

# Ikea; influences affecting ikea



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**Task 1****Chosen organisation: Ikea**

Describe and analyse the primary internal and external influences to which Ikea is subject.

**Task 2****Chosen theme: Demographic factors**

- i. Analyse how demographic factors influences policies and decision-making within Ikea.
  
- ii. Critically evaluate the effectiveness of the organisation's or industry-sector's response.
  
- iii. Demonstrate some areas for improvement in the responses of the organisation or industry-sector.

Written in: British English

**Executive Summary:**

Ikea is the biggest furniture store in the world, with no true worldwide rivals. It accounts for 5 to 10 percent of the furniture market in the countries in which it operates [source: Capell]. The stores aim to meet founder Ingvar Kamprad's original vision " to create a better everyday life for the many people," via a manifesto now presented to every Ikea employee.

Ikea got its name from the initials of founder Ingvar Kamprad and the first letter of his farm (Elmtaryd) and village (Agunnaryd). In 1943, he began as a small store to sell inexpensive furniture to poor residents of Sweden. Today, Ikea has 250 stores in 31 countries and sales of 19. 8 billion euros (\$26. 1

billion) in fiscal year 2007 [sources: D’Innocenzio, Ikea]. It’s stores offers nearly 10, 000 home furnishing items and in 2007, 450 million people around the world visited the store’s Web sites, and the 2007 Ikea catalog had a print run of 175 million copies in 27 languages [source: Ikea]. The catalog made its way to 100 million households in 30 countries [source: Capell]. Kamprad aim for the company to sell furniture for 10 to 30 percent less than other furniture stores [source: Stevenson].

This report assesses the impacts of external and internal factors on Ikea. There are 2 parts for this report. The first will describe and analyse the primary internal and external influences on Ikea and the second will analyse the dempgraphic factors that can affect Ikea.

For the first part PESTLE model, created by Aguilar (1967), and Five forces model, created by Michael Porter (1985), will be used to scan Ikea’s business environment. To analyse the internal environment thetheory of Jones and Georges (2005) will be used. It covers organizational structure, culture, human relations policies and skills and experience of staff. The popular SWOT analysis tool, introduced by Humphrey (1960s), will be also be used. It combines both the external and internal factors.

## **Introduction**

IKEA was founded in 1943 by Ingvar Kampard in Smaland, Sweden. Since then, the Ikea Group has grown to be the largest global furniture retailer, in addition to establishing Ikea as one of the most recognisable and iconic consumer brands. Ikea specialises in contemporary Scandinavian furniture designs, incorporating light, bright colours and natural textiles and materials,

such as pine wood from sustainable forests. Ikea distinguishes itself from other furniture manufacturers by providing complete solutions for modern lifestyles and contemporary designs. This strategy has enabled the company to firmly establish itself as a unique consumer experience, with approximately 300 retail stores in over 35 countries around the world. In FY 2009, Ikea plans to open a further 26 new stores globally (Ikea company website, 2009).

In 2008, the company reported total turnover of €22.5 billion, an increase of 8.7% from 2007 (Ikea company website, 2009). However, in April 2009, the company announced a decline in revenue growth associated with the weak global economic conditions. Revenue growth was down to approximately 3% from 10% the previous year (Reuters; 2009).

External & internal influences affecting Ikea

## **1. External influences**

### **1(a) PESTEL Analysis**

#### **Political factors**

\* The Ikea Group has most of its stores located in Europe, with 177 stores located in the European Union (EU) (Ikea company website, 2009). The EU contributes approximately 50% to global furniture production, valued at €82 billion (European Commission, 2009).

\* The EU is the largest trading partner with Russia, accounting for over 50% of Russia's total trade turnover in 2008 (European Commission, 2009). EU and Russian relations are currently focused on the current WTO accession negotiations and a new agreement to replace the current Partnership and

Co-operation agreement, in addition to the enforcement of the EU-Russia Common Economic Space (CES). These bilateral agreements between the EU and Russia, in addition to Russia's accession to the WTO, are likely to strengthen trade between the 2 economic blocks.

### **Economic factors**

\* The US is the largest market and importer of retail furniture, representing approximately 25% of global furniture consumption. However, with the current weak economic conditions, declining property prices and rising unemployment; consumer spending has declined significantly. Therefore, demand for furniture has declined significantly over the previous 2 years (wordfurnitureonline. com, 2008., Gulfnews, 2008).

\* The economic stimulus packages announced by the US and other European nations are likely to provide some support for consumer spending. In addition, record low levels of interest, particularly in the US (0. 25%) and the UK (0. 5%), are likely to support economic recovery in these regions (BBC News, 2008).

### **Social factors**

\* Consumer preference for furniture is primarily based on a desire to achieve a particular lifestyle. However, important factors include comfort, usability, durability and cost (Oztop et al., 2009).

\* Like most other retail markets, the furniture industry is impacted by global social trends, which currently include an increasing aging population, economic migration, increasing urbanisation and the decline of the traditional family unit. For example, there is greater consumer demand for

second master bedrooms used as either guest rooms or for visiting family members (Furniture Today, 2008).

### **Technological factors**

- \* The use of wireless LAN (WLAN) and an effective IT infrastructure to process inventories and customer purchases is essential for efficient operations and to reduce costs.
  
- \* The use of sophisticated computer software to aid the design and development of furniture designs is an essential element of the retail furniture industry. Computer Aided Design (CAD) and other 3D tools are required to transfer the initial design concepts to high quality products which can be easily assembled at home by consumers (EU Commission, 2008).

### **Environmental factors**

- \* With an increasing number of furniture producing regions outsourcing their raw material and production requirements to developing economies; such as Brazil, China and Indonesia, there is greater consumer awareness of environmental issues. These include the use of sustainable forest plantations, waste from packaging, pollution from the production process and the environmental impact of transport and distribution (European Commission, 2008).
  
- \* Furthermore, there are other social and environmental factors impacting the furniture industry, such as the use of toxic chemicals used in the production process. These include fire retardants and compounds used to harvest raw material, such as cotton. These are not only toxic to the end

users, such as consumers, but also impact the local communities and environments (politicalaffairs. net. 2007).

### **Legal factors**

\* Most major furniture manufacturers have to abide by a number of legal factors in multiple operating regions. These include both international and regional legal obligations. As the EU is a major market for retail furniture, there are a number of EU legal rulings in terms of product safety laws, carbon emission standards, environmental obligations and employee working conditions (The Daily Mail, 2009).

\* In addition, protectionist laws in regional markets, such as India and China, include legal rulings associated with the protection of intellectual property and import tariffs, which generate significant barriers for some of the major western furniture manufacturers (ChinaStakes, 2009).

### **1 (b) Porter's 5 Forces Analysis**

#### **The possibility of new entry**

\* As the furniture and household industry comprises established brands with significant consumer loyalty, there are considerable entry barriers for new entrants. Hence, the likelihood of new brands entering the market and securing significant market share is relatively low. However, although this may be the case for the global market, regional entrants may find it easier to enter the market by differentiating products based on a greater focus on regional consumer trends and tastes, e. g. Pottery Barn in the US (Furniture Today, 2008).

\* In general, there are significant entry barriers for new entrants, such as high costs for stores, sourcing of raw materials, regional protectionist policies, intense competition, marketing and governmental policies.

### **The purchasing power of buyers**

\* The current weak global economic conditions means consumer confidence and spending is significantly lower relative to historical levels. However, for some furniture retail companies, this may actually be a marketing advantage and differentiating factor between peers, as affordable high quality products are an actual benefit for a company during times of economic recession (World Furniture Online, 2008).

\* Historical low levels of interest rates and consumer credit means some consumers are making significant savings on mortgage repayments, allowing more cash to be spent on home improvements, such as furniture acquisitions.

### **The power of suppliers**

\* The major raw material used by most furniture manufacturers is timber. Since the timber industry is exposed to multiple external factors, the prevailing condition of end markets and demand will dictate the price of timber. Furthermore, apart from end markets, general changes in macroeconomic conditions can impact the timber industry.

\* However, a unique feature of the timber industry is its ability to sustain periods of general economic downturns and lower demand, as most trees used for timber can be left to grow until they are harvested. This allows for significant flexibility in lead times (wikinvest, 2009).



\* Therefore, the major supplier to the furniture industry; the global timber markets, have some powers to determine and maintain prices. However, most furniture manufacturers may hedge their timber costs by purchasing timber futures (wikinvest, 2009).

### **The degree of competition**

\* Competition in the retail furniture and lifestyle market is relatively intense, with a number of major companies offering products with similar design and styling cues (Small Business Notes, 2009).

\* In some markets, the global economic downturn has resulted in some smaller furniture retailers going bankrupt, such as MFI in the UK (MFI Group company website, 2009).

### **The threat of substitutes**

\* As furniture is an essential household consumer item, there is little or no threat to retail furniture demand in terms of substitutes. However, the threat of substituting wood and timber as the major raw material may impact the future of the industry, particularly if resources are not managed in a sustainable manner.

## **2. Internal influences**

### **2 (a) SWOT analysis**

#### **Strengths**

\* Ikea has a significant consumer loyalty, with a well established globally recognised brand name. The company is recognised for affordable high quality products incorporating contemporary designs, with a strong consumer following from young couples or those with children (Speigel Online, 2009).

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- \* The company has a wide geographical presence and plans to expand its operations in the major regional economies.

- \* Ikea sources low cost raw materials and has low operating costs.

### **Weaknesses**

- \* Ikea has a global presence, which exposes the company to regional economic trends and stretches the company's distribution channels.

- \* The company has major markets in the US and Asia, exposing the company to significant currency exchange rate fluctuations (Fredberg et al, 2008).

### **Opportunities**

- \* With consumer preference for ethically derived products and fair trade policies, the company can capitalise on its strategy of using sustainable forest plantations to source its wood and social welfare programs in developing nations.

- \* China represents a significant market for IKEA, particularly with the preference of Chinese consumers for major western brand names.

### **Threats**

- \* The company is exposed to regional players who specialise on regional consumer tastes and offer more competitive pricing. For example, Pottery Barn in the US market.

- \* In some third world markets, such as India, the local laws and standards on private ownership in the retail sector introduce significant entry barriers to emerging markets. In addition, the company's products are imitated and

unlawfully copied, providing cheap alternatives for similar looking products (kerelanext. com, 2009).

3. Demographic factors influencing Ikea's policies & decision making

4. Critical evaluation of Ikea's response

5. Areas of improvement for Ikea's responses

### **Conclusion**

Although IKEA is likely to experience a significant decline in revenue growth in FY 2009, the company's strategy of expanding its store network, particularly in the emerging markets of Russia and China, is expected to offset the decline in consumer spending, associated with the current weak global economic conditions, over the long term. However, the company is significantly exposed to global currency exchange rate fluctuations, considering its reliance on the US and other emerging markets outside of the EU.

The company's strong brand loyalty and reputation for providing affordable high quality products will appeal to most consumers during the current period of relatively low consumer spending levels. In addition, the company's policies of sourcing its raw materials from sustainable sources, its drive on reducing its carbon footprint, social and welfare obligations will appeal to many ethically conscious consumers in major western markets.

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