Case Study

European Commission

www.bestlog.org

Reconfiguration of the Supply Chain Structure

European Commission
If transport continues to grow at the same rate as the economy, this will become both an economic and an environmental problem. Increasingly congested roads are as much a disadvantage to European business as they are to society at large. The bestlog project, initiated by the European Commission, will establish an exchange platform for the improvement of supply chain management practice across Europe.

OBJECTIVES

- To improve logistics practice and logistics education
- To raise the overall standards of practice across Europe
- To set high standards for logistics education and practice
- To create economic growth and job opportunities as a result
- Achieve a better match between EC policy and business decisions

SOLUTIONS & ACTIVITIES

- European platform for sharing logistics best practice
- Online directory of logistics best practice case studies
- Online directory of European logistics education opportunities
- Benchmarking on line for European companies
- European conferences to share logistics best practice
- Web forum, award directory, media directory, and more
- Industry workshops

CASE STUDY

www.bestlog.org
COMPANY FACTS

PROBLEM DESCRIPTION

IKEA's competitive advantage on the global market is very strong and unique. Business strategy of the Swedish company combines following goals: delivery of high quality products at the lowest possible prices, market expansion, social and environmental responsibility. Based on its core competences, IKEA makes an effort to ensure better life conditions for people. Crucial for IKEA's business success is effective organisation of processes in supply chain.

IKEA continuously reduces the environmental impact of the transportation of its products. IKEA's aim is to create and maintain flexible transport solutions in order to meet all the service needs of customers in the most efficient and environmentally aware way. Wherever possible, IKEA uses railway and combined road-rail transport.

Effective organisation of deliveries requires high filling rates. So, the most important purpose is the achievement of the critical mass for effectiveness of shipments.

IKEA sources 17% of its furniture and home furnishing products from Poland and cooperates with about 80 Polish producers. The most important purpose is the effective organisation of shipments from Poland to distribution centres and stores. To achieve this goal IKEA implemented the project of the supply chain structure reconfiguration. New network design includes close cooperation with Polish suppliers. The chosen ones play the role of consolidation point in IKEA's supply chain.

Efficient sourcing is an important part of the IKEA's supply chain strategy. Poland takes 2nd place among IKEA's sourcing markets (according to volume). IKEA cooperates with many Polish producers. The most important business purpose is effective organisation of shipments from Poland. Collaboration with and between suppliers is the right key to achieve this goal.

IKEA evaluated logistics potential of all Polish suppliers and chose COM.40 and Correct as the leaders of the supply chain reconfiguration project. Next, IKEA initiated cooperation between the leaders and other 26 smaller Polish suppliers. All partners of the best practice project gain several important advantages: economic, social and environmental.

COMPANY FACTS

Company name: IKEA
Location: Poland
Industry/sector: Production oriented retailer
Company size: Large
Employees: 127,800
9000 in Poland
Turnover: 21.2 bn. €

Core competences:
• creating the home furnishing offer,
• communicating and selling,
• supplying

Further case related logistics figures:
• 253 stores in 24 countries,
• 41 procurement offices in 30 countries,
• 1380 suppliers in 54 countries
IKEA evaluated logistics potential of all Polish suppliers. The most important issue was geographical concentration (50-100 km) of producers. On the basis of SWOT analysis, IKEA chose COM.40 and Correct as the leaders of this project. COM.40’s core competence is sofas’ production. Correct’s core competences are mattresses production and logistics processes. These suppliers own logistics competences and infrastructure (two warehouses in Nowe Skalmierzyce and Ociaz, near Kalisz).

In the next step, IKEA initiated cooperation between the leaders (COM.40/Correct) and other 26 smaller Polish suppliers. Stocks of products originating from all suppliers are kept in the warehouse located in Ociaz. COM.40/Correct consolidate volumes of different goods after order receiving from IKEA. The critical mass for the efficiency of shipments is reached and the deliveries are realised to European distribution centers and stores of IKEA. In 2007, 18% of all shipments were realised by railway transport.

### THE SOLUTION

Access to the railway infrastructure is crucial for development of eco-friendly „green transport corridors”. COM.40’s warehouse in Nowe Skalmierzyce is equipped in 2 railway sidings. The third one is prepared in warehouse in Ociaz.

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COM.40/Correct control the reliability of deliveries from smaller suppliers and send reports to IKEA. The punctuality of deliveries from all suppliers is essential for effective organisation of shipments. It has special impact on the achievement of high filling rates.

IKEA shares risk and costs with COM.40/Correct on the basis of Free Carrier (FCA), which means the Swedish company, as the buyer, is responsible for transport. The leaders prepare the shipment of 25 wagons and 160 trucks every day. Two groups of products: mattresses and sofas build the critical mass of these deliveries. Other categories are wood and glass articles, candles, etc.

The solution reflects the most important points from IKEA’s business strategy. Cooperation with suppliers, consolidation and shipments on long distances are determinants of low prices concept.

Continuous success of the practice depends on competences of involved partners. The right choice of new supplier is critical. The potential producer is evaluated on basis of IKEA’s requirements, which include key performance indicators, supply chain strategy. IKEA takes part in negotiations between new partner and COM.40/Correct. Building of open and trust worth relations in integrated supply chain allows to achieve synergy effects in long term.

Reconfiguration of the supply chain structure is an unique initiative. All involved partners want to continue the cooperation in the future. COM.40 and Correct make infrastructure investments to organise shipments of rising volumes. There are also some other initiatives that aim to continuous improvement of the solution. The implementation of Warehouse Management System allows to increase the effectiveness of processes in warehouses. Secondly, Vendor-Managed Inventory System will improve the relationship management in the supply chain. Further initiatives will cause that this practice will remain „best” also in the future.

Challenge 1: Cooperation between different Polish suppliers. Before the project implementation each of them had different way of working.

Challenge 2: Lack of experience in organisation of logistics processes on a large scale. COM.40 and Correct had no experience in loading different articles originating from other producers.

Challenge 3: Technology support. Information flow was required for effective organisation of the processes.

Challenge 4: Access to transport infrastructure. Availability of the required number of wagons is critical for further development of railway deliveries. Additionally, costs of railway transport are rising.
Main driver of this best practice project is business strategy of the supply chain leader, which combines all three dimensions from triple bottom line concept: economic, social and environmental. IKEA, as the leader and supply chain designer, initiated cooperation among Polish suppliers.

Reconfiguration of the supply chain structure is very innovative, process oriented project. It has huge influence on other supply chain areas: transport, warehousing, procurement, distribution.

An integrated supply network allows to achieve huge benefits (synergy effect). Close business cooperation with and among suppliers has positive impact on the service level and final customer satisfaction.

Effective organisation of products flow requires proper information flow. Further investments in technology solutions (IT-Systems, Communication Systems) are necessary.

Success of supply chain project depends on the reliability of all involved partners. Best practice implementation requires their common resources, skills and knowledge.

Best practice development requires also continuous development.

LESSONS LEARNED

"Success of the project requires partnership in the supply chain network. Crucial is the maturity in process, organisation and human resources management”
Ms. Joanna Piekarska, IKEA

SUCCESS FACTORS

- IKEA’s logistics development, effective supply chain management
- Access to the infrastructure: logistics facilities and railway infrastructure
- Logistics competences of the project leaders
- Cooperation willingness of small Polish suppliers
THE BENEFITS

This practice allows to achieve qualitative and quantitative benefits. All partners of the project (IKEA, COM.40 and small suppliers) gain several important long-term advantages. That is the proof that this solution is relevant to supply chain management. The biggest benefits are noticed at the economic level. According to the environmental and social dimensions the effects are known, but not measured by the companies.

Economic
- Transport cost reduction
- Price reduction
- Supplier lead time reduction
- Increase of sales volumes of IKEA and suppliers, because of higher frequency of deliveries and better availability of products for potential customers
- Higher revenues of COM.40/Correct because of logistics competences
- Stronger competitive advantage of all involved partners

Environmental
- Development of European “green” corridors
- Positive impact on resources utilisation
- Decreased fuel consumption
- More effective land and facilitites use
- Reduction of CO2 and noise emission
- Fulfilment of IWAY requirements (IWAY - The IKEA Way on Purchasing Home Furnishing Products)

Social
- Positive impact on the employment level in logistics facilities of COM.40 and Correct
- Development of skills and competences of co-workers
- Improvement of work efficiency in warehouses
- Increased logistics competences of COM.40, Correct and smaller suppliers
- Decreased number of trucks which cross Nowe Skalmierzyce and Kalisz
- Reduction of noise emission
- Reduction of road accidents number

TRANSFERABILITY

<table>
<thead>
<tr>
<th>Transferables</th>
<th>Limitations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transferable across any geography.</td>
<td>Technical, natural and economical characteristics of products play very important role.</td>
</tr>
<tr>
<td>Transferable across not any company size.</td>
<td>Access to the infrastructure is needed.</td>
</tr>
<tr>
<td>Transferable to other industries, but the industry has to include products, that can be delivered effectively by railway transport.</td>
<td>Sales of the company should be high enough to ensure the effectiveness of shipments.</td>
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</tbody>
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++: very high, +: high, o: neutral, -: low, --: very low
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