

Operations in practice IKEA¹

(All chapters start with an 'Operations in practice' example that illustrates some of the issues that will be covered in the chapter.)

Love it or hate it, IKEA is the most successful furniture retailer ever. With 276 stores in 36 countries, it has managed to develop its own special way of selling furniture. The stores' layout means customers often spend two hours in the store – far longer than in rival furniture retailers. IKEA's philosophy goes back to the original business, started in the 1950s in Sweden by Ingvar Kamprad. He built a showroom on the outskirts of Stockholm where land was cheap and simply displayed suppliers' furniture as it would be in a domestic setting. Increasing sales soon allowed IKEA to start ordering its own self-designed products from local manufacturers. But it was innovation in its operations that dramatically reduced its selling costs. These included the idea of selling furniture as self-assembly flat packs (which reduced production and transport costs) and its 'showroom-warehouse' concept which required customers to pick the furniture up themselves from the warehouse (which reduced retailing costs). Both of these operating principles are still the basis of IKEA's retail operations process today.

Stores are designed to facilitate the smooth flow of customers, from parking, moving through the store itself, to ordering and picking up goods. At the entrance to each store large notice-boards provide advice to shoppers. For young children, there is a supervised children's play area, a small cinema, and a parent and baby room so parents can leave their children in the supervised play area for a time. Parents are recalled via the loudspeaker system if the child has any problems. IKEA 'allow customers to make up their minds in their own time' but 'information points' have staff who can help. All furniture carries a ticket with a code number which indicates its location in the warehouse. (For larger items customers go to the information desks for assistance.) There is also an area where smaller items are displayed, and can be picked directly. Customers then pass through the warehouse where they pick up the items viewed in the showroom. Finally, customers pay at the checkouts, where a ramped conveyor belt moves purchases up to the checkout staff. The exit area has service points and a loading area that allows customers to bring their cars from the car park and load their purchases.

Behind the public face of IKEA's huge stores is a complex worldwide network of suppliers, 1,300 direct suppliers, about 10,000 sub-suppliers, wholesale and transport operations include 26 Distribution Centres. This supply network is vitally important to IKEA. From



Source: Alamy Images

purchasing raw materials, right through to finished products arriving in its customers' homes, IKEA relies on close partnerships with its suppliers to achieve both ongoing supply efficiency and new product development. However, IKEA closely controls all supply and development activities from IKEA's home town of Älmhult in Sweden.

But success brings its own problems and some customers became increasingly frustrated with overcrowding and long waiting times. In response IKEA in the UK launched a £150 m programme to 'design out' the bottlenecks. The changes included:

- Clearly marked in-store short cuts allowing customers who just want to visit one area, to avoid having to go through all the preceding areas.
- Express checkout tills for customers with a bag only rather than a trolley.
- Extra 'help staff' at key points to help customers.
- Redesign of the car parks, making them easier to navigate.
- Dropping the ban on taking trolleys out to the car parks for loading (originally implemented to stop vehicles being damaged).
- A new warehouse system to stop popular product lines running out during the day.
- More children's play areas.

IKEA spokeswoman Nicki Craddock said: *'We know people love our products but hate our shopping experience. We are being told that by customers every day, so we can't afford not to make changes. We realized a lot of people took offence at being herded like sheep on the long route around stores. Now if you know what you are looking for and just want to get in, grab it and get out, you can.'*



Operations management is a vital part of IKEA's success

IKEA shows how important operations management is for its own success and the success of any type of organization. Of course, IKEA understands its market and its customers. But, just as important, it knows that the way it manages the network of operations that design, produce and deliver its products and services must be right for its market. No organization can survive in the long term if it cannot supply its customers effectively. And this is essentially what operations management is about – designing, producing and delivering products and services that satisfy market requirements. For any business, it is a vitally important activity. Consider just some of the activities that IKEA's operations managers are involved in.

- Arranging the store's layout to give smooth and effective flow of customers (called process design)
- Designing stylish products that can be flat-packed efficiently (called product design)
- Making sure that all staff can contribute to the company's success (called job design)
- Locating stores of an appropriate size in the most effective place (called supply network design)
- Arranging for the delivery of products to stores (called supply chain management)

- Coping with fluctuations in demand (called capacity management)
- Maintaining cleanliness and safety of storage area (called failure prevention)
- Avoiding running out of products for sale (called inventory management)
- Monitoring and enhancing quality of service to customers (called quality management)
- Continually examining and improving operations practice (called operations improvement).

And these activities are only a small part of IKEA's total operations management effort. But they do give an indication, first of how operations management should contribute to the business's success, and second, what would happen if IKEA's operations managers failed to be effective in carrying out any of its activities. Badly designed processes, inappropriate products, poor locations, disaffected staff, empty shelves, or forgetting the importance of continually improving quality, could all turn a previously successful organization into a failing one. Yet, although the relative importance of these activities will vary between different organizations, operations managers in all organizations will be making the same *type* of decision (even if *what* they actually decide is different).

What is operations management?

Operations management Operations function

Operations management is the activity of managing the resources which produce and deliver products and services. The **operations function** is the part of the organization that is responsible for this activity. Every organization has an operations function because every organization produces some type of products and/or services. However, not all types of organization will necessarily call the operations function by this name. (Note that we also use the shorter terms 'the operation' and 'operations' interchangeably with the 'operations function'). **Operations managers** are the people who have particular responsibility for managing some, or all, of the resources which compose the operations function. Again, in some organizations the operations manager could be called by some other name. For example, he or she might be called the 'fleet manager' in a distribution company, the 'administrative manager' in a hospital, or the 'store manager' in a supermarket.

Operations managers

Operations in the organization

The operations function is central to the organization because it produces the goods and services which are its reason for existing, but it is not the only function. It is, however, one of the **three core functions** of any organization. These are:

Three core functions

- the marketing (including sales) function – which is responsible for *communicating* the organization's products and services to its markets in order to generate customer requests for service;