



Best Practices: HCL Builds an Integrated Planned Enterprise Enabling Business Transformation for IKEA

IDC Retail Insights: European IT Opportunity: Retail
IDC Retail Insights: Asia/Pacific IT Opportunity: Retail

BEST PRACTICES

#AP9140601U

Luca Bonacina

Kumar Das

IDC RETAIL INSIGHTS OPINION

This IDC study looks at how IKEA engaged with HCL Technologies on a business transformation project effecting its worldwide operations for implementing supply chain management platform effecting its global operations.

IDC Retail Insights advises on the following:

- Visibility into organization processes and systems is very crucial not only for gaining greater control of business operations but is also the key to building profitability through operational efficiencies. Standardization and interlinking of IT systems and business processes make it much easier for businesses to operate and offer cost-savings for the company.
- Choosing the right platform/application that can fit into the company's requirement and is flexible enough to accommodate present and future needs of the business, along with accommodating all the processes involved, is very critical for the success of business growth.
- It is crucial that project managers maintain a level of flexibility in project rollouts. Any new learning during the project assessment or implementation stage can give birth to a new perspective and business improvement areas that might have been missed during project scoping phase.
- For effective leveraging of the supply chain platform's capabilities the workforce skill levels should be constantly upgraded through continuous training.

TABLE OF CONTENTS

	P
In This Study	1
Situation Overview	1
Business Needs.....	1
Aims and Objectives.....	4
Management Challenges.....	5
The Best Practices	7
Key Action Plan and Objectives.....	8
Key Successes.....	8
Future Outlook	10
Essential Guidance	10
Actions to Consider.....	10
Learn More	11
Related Research.....	11

LIST OF FIGURES

	P
1 IKEA Annual Sales Figure (€ Billion).....	2
2 HCL Technologies Annual Sales Figure (US\$M)	3
3 Supply Chain Processes	4
4 IKEA Supply Chain.....	6

IN THIS STUDY

This IDC Retail Insights study examines how HCL undertook an enterprise-wide deployment of JDA supply chain application for end-to-end implementation at IKEA's worldwide retail operations. This implementation would not only help IKEA's future vision of increasing year-over-year (YoY) sales but also multiply its store presence every year. IKEA would be able to make forecast-based decisions more accurate, reduce inventory cost, improve service response time, and establish repeatable delivery capabilities.

In this best practices study you will have a greater understanding of the current supply chain processes along with IDC analyst inputs around JDA implementation and successes achieved mutually by both IKEA and HCL.

SITUATION OVERVIEW

Retail has become very dynamic and competitive. The ever-changing purchase basket and unstable economic conditions globally affect retailers drastically.

Gone are the days when retail used to be regional. Retailers have become global and so has the competition. Sourcing/Procurement is no longer limited to local vendors/manufacturers; it now crosses oceans and continents. Retailers are in constant search for vendors that can provide cheaper, high quality products within short timeframes. Retailers need to have the ability to respond to competitive moves and market changes in a quick and efficient manner which is crucial for maintaining a competitive position in the market. Retail is not as technologically intense as some of the other sectors are. Retail organizations with legacy processes and tools have found it difficult to adapt to the changing market dynamics and have therefore witnessed significant reduction in market share, which has indirectly or directly impacted the brand value.

Business Needs

IKEA, being a global retailer of furniture procuring goods from multiple countries, had its own challenges in supply chain. IKEA needed a supply chain planning platform that simplified the planning process across all the regions and improved the efficiencies of the processes. JDA was selected as the platform for their global supply chain planning function.

Key areas where IKEA wanted to increase its efficiency were:

- Capacity planning
- Improving direct delivery share
- Improving online capability (diversity of customer needs)
- Integrating business systems into proper supply chain management

Profile of IKEA

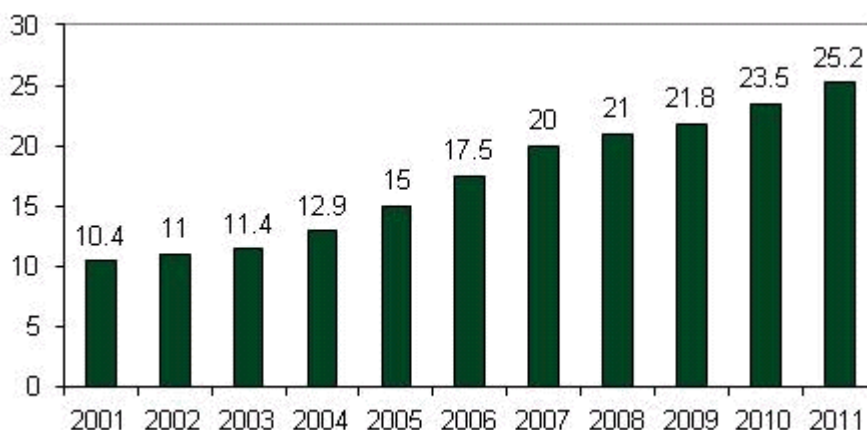
IKEA is the one of world's most successful mass-market retailer, selling Scandinavian-style home furnishings and other house goods in 287 stores in 26 countries whereas active in 41 countries. IKEA began operating in Sweden in 1943 and continues its original ethos based upon cost obsession fused with design culture. With an aim of lowering prices across its entire offering, its signature feature is the flat packed product that customers assemble at home, thus reducing transportation costs. Yet, unlike some peers, IKEA has sustainability at heart and, through an internal mantra of "low price but not at any price" is a leading example of sustainable innovation and business growth.

The company designs its own furniture, which is made by about 1,000 suppliers in more than 53 countries. IKEA's hardcopy catalog is printed in more than 30 languages with more than 209 million copies being freely circulated in 59 different versions. Its Web site contains about 9,500 products which is the closest representation of the entire IKEA range.

When we look at IKEA's financials it has grown at a very steady rate since its inception in 1943. Its sales have grown by 12.5% when compared with 2010. This is fairly good especially during the global recessionary conditions and knowing that retail overall wasn't performing great. Globally retailers have shrunk because of decrease in basket size and reduced number of trips, but IKEA has still managed to grow during these difficult times.

FIGURE 1

IKEA Annual Sales Figure (€ Billion)



Source: IKEA

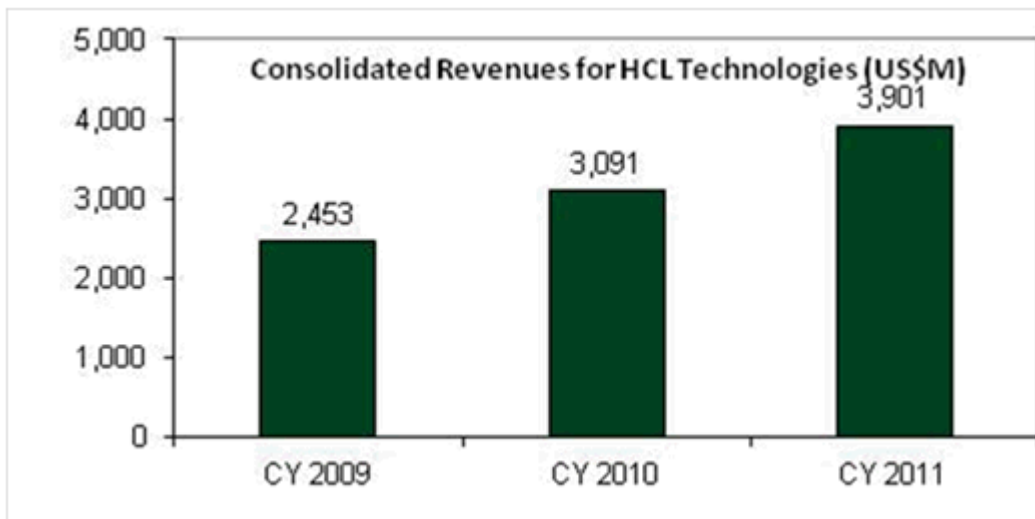
Profile of HCL Technologies Limited

HCL Technologies is the global IT services arm of the US\$6 billion HCL Enterprise and a leading provider of business transformation, enterprise and custom applications, infrastructure management, business process outsourcing, and engineering services. Leveraging an extensive global network of offices in 31 countries, HCL provides holistic, multiservice delivery in key industry verticals including financial services, manufacturing, consumer services, public services, and healthcare. HCL takes pride in its "Employees First" philosophy, which empowers its 90,000 transformers to create real value for over 500 forward-looking customers.

More than 55.9% of its revenue is driven from the U.S. markets, followed by Europe, with 26.9%, and 17.2% from the rest of the world (ROW).

FIGURE 2

HCL Technologies Annual Sales Figure (US\$M)



Source: HCL

About JDA

The JDA supply chain solution implemented at IKEA is from JDA Software Group, a global provider of supply chain management, merchandising and pricing solutions. JDA's supply and demand optimization (SDO) software helps retailers and other businesses manage supply and demand and other business processes ranging from planning and forecasting to ecommerce and store operations. JDA has close to 6,000+ customers globally.

Some of the other players in the same domain are Microsoft Corp., Oracle Corp., SAP AG, Adobe Systems Inc., and Symantec Corp. to name a few.

Aims and Objectives

A Collaborative Supply Chain

Supply chain management (SCM) is the lifeline of retail which integrates and connects various interlinking points. Almost all retailers are experiencing challenges in the supply chain due to business complexity and lack of formal collaboration among retailers, suppliers, and other partners. Demand forecasts and order management are often distorted unless they are developed jointly with the partners. The demand dynamism results in excesses or shortages in inventory which leads to inefficiencies in the supply chain. All these dynamic factors create a need for supply-chain integration and visibility, thereby providing a collaborative forecasting and replenishment processes. The end goal is to increase sales, reduce inventory investments, and minimize cycle time. An integrated collaboration between all these interlinking points can reduce waste in the supply chain, and reduce the market response time.

The following figure (Figure 3) will explain how the supply chain flow works in a traditional retail scenario, with multiple processes involved for the critical success of products reaching its end destination. There are a lot of critical factors that make the process work. The process gets complicated as we start to include global operations like IKEA in this case, where suppliers/manufacturers are located internationally and products have to be shipped to multi-located warehouses and retail outlets — the challenges are numerous.

FIGURE 3

Supply Chain Processes



Source: IDC Retail Insights, 2012

Management Challenges

IKEA felt the pressures of streamlining the business at a time when markets were very rapidly becoming global and strategies local/regional. Supply chain was slowly getting longer and complex with rising competition. Globally, retailers were all redefining the way they were doing business with their customers and suppliers. Retailers were adopting innovative ideas to respond to market trends and develop new channels to meet consumer's shopping preferences.

Supply chain in the future will grow even more complicated as it opens multiple channels of buying (store, internet, kiosk, telephone, mail order, TV, PC) delivering to more outlets (different store formats, order and collection options, homes, multiple pickup options) in potentially more regions — all while managing more products from a greater number of sourcing locations.

The IKEA Scenario

IKEA, as a global retailer of furniture, has a bigger challenge managing 287 stores operating in 26 countries with sourcing done globally through 26 distribution centers. The supply chain complications were multiple and data forecasting was imminently required to predict the demand and supply in the ever-changing market scenario.

IKEA retail stores are supplied through 26 distribution centers situated in 16 countries by 1,000 suppliers based in more than 53 countries. The IKEA supply chain is mainly make-to-stock (MTS) and only a few products are made to customized customer orders. These complex scenarios made the entire supply chain heavily dependent on forecasts. The regions and the stores have strong power and a high degree of local freedom in terms of planning and placing replenishment requests. These dynamics led to fragmented supply chain planning with local optimization and a lot of manual intervention with plans throughout the supply chain.

Furthermore, due to frequent stock shortage and procurement from various underdeveloped countries where situations could be sometimes unstable, stores and procurement departments' purposely overestimated demand to ensure delivery and availability of stock, which in turn lead to an imbalance in the inventory.

IKEA Supply Chain Process

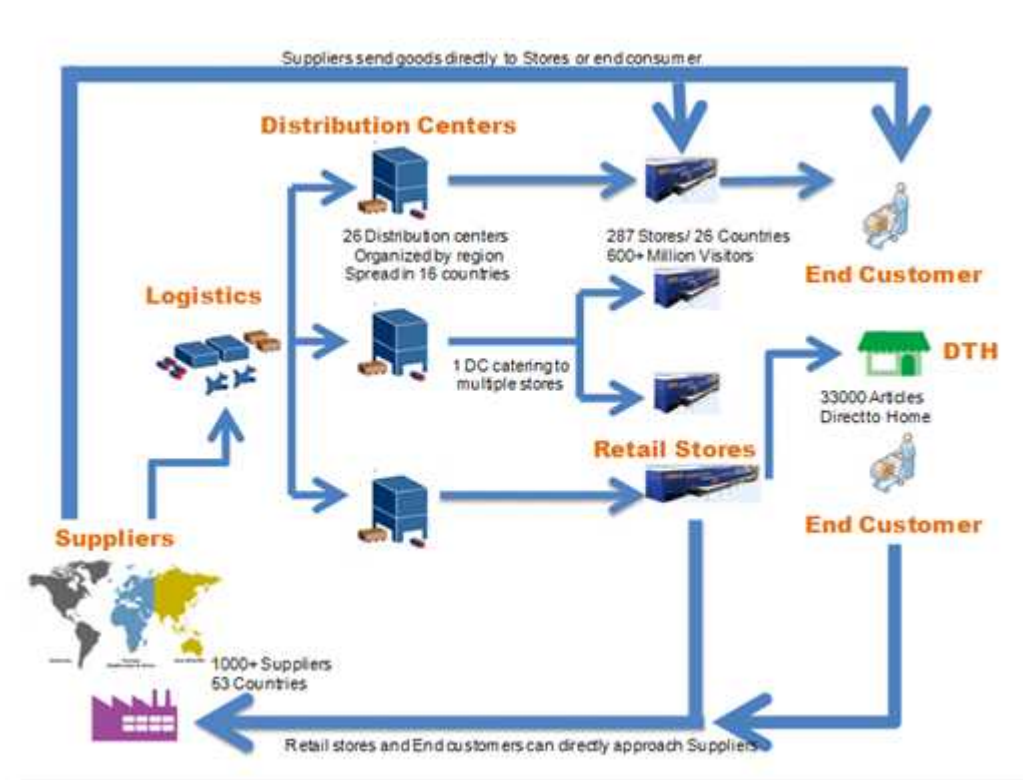
According to IDC Retail Insights a supply chain platform traditionally consists of multiple parties involved directly or indirectly in fulfilling a customer request, including manufacturers, suppliers, transporters, warehouses, retailers, and the customers themselves. For IKEA the interaction between "suppliers" to "distribution center", "supplier to store", and "supplier to customer" happen on a regular basis.

60% of the delivery of products happens directly to the stores to keep the product cost low (which is IKEA's mantra), and 15% of the delivery happens to the distribution centers. After the implementation of the new platform the process has become much efficient. The industry in which IKEA operates requires a lot a lead time — depending on the location of the manufacturing company — which could be between 1 day and 99 days.

IKEA's supply chain process is pretty complicated with suppliers, distribution centers and stores spread out globally. The chart below will explain how all the parties are interlinked. Global suppliers not only supply goods to stores and distribution warehouses but also directly to customers.

FIGURE 4

IKEA Supply Chain



Source: IDC Retail Insights, 2012

When we consider a four-stage supply chain that involves retailer, wholesaler, distributor, and manufacturer, the demand forecasts and orders are often distorted unless they are developed jointly by the partners. The JDA platform implemented is used not only for supply chain but also merchandising.

Key Challenges Faced by IKEA

- Lead time precision/planning was of key importance for the success of the supply chain process. IKEA's supply chain has its own challenges due to global presence. The challenges occur in defining the supply chain processes across all the geographies. Procurement from the global supplier needs to integrate and take care of factors like lead time, pricing comparisons, and order/replenishment management.
- IKEA did not have an accurate centralized forecast system in place for supplier/warehouse. In today's competitive landscape, retailers need to be ready with accurate forecasting systems in order to avoid unnecessary delays in procurements.

- IKEA never used the end-to-end supply chain solution, which created a gap and fragmented the supply chain landscape process. This led to IT tools not being used as optimal as required, thereby lacking in planning and execution.
- Being a global company IKEA needed to have a grip on all areas of operations. A centralized global visibility of the supply-planning-execution process was never put in place.
- The process had lot of manual intervention that forecast the demand either under or over the required numbers.

IKEA knew that for it to achieve growth during recessionary conditions and increase store presence, it had to streamline the complex processes and clear all bottlenecks year over year.

THE BEST PRACTICES

The complex and unique processes at IKEA made sure that the implementation wasn't an easy task and the platform had to be configured and customized before it could be implemented. IKEA looked for global IT companies that not only had a greater understanding of retail but also matched up with IKEA's core values, and hence HCL was chosen as a partner for the supply chain planning endeavors.

IKEA selected JDA for using its supplier fulfillment platform. Implementing this would provide the platform that will help improve the forecast accuracy, manage the demand and supply in a better way, and improve overall visibility across the supply chain. This will not only help forecast supply and demand but also manage and track key performance indicators.

The deal is note worthy because a retailer from Europe had partnered with a single vendor for the implementation of supply chain management platform effecting its global operations. It is unique in nature at a juncture when global trends have been toward smaller contracts with multiple best of the breed suppliers.

Key Action Plan and Objectives

IKEA had chalked out certain business objectives to for this implementation:

- IKEA needed to have fully integrated management of key supply chain data across the business.
- IKEA needed to develop a good forecast model that could be used as a single view of demand across geographies to deal with any futuristic situations.
- Supply chain visibility and proactively manage by exception.

- Reduce the overall supply chain costs through optimal network and supply planning.
- Simplify the application planning landscape and integration to legacy systems.

Key Successes

The successful implementation of the platform has brought synchronized business processes thereby helping IKEA take decisions faster and more accurately. In general the platform strategically supports standardization.

IDC Retail Insights believes that the key lessons learned from this case study are the following:

- Effective alliance between IKEA and HCL established a "Demand Planning" and "Replenishment Planning" platform integrated end-to-end throughout the entire supply chain
- Supporting bespoke application development delivering key business objectives for increasing direct delivery from supplier to store and establishing store collaboration platform
- Implementation of a common unified data model and integration of supply planning data management as a base for operational report
- HCL also helped IKEA achieve a substantial cost savings by moving to managed service support.
- Transparency in services through well-defined key performance indicators (KPIs), service-level agreement (SLA) adherence, and dashboards-based reporting
- Improvement in delivery flexibility and agility

The advantages for IKEA after the implementation are:

- IKEA achieved major business successes after implementing the platform deriving great business value.
- The successful design and implementation led to 5–7% forecast accuracy and decision making. IKEA was able to make decision faster and more accurately.
- There has been significant reduction in inventory carrying costs with 8–12% global reduction of inventory.
- With the new system in place, proactive monitoring of the "backorder creation" has improved availability of products to the customer.
- Demand process improved by developing sales goal tools.

- 10% YoY productivity benefit was achieved by effective incident management and problem management.
- Improved service response times and increased SLA performance from 70% to 92% lead to satisfied business users.
- It has established a repeatable delivery capability going from 1 to 3 releases per year delivering core business functionality.

HCL has been very successful in managing the expectations for IKEA. The key factors in building an effective relationship with IKEA were the following:

- Understanding business problem and providing customized solutions
- Flexibility, transparency, and responsiveness to changing circumstances
- Investing time and creating lasting business relationship
- Utilizing the right skilled resources for the project
- Having transparency over cost models and delivery on the total cost of ownership
- Sharing best practices on joint "ways of working" by both companies

FUTURE OUTLOOK

IKEA continues with its Logistics strategy to enable multichannel format retailing through design, plan, and optimize for growth and customer satisfaction. Bringing the supplier closer to the customer to reduce distance and lead time, environmental impact, lower inventory holding, and at the same time increase availability and affordable prices for the many customers.

It is imperative for HCL to continually align and develop its supply chain optimization service line capabilities with IKEA: staying ahead of IKEAs' platform strategy and focus on best-of-breed planning solutions; adding value where gaps and efficiency gains present themselves in the transformation; and loading the service lines completely to continue delivering a lower total cost of ownership to IKEA.

IDC believes the success of the partnership is the result of not only continuous interaction between the project teams of the two companies but also sharing of best practices along with demand management of resources. The annual planning of key capital and revenue projects also resulted in the success of the implementation.

While it is clear that supply chain systems can help retailers streamline and improve their control over the backend value chain, they also provide integration across all departments, which allows for an enhanced visibility into demand and supply. There is a continuous need to keep changing and upgrading the systems for new business challenges and scenarios on a periodic basis.

In addition, implementation of supply chain projects is quite complex and does not always fulfill all requirements of the business. **Project success or failure depends on multiple factors** including approvals from top management; selecting the right vendor systems and capable partners to customize the product is very important. There has to be a constant push for developing and implementing plans that minimize potential risks while achieving significant cost reductions. These implementations are always lengthy and generally over budget, but have significant benefits such as improved profitability and accurate demand and supply forecasting.

HCL still continues to support IKEA's drive for an Integrated Planning Enterprise. It's almost five years and the HCL–IKEA relationship is still going strong having delivered and implemented the platform.

ESSENTIAL GUIDANCE

Actions to Consider

IDC Retail Insights advises retailers to keep in mind the following while implementing a supply chain platform:

- **Fine tuning:** Businesses, before making any changes to the systems or the affected environment, require fine tuning to match the organizations' requirements. In addition, adapting to the new system would require organization-wide acceptance and understanding since it not only affects internal departments and systems but external suppliers as well.
- **Training:** Any new upgrade or change of systems always needs proper and adequate training to make accurate and efficient use of the systems. Ongoing training is also required to have a greater workforce to take care of unforeseen circumstances. Proper training will also help fully utilize all the features of the tool.
- **Driving value to the business:** Once the right technology platform is in place, organizations should work on effectively adapting to change and driving value out of their existing systems and focus on building a sustainable competitive differentiation.
- **Maintaining and upgrading a roadmap strategy:** Finally, a maintenance strategy along with special attention to upgrades should be put in place. Regular patches and upgrades should be a part of the contract and should be released by vendors; any changes to the company's system should be tested thoroughly and released for use. Many times upgrades take the same amount of resource as that of implementation and so it becomes essential to find the right balance between assuring business continuity with the minimal business disruptions and keeping the systems updated to guarantee access to critical resources.

LEARN MORE

Related Research

- *Perspective: NRF 2012 — What a Difference a Year Makes!* (IDC #GRI233126, February 2012)
- *EMEA Retail 2012 Top 10 Predictions* (IDC #GRRS01U, February 2012)
- *Best Practices: 2012 IT Budget Guide* (IDC #GRI232873, February 2012)
- *Perspective: IDC Retail Insights' 2012 Supply Chain Predictions* (IDC #GRI233025, February 2012)
- *Perspective: The General State of Collaboration Between Retailers and Manufacturers* (IDC #GRI232665, January 2012)
- *Perspective: Supply Chain Segmentation in Consumer Goods Manufacturing and Retail* (IDC #GRI232663, January 2012)
- *Vendor Assessment: RRM 2.0 — Profiles in Public Pricing and Personal Promotions* (IDC #GRI232641, January 2012)
- *Worldwide Retail Industry 2012 Top 10 Predictions* (IDC #GRI232576, January 2012)
- *Asia/Pacific Retail 2012 Top 10 Predictions* (IDC #AP9140605T, December 2011)
- *Worldwide Retail IT Spending Guide, Version 2, 2010* (IDC #GRI229457, July 2011)

Synopsis

This IDC Retail Insights best-practices case study provides an analysis of the implementation of JDA's supply chain management platform for IKEA by HCL.

"Relooking at age old legacy systems is the order of the current times. Retail has become very dynamic with market situations changing within very less timelines. Investment aimed to improve inventory management, better coordinate with global supplier, and on-the-go forecasting system is the need of the hour where shoppers have omni-channel ecosystems to take care of their needs. While implementing a supply chain platform, customization is required according to companies' individual processes," says Kumar Gs Das, Research Manager, IDC Global Retail Insights". "The significant reduction of inventory carrying cost, increased productivity, and better forecasting achieved by IKEA following the implementation of JDA supply chain platform by HCL resulted in streamlining and making the supply chain efficient", he adds.

Copyright Notice

Copyright 2012 IDC Retail Insights. Reproduction without written permission is completely forbidden. External Publication of IDC Retail Insights Information and Data: Any IDC Retail Insights information that is to be used in advertising, press releases, or promotional materials requires prior written approval from the appropriate IDC Retail Insights Vice President. A draft of the proposed document should accompany any such request. IDC Retail Insights reserves the right to deny approval of external usage for any reason.