and home décor industry that has gained great sales profits over the years due to its furniture priced at affordable prices. The company uses great business strategies to improve sales, For instance, the company has been developing customized products and goods in their production plants, by adapting to their sizes so that it is easier to transport the products most effectively. Moreover, the company focuses on providing customized products to customers based on their needs. Moreover, the low-priced furniture is also capable of being reassembled, thereby making the furniture portable. The company targets high marketing campaigns for promoting their products which creates awareness amongst people. In addition, the company has been expanding by targeting new segments and then, using the existing products for the new markets. They increased their sales to 23.1 billion EURO in 2010, with an increase of 7.7% from the previous year. They faced growth from existing stores and new stores (Enrico Baraldi. 2008), with an improvement in gross margin from 44% to 46%. However, there seemed an increase in the operating cost from 7.2 billion EURO to 7.9 billion EURO, which was due to a settlement of a dispute between the industrial groups during export. Further, The company made profits when the tax rate increased, which led to an increase in the net income by 6%.

The company has been facing threats, due to reduced people entering the housing market. Moreover, more companies have been entering the low-cost furnishing market, and therefore IKEA is working towards showcasing its unique features of portable designs. In addition, in case a recession occurs in the market, the profits are drastically reduced as the customers decrease. Also, the company seems to be low on manpower and therefore, unable to manage the high flow of customers. To reduce the issue, the company is using Beonic’s Insight Visitor system which tracks whether the customer received the required staffing, through sensors that track people who checkout.

**Lean Six Sigma in the Furniture Industry to improve Business**

Lean Six Sigma is a method that is used to optimize the manufacturing of furniture by reducing the waste generated, thereby improving the quality of the furniture. This strategy is being enforced within the furniture industry to reduce wood wastage, and which has reduced the operation costs, and improved customer satisfaction as these products had no defects (Guerrero et al., 2017). This strategy has helped in improving the business performance, as this is a combination of Six Sigma and Lean Manufacturing. Lean manufacturing is a method to reduce waste, by constant enhancement, whereas, Six Sigma, will reduce the defects and improve the processing product quality. This methodology was implemented by a small firm, located in Mexico, which has a revenue of $600,000 annually.

The company underwent a DMAIC project, where they worked primarily on identifying the customer needs and demands, and then, manufactured the furniture as per the requirements. This company worked on defining the problem, measuring the quality of products, analyzing the issues faced through root cause analysis, and then improving upon them. We are aware that, all companies are not efficient in managing their waste efficiently. This approach has helped in improving the business processes as it has saved cost by utilizing the waste product to enhance the quality of furniture, and also reduced defects. However, some threats are likely to be faced, for instance, it is important to have skilled workers to maintain the quality of products, which can be difficult for a company due to the high cost of hiring the workers. Also, the manufacturing process can be time-consuming, which could be a problem while delivering the products to customers within a short timeframe. Moreover, this business strategy is unique and can be introduced at larger furniture dealing companies, so that it helps in improving the overall annual net profit for the organization. To the above, some working hypothesis has been defined. Firstly, due to a lack of market orientation, the company did not have a structured product policy. Secondly, the company lacked marketing orientation.

**Conclusion**

The analysis of the different business strategies used by various furniture industries has helped in performing a comparative analysis. It was observed that the At Home group has a very structured and well-defined business strategy which would help the company in overcoming any posed threats in the future. Since, the company, monitors the inventory cost, customer retention rate, warehousing costs, and average time to sell products within a specific period, it always tries to maintain a backup structure in case of any unexpected threats in the future. Therefore, the company is expected to gain an annual growth rate of 3% by 2022. Secondly, After analyzing the business strategy followed by IKEA, it was noted that the company has been performing well due to its cost-effective and portable products. However, IKEA should work towards having a centralized operating system that will provide support during threats or emergencies (Enrico Baraldi. 2008; Guerrero et al., 2017). Also, the company can have a product sale foundation which will help in gaining more low-cost revenue. Finally, the analysis on the emerging Lean Manufacturing furniture industry provided insights about ways to improve business by saving on manufacturing waste, and improve the defects, thereby enhancing quality. This would be demanded by customers and should be integrated with the existing processes within larger companies. To conclude, At Home group seemed to have a well laid out business strategic foundation, followed by IKEA.

**References**

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