Importance of e-Commerce Supply Chain for Furniture Industry

Dr Michael Li
Nanyang Business School, NTU
26 Feb 2016
Outline

• Furniture Industry in a Fast Changing World
• Corporate Lifecycle
• Value Chain Analysis & Eco-System
• e-Commerce Supply Chain
• Case 1: Amazon.com
• Case 2: 京东 – jd.com
• Case 3: 尚品宅配 – homekoo
• Rethinking Your Business Model
• Q & A
Furniture Industry in a Fast Changing World
Furniture Industry in a Fast Changing World

- Over the past decade, many factors have emerged that directly or indirectly affect the furniture industry, including:
  - technological changes,
  - the rise of social media, and
  - changing demographics.

- Furniture preferences differ by generations:

<table>
<thead>
<tr>
<th>Generation</th>
<th>Year of Birth</th>
<th>Age</th>
</tr>
</thead>
<tbody>
<tr>
<td>Digital Generation</td>
<td>2002-now</td>
<td>14 and blow</td>
</tr>
<tr>
<td>Generation Y/Millennials</td>
<td>1983-2001</td>
<td>15 – 33</td>
</tr>
<tr>
<td>Generation X</td>
<td>1964-1982</td>
<td>34 – 52</td>
</tr>
<tr>
<td>Baby Boomers</td>
<td>1945-1963</td>
<td>53 – 71</td>
</tr>
<tr>
<td>The Silent Generation</td>
<td>1928-1944</td>
<td>72 – 88</td>
</tr>
</tbody>
</table>
Generation Y/Millennials

- **Generation Y** can be described as:
  - Economically conservative
  - Socially progressive
  - Hyper-organized
  - Self-confident
  - Tech-savvy & digitally plugged in
  - Transient
  - Entrepreneurial
  - Social networkers
  - Socially conscious
  - Preferring experiences

- **What are the implications to the furniture industry?**
- **Who are your target customers?**
Demand Dictates Distribution

- The long-held belief that shoppers desire to touch a piece of furniture before buying it.

- But the Internet is fast changing the furniture retail landscape, particularly among younger consumers, and opening up new channels of distribution.

- Increasingly, consumers are more willing to purchase furniture online.
Marketing Practices

- **Furniture Companies are Poor Marketers**
  - Traditionally, the furniture industry has not been known for marketing itself well.
    - Reluctant to research consumer preferences or improve the customer experiences.
    - Emergence of new marketing channels and new marketing practices.

- Successful marketing strategies rely on a deep understanding of target audiences.
  - The industry must brace the social media in order to build relationships with new generations of buyers.
Moving Forward

• A New World – Still Changing
  • The furniture industry is not a high profit-margin industry, which means that the general economical environment has a big impact on the industry’s profitability and the branding matters.

  • The consumer preferences have been changed/evolved primarily driven by the new technology.

  • Traditional business models have been gradually disrupted by new business models that are up to the technology curve.

• Traditional business strategies/practices have become increasingly less effective to sustain the business.
Corporate Lifecycle
Four Stages of Corporate Lifecycle

- Four stages:
  - Development, Growth, Maturity and Decline
# Stage Characteristics

<table>
<thead>
<tr>
<th>Stage</th>
<th>Develop.</th>
<th>Growth</th>
<th>Maturity</th>
<th>Decline</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>Low</td>
<td>Fast</td>
<td>Slow</td>
<td>Decline</td>
</tr>
<tr>
<td>Profits</td>
<td>Volatile</td>
<td>Peak</td>
<td>Decrease</td>
<td>Low or none</td>
</tr>
<tr>
<td>Cashflow</td>
<td>Negative</td>
<td>Some</td>
<td>High</td>
<td>Low</td>
</tr>
<tr>
<td>R&amp;D</td>
<td>Large</td>
<td>Some</td>
<td>Low</td>
<td>None</td>
</tr>
<tr>
<td>Investment</td>
<td>Big</td>
<td>Some</td>
<td>Down</td>
<td>Retreat</td>
</tr>
<tr>
<td>Competitors</td>
<td>Few</td>
<td>Some</td>
<td>Many</td>
<td>Some</td>
</tr>
</tbody>
</table>
Innovation

- Innovation is the only way to break the cycle and get a new life!

- Three levels of innovation
  - Products & Services, Operations and New Business Model
Innovation & Talent

- Innovation dilemma: leadership, critical talent, etc.
Value Chain Analysis & Eco-System
Value Chain Analysis

The concept of Value-Chain analysis is introduced by Michael Porter (1985), who divides activities of the firm into two categories: PRIMARY ACTIVITIES and SUPPORT ACTIVITIES.

- PRIMARY ACTIVITIES are necessary elements for producing the products and offering services,

- SUPPORT ACTIVITIES assist businesses to become successful in the marketplace
Primary Activities & Support Activities

Support Activities

Firm Infrastructure
Human Resource Management
Technology Development
Procurement

Inbound Logistics
Operations
Outbound Logistics
Marketing and Sales
Service

Primary Activities

Margin
A competitive advantage may be achieved by reconfiguring the value chain to provide lower cost or better differentiation or niche.

Value-chain analysis provides a framework for developing core competences of the firm and identifying the key activities in which it can pursue a competitive advantage.
Value Chain Analysis – Illustration for IKEA

<table>
<thead>
<tr>
<th>PRIMARY ACTIVITY</th>
<th>IMPLEMENTATION BY IKEA</th>
</tr>
</thead>
</table>
| Inbound Logistics     | • Distribution of products to the stores from 42 distribution centres.  
                         • 10,000 item product line manufactured by over 1,000 suppliers.                                                                                   |
| Operations            | • Operations in more than 40 countries, 208 companies operated stores in 26 countries while remaining stores operated by franchisees  
                         • IKEA does not manufacture its own products                                                                                                           |
| Outbound Logistics    | • Preferred method for customer to transport their products themselves                                                                                   |
| Marketing and Sales   | • Targeted at families with lower income, students and singles  
                         • Low prices  
                         • Family-friendly store environment                                                                                                                  |
| Services              | • Information provided through catalogues and displays.  
                         • Self-help service                                                                                                                                 |
Value Chain Analysis – Illustration for IKEA

<table>
<thead>
<tr>
<th>SUPPORT ACTIVITY</th>
<th>IMPLEMENTATION BY IKEA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Firm Infrastructure</td>
<td>• Hierarchical organizational structure.</td>
</tr>
<tr>
<td></td>
<td>• Large scale stores in size.</td>
</tr>
<tr>
<td>HRM</td>
<td>• High level of commitment to HR practices</td>
</tr>
<tr>
<td></td>
<td>• Effective staff training and development programs</td>
</tr>
<tr>
<td>Technology Development</td>
<td>• Research and development activities initiated in Sweden.</td>
</tr>
<tr>
<td></td>
<td>• Extensive use of information technologies in various business processes and research and development</td>
</tr>
<tr>
<td>Procurement</td>
<td>• No need for raw materials as IKEA does not produce own brand products</td>
</tr>
<tr>
<td></td>
<td>• Long strategic relationships with all suppliers</td>
</tr>
</tbody>
</table>

IKEA uses **the low-cost leadership strategy** as a competitive advantage.
Value Chain System

- **Value Chain System (Eco-System)**

  - In most industries, it is rather unusual that a single company performs all activities from product design, production of components, and final assembly to delivery to the final user by itself.

  - Most often, *organizations are elements of a value system or supply chain.*

  - Hence, value chain analysis should cover the whole value system in which the organization operates.
The Eco-System

- Value Chain System (Eco-System)

You want to be part of an eco-system that is flourishing so that you have a great growth potential.
E-Commerce Supply Chain
Supply Chain for e-Commerce

- A supply chain is the network of activities that deliver a product/service to the customer
  - Sourcing (purchasing) of raw materials, parts, goods for sales, or service inventories
  - Order entry
  - Operations planning
  - Transportation process (manufacturing or services)
  - Quality management
  - Logistics: Transportation (traffic) & Distribution (delivering the product)

- E-Commerce companies have traditionally engaged independent service providers to be part of their supply chain management.
  - This is no longer the prevailing wisdom.
  - Global e-commerce giants, e.g., Alibaba, Amazon, Jingdong, etc., are creating new industrial eco-systems that are fully
Case 1: Amazon
The Largest e-Commerce Firm

• Value Proposition & Competitive Edge:
  • Price:
    • Can you beat Amazon on price? For most, that’s hard to do.
  • Selection:
    • Can you offer more selection? As with price, it is increasingly hard to do given that Amazon stocks deep and works with partners that carry what it does not carry.
  • Experience:
    • Can you beat them on experience? Amazon is the creator of such type of retailing.
  • Convenience:
Since its inception in 1995, Amazon has focused on the logistics of distribution as central to the online retail experience.

In 2015, Amazon topped Gartner Inc.’s top 25 Supply Chains, beating MacDonald and Unilever to head the field. It did so due to its constant innovation and a consumer-centric approach.

Amazon is increasingly becoming a logistics company, as it facilitates the storage and the sale of goods from third party vendors.
So what is the key message?
Case 2: 京东 (jd.com) Disrupting the Whole Retail Industry

- Value Proposition & Competitive Advantage
  - 多 (Vast Selection)
  - 快 (Fast Delivery)
  - 好 (Quality Guarantee)
  - 省 (Low Price)

- Incredible Growth
  - From 360M (in RMB) in 2007 to 260B (in RMB) in 2014, in just 7 years!
Case 2: 京东 (jd.com)
JD is an Fully Integrated Logistics Company

- JD is a vertically integrated O2O e-commerce giant.
- Invest heavily in supply chain and logistics (to be part of firm infrastructure)
  - 7 mega distribution centres (DCs)
  - 166 warehouses in 44 cities
  - 4142 service locations
  - Its own dedicated express delivery unit
- Massive Corporate IT Backbone
  - Daily processing of over 30 million orders, still growing
  - Seamless integration with suppliers
- Alibaba’s vision is different: partnership-based 物流宝
  - Still struggling
Case 3: 尚品宅配 (homekoo.com) Leader in Furniture Customization

- Established in 2004, Shangpin was a software company that provided services to home-builders.
- In 2009, the company launched the portal homekoo.com, which is a platform for furniture customization, by implementing a flexible supply chain concept:
  - Designing (over 10,000 designers)
  - Centralized order processing
  - Distributed production allocation
  - Consolidation and packaging
  - Delivery
Case 3: 尚品宅配 (homekoo.com)  
Supply Chain & Logistics

- The success of this innovative C2B + O2O e-commerce company is critically depending on its supply chain management and logistics support!
  - Furniture logistics and the last-mile issue are costly.
  - Physical presences in key locations, through stores and franchisers, are also necessary.
  - Managing customer expectation is a big challenge.

- Core technology:
  - Proprietary software
  - Big data – a massive database of customized designs
  - Cloud computing capability – products and designs
Case 3: 尚品宅配 (homekoo.com)  
Profitability & Growth

- In 2014, the revenue reached RMB1.912 billion, with a high gross margin of 50%.
  - But the net profit is only RMB130 million, due to high marketing cost (about 25%) and management cost (10-12%).
  - This is a low margin industry!

- But the company has not become a disrupting force to the furniture industry yet.
  - There are many other business models that are still doing well.
  - The industry will need more innovations to move forward!
Rethinking Your Business Model
Rethinking Your Business Model

- Traditional approach to your business has become increasingly irrelevant in this fast changing world.
- Falling behind the technological curve, the furniture industry must embrace the new technology.
- The industry must have a better understanding on the customer preferences: new marketing, new branding, new servicing, etc.
- A new world requires a new thinking:
  - You are either disrupting yourself, or else you will be disrupted by others
  - The disrupting forces are likely coming from other industries and the surviving players will become part of a new eco-system.
- The Answer is to rethink your business model by asking some hard questions.
Customers, Value & Channels

- **Customer Segments**
  - For whom are we creating value?
  - Who are our most important customers?

- **Value Proposition**
  - What value do we deliver to the customer?
  - Which one of our customers problems are we helping to solve?

- **Channels (Communication, Distribution & Sales)**
  - Through which channels do our customer segments want to be reached?
  - How are our channels integrated?
  - Which ones are most cost efficient?
Customer Relationships & Revenue Model

- **Customer Relationships**
  - What type of relationships does each of our customer segments expect us to establish and maintain with them?
  - Which ones have we established?
  - How costly are they?
  - How are they integrated with the rest of our business model?

- **Revenue Streams**
  - For what value are our customers really willing to pay?
  - For what do they currently pay? How are they currently paying?
  - How would they prefer to pay?
  - How much does each revenue stream contribute to overall revenues?
Resources & Activities

• **Key Resources**
  - What Key Resources do our Value Propositions require?
  - What Key Resources do our Distribution Channels require?
  - What Key Resources do our Customer Relationships require?
  - What Key Resources do our Revenue Streams require?
  - Key resources can be **physical, financial, intellectual,** or **human.**

• **Key Activities**
Partnerships & Cost Drivers

• **Key Partners**
  - Who are our Key Partners? Who are our key suppliers?
  - Which Key Resources are we acquiring from partners?
  - Which Key Activities do partners perform?

• **Cost Structure**
  - What are the most important costs inherent in our business model?
  - Which Key Resources are most expensive?
  - Which Key Activities are most expensive?
Business Model Canvas

The canvas is a shared language for describing, visualizing, assessing, and changing business models.
Thank You!

Q&A

Email: ZFLI@NTU.EDU.SG