

Procurement & Contract Law - LE MOAL Romain

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Le Moal Romain – Logistics & Supply Chain – Year 3

Procurement & Contract law - (M6X01292)

Produce a report that identifies and evaluates procurement strategies within a company or organisation of your choice.

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Abstract:

It has been said for years that a company's supply chain is its major as Grammar 

This report will therefore focus on the sourcing strategies of a global company: IKEA and how it is organized.

It should be noted that some sources (not all) will be in French.

Introduction:

In this period of global crisis, world-renowned companies like IKEA need a supply strategy and therefore a flawless chain. To best meet the growing demands of its customers, IKEA, like any other company, must manage these inventories in the most optimal way so that they are neither too low nor too large (which guarantees a low cost of ownership).

It is therefore mainly for these reasons that companies today work on a "Just in Time" basis: they regulate their orders according to customer demand; the supply chain then represents the key point. This report will then focus on the presentation of the supply chain of the Swedish company Ikea. It will then present the term strategic sourcing in its generality, and then the way Ikea has managed these supplies since its inception.

IKEA:

The IKEA World Group, a Dutch company of Swedish origin specialising in the design and sale of interior furniture, headquartered in the city of Delft in the Netherlands. The big difference (which can be considered an asset) with other groups and stores in this sector is that IKEA offers products that are directly ready to be installed, which is a real plus for people who are not used to tinkering.

Currently under the control of a legal foundation, this company was created in 1943 by a Swedish entrepreneur named Ivar Kamprad. Currently, the company is run by another Swede named Jesper Brodin.

As mentioned above, IKEA has made a significant contribution to the sale of kit furniture. It was in 1956 that a brand-new concept that totally seduced customers appeared. This concept is attractive both for customers (packaging designed in such a way that the product is easy to transport and transport, from the point of sale to their homes) and for the company itself (production, transport and storage representing a much lower cost compared to more "conventional" products).

Another major innovation that we owe to IKEA and that has also enabled the company to establish itself as a true leader in its sector is the organisation and layout of each of these stores. Therefore, when a customer enters an IKEA store, they are imposed a certain route that requires them to go through all the products and walk around the store before leaving it. The customer is then much more likely to buy more products than he originally anticipated. Another example is the integration of cafeterias into IKEA stores, also done first by the Swedes, which prevents customers from going out to eat and thus enjoying the best possible food.

It is therefore several of these innovations that have enabled the IKEA Group to establish itself as an essential part of the sector it represents. All their innovations were subsequently taken over by many other companies (both competitors and non-competitors). "La success story d'IKEA – L'express entreprise – (2012)

Internationally, IKEA represents a total of 422 stores in countries around the world (201). All these companies generate a total profit of €3.3 billion and a turnover of €28,3 billion (2017) and represents 208 000 employees.

- 242 stores in Europe
- 56 stores in North America
- 14 stores in Russia
- 33 stores in Asia
- 10 stores in Australia

Strategic procurement:

For a company that wants to be competitive on a global scale like IKEA, procurement is obviously an essential function for its development and growth.

In this case, the strategic procurement process will allow the company to optimize each euro invested for all the products and services necessary for the proper functioning of all operations and therefore for customer satisfaction; an objective that is part of the two major objectives of a company, along with the fact of generating profits. Supply and benefits are therefore closely linked for all sectors.

Définition

In order to provide a clear definition, the strategic sourcing process is a corporate function that comes after a rigorous analysis of the company's needs. This function generally requires the participation of all sectors of a company (logistics, marketing, finance, etc.). It can therefore take the form of audits, market studies, etc.

However, it is important to note that the strategic sourcing process will be completely different from one company to another since each company has its own needs.

For a procurement strategy to be effective, it must first and foremost

- Contribute to good customer satisfaction
- Control costs and improve market competitiveness

The Kralij and Hadfield matrixes:

There are two main matrices for the supply and operation of companies.

The first, that of Kralij, is built on two axes, that of the abscissa (below) on which we can see the supply risks, and that of the ordinates (on the side) where we find the financial impact of the product studied. “Webb – 2017”

Thanks to this matrix, it is then possible to differentiate the products into 4:

- The Strategic Products: financial risk, is of large supply (too strong dependence on suppliers)
- The Routine Products: low financial and procurement risk. To address it, it is necessary to better manage and allocate these expenses.
- The Bottleneck Products: low financial risk, and high supply risk. It is then necessary to improve relations with suppliers for better supplies.
- The Leverage products: Products with a high financial risk as well as a low supply risk. To manage them, it is necessary to increase the sources while maintaining a healthy competitiveness between suppliers. “Webb – (2017)”

The second matrix, Hadfield's, is also based on the principle of two axes, as the previous one. On the abscissa, the importance of the product for the company (financial importance, for the image...) and on the ordinate, the cost of the latter.

This allows companies to know which the most important tasks within the company are, and therefore, to be able to work on solving them as a priority, in order to improve the company's performance and organization.

These two matrices are therefore very important for companies because they allow them to easily understand the points to be improved in any field (procurement, finance...)

The IKEA's procurement:

Concerning IKEA, with the structure and success of these stores, the supply side has always been the part where the shareholders are most proud of it, and this, more than any other sector within the group (human resources, sales...). This is due to the fact that since its creation in 1943, the company's policy has never changed: it is necessary to be close to the reality of the markets. This sentence is all the truer for IKEA, as it is for these suppliers. It is thanks to its supply that the store is now the undisputed leader in the sale of furniture in Europe. “Purchasing and procurement: IKEA – (2017)”

Initially, sourcing from Eastern European countries was a real asset since it was possible for them to reduce purchase and transport prices by 50%, which allowed them to make large profits. This has also allowed Poland to start exporting to the West. However, with the geopolitical context of the eastern countries, it was relatively difficult for IKEA to source supplies and ensure a good quality guarantee to their customers. “Purchasing and procurement: IKEA – (2017)”

The event that completely changed the way IKEA procured its supplies in the 1990s occurred in 1989 with the fall of the Berlin Wall. The currencies of the eastern countries then lose their value and suppliers ask IKEA for impossible prices. At that time, IKEA's principle was never to depend too much on a single supplier in order not to depend too much on the latter (avoid breakdowns, fires, bankruptcy, etc.).

From now on, IKEA's procurement strategy is based on 4 main points and has been since the 1990s. However, a real change will take place in the years 2010 (which will be discussed later)

- Reduce production prices by sourcing from Asia:

Relocating its production to Asia was extremely beneficial for IKEA because it is the region with the lowest purchase prices. As a result, IKEA has purchasing offices in India, China, Pakistan, Bangladesh... At the end of 2000, 22% of the Swedish company's total supply came from Asia (10% from China). Ten years later, it is 30% from China (20% from China). Today, 50% of all IKEA purchases come from only two Good point Poland and China, and this is still evolving (even today).

- Have a small number of suppliers

IKEA wants to work as much as possible with a minimum number of suppliers. In the 1990s, they held a total of 2500 suppliers, with a turnover of 2.7 billion euros; 10 years later IKEA held 1120 suppliers with a turnover of 21.7 billion euros, for an identical product range size. Nowadays, most suppliers sell their entire production to the Swedish company. This involves risks but less than the benefits: higher purchasing volumes, lower prices, greater efficiency in terms of transport and quality control. Good point explanation required

- Owning your own production subsidiary

Swedwood Group has been the main production subsidiary of the IKEA Group since 1991. In 2010 Swedwood Group achieved a turnover of 1.2 billion euros, creating 15,000 jobs in 26 production sites across Europe.

It was mandatory for IKEA to have its own production unit because the company had such precise requirements that it was no longer possible to find suppliers capable of meeting them. Good point In addition, for two specific product categories, solid wood and particle production, explanation required they need to keep these production techniques confidential. Finally, the subsidiary has become a research centre for the development of new materials and technical production. Thanks to Swedwood, IKEA has been able to maintain a monopoly on the furniture sales market.

During 2010, they had to completely rethink their procurement strategy partly because the drop-in purchase prices was offset by several factors such as: an increase in distribution costs, quality problems or the unavailability of products in stores due to supplier Situation Needed. The new strategy was therefore based on a general, rather than an individual, overhaul of the supply chain. It was therefore necessary for them to lower the general cost of supply (purchase price, transport, availability, social / environmental conditions among suppliers). This was the biggest structural change since the company was founded. There were mainly new information systems (traceability, etc.) and new financial controls. As a result, almost all employees had to completely change the way they worked and receive completely new training. As a result, there is no longer a lack of products in the stores and the group generates more profits than ever (average of 3 billion over the last 5 years).

All these information's: "La success story IKEA – l'express entreprise – (2012)"

It should be noted that this change came at the wrong time since the company had grown by 15% (turnover) and reduced these purchase prices by 20%. This transformation will take 10 years and is still ongoing today.

Supplier management:

The relationship with these suppliers is therefore an important part of the success of a company like IKEA.

This is mainly the reason why the Swedish company has made many efforts to ensure good relations. Around 600,000 people work for IKEA suppliers worldwide in Europe and Asia.

In 2000, the company launched a code of conduct in terms of supplier procurement: IWAY. If this code is not respected, IKEA decides to terminate their contract with the supplier directly.

This IWAY standard sets out all IKEA's requirements in terms of the environment, social impact and working conditions. "Build good relations – (2018)"

The main requirements are as follows. Minimum wage for any overtime hours worked

- A safe and healthy working environment
- Protection against forced labour
- Support for young workers

It is nowadays becoming more and more common for world-class companies to launch codes of conduct such as the IWAY standard for IKEA (Airbus, Amazon...).

Admittedly, it is often said that in order to reduce purchasing costs, the multinational does not hesitate to offer these suppliers contracts with low prices compared to the market, but it argues that the volumes ordered are gigantic (2.5 billion wooden dowels per year for example). Another argument IKEA uses to convince these suppliers is the fact that the duration of their contracts is for many years (generally between 6 and 11 years)

But IKEA does not leave these suppliers without any help, indeed the company has a promise to boost their productivity through "IKEA Industry", one of their many subsidiaries in 41 countries that allows suppliers to test new and much cheaper manufacturing methods (always with the ultimate objective of reducing these purchasing costs). Then, once new innovations are found through its subsidiary, the multinational imposes them on all these subcontractors. For example, the latest Swedish discovery, a new dyeing technique, reduced water consumption by 80%, dyeing by 20% and other chemicals by 80% just for textile dyeing (overall gain of €2.5 million). "Build good relations – (2018)"

Conclusion:

As noted throughout this work, IKEA is considered the European leader in interior design and furniture sales. It is a company that has had a real influence on its sector because, over the years, it has been able to invent new ways to always attract more customers (cafeterias, guiding customers in a specific direction...).

In terms of supply, this company has always been considered irreproachable (despite some difficult periods) because it very quickly understood that it was necessary to constantly change the way it managed these supplies by favouring a small number of suppliers in targeted regions. However, this can have some disadvantages since if incidents occur, IKEA would be directly affected, and this could totally block supply.

This part of IKEA is then a real strength, mainly due to the fact that these suppliers are not only members outside the company. Indeed, they are an integral part of the company by being decision-makers, for example.

In addition, IKEA's policy of constantly seeking to lower the price of these products is echoed by many of these competitors. IKEA must have impeccable logistics since it does not manufacture its own products, and its operations depend heavily on its logistics sector (products from all over the world).

The Swedish company is also very close to these suppliers by offering them certain ways to innovate through research centres or other means (Swedwood...)

Nowadays the company is still looking for new ways to improve their supply the company is likely to remain the leader in its sector for many years to come.

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GRADEMARK REPORT

FINAL GRADE

43/100

GENERAL COMMENTS

Instructor

Limited research. Good research on chosen organisation but little evidence of research of strategic procurement concepts.

A fair knowledge and understanding demonstrated but fails to develop procurement concepts.

Limited analysis. Good descriptions of the chosen organisation's procurement activities but fails to link them to strategic procurement concepts and explore the deeper significance of these activities. Weak conclusion.

Well structured and presented. Harvard referencing not followed and lacks in text citations

PAGE 1

PAGE 2

QM

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Additional Comment

Kraljic Matrix

PAGE 3

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Grammar

Grammar

Additional Comment

no question mark needed

PAGE 4

PAGE 5

PAGE 6

QM

spelling

spelling

PAGE 7

QM

Good point

Good point

PAGE 8

QM

Good point

Good point

QM

explanation required

explanation required

Additional Comment

This is a very important point but needs to be expanded on. Less suppliers means better relationships with fewer suppliers - partnering. this should be linked to Kraljic and Hadfield

QM

Good point

Good point

QM

explanation required

explanation required

Additional Comment

This needs to be explored further within the context of outsourcing and make or buy decisions

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Citation Needed

Cite Source:

Please use the link below to find links to information regarding specific citation styles:

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spelling

spelling

Additional Comment

Kraljic Matrix