

Ikea strategic position assignment



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Strategic Management 1| Assignment 2| The purpose of this paper is to conduct a position analysis of the IKEA Corporation. It presents a profile of the company operations, identifies its strategic issues and challenges and analyses strategies which it has contributed to it gaining a competitive advantage. | | WORD COUNT: 3139 STUDENT ID | 8/26/2011| |

INTRODUCTION IKEA is a privately held, international home products company that designs and sells ready-to-assemble furniture such as beds and desks, appliances and home accessories.

The company which is the world's largest furniture retailer originated in Smaland, Sweden and distributes its products through its retail outlets. (IKEA, 2007; Sloan, 2007) As of October 2010, the chain has 313 stores in 38 countries, most of them in Europe, North America, Asia and Australia. The IKEA Group itself owns 276 stores in 25 countries and the other 37 stores are owned and run by franchisees outside the IKEA Group in 16 countries/territories. 2006 saw the opening of 16 new stores.

A total of at least 15 openings or relocations were planned for 2010. IKEA built and designed its own furniture through Swedwood, an IKEA industrial group, where they also started testing the idea of flat packages. The idea was to design products that could be packed completely flat and later reassembled by the customer. Staying true to its motto of providing "Affordable Solutions for a Better Living," their consumer-assembled furniture allows them to decrease assembly and shipping costs because of the simplicity in packaging parts of unassembled furniture.

Bartlett, C. A. , and Ghoshal, S. (1989). By developing a new paradigm for furniture and house wares, IKEA continues to lead the way in home furnishings with much room for improvements and expansions. (See SWOT analysis Appendix i) ENVIRONMENT ANALYSIS Political – The Political factors that IKEA has to contend with would include the various Economic and Trade Agreements policies and tax arrangements in the various countries in which they operate. Dupuis ; Prime 1996) With regard to Canada and the European Union for instance, very close monitoring is taking place of the discussions to either allow tax breaks or increased taxes on imports into Canada. This can affect them negatively or positively. If the political directorate decides to reduce taxes in order to increase the amount of trade between Canada and the EU IKEA will likely benefit from this change. They will be able to ship more products for less money therefore giving them more of an opportunity to expand into different regions in Canada.

If the outcome is to increase taxes on furniture into Canada, to decrease the amount of competition Canadian furniture manufacturers face, it would result in a decline in IKEA's numbers as well as a lack of expansion for them into regions and territories. The outcomes of these types of political issues affect IKEA's expansion plans in the company's global network. Another factor is the political uncertainty in place right now and the rising tide of popular uprising which are toppling long existing regimes such as in Egypt and Tunisia.

This trend has number implications for investment expansion job opportunities and legislative changes that impact on employment, minimum wage, taxes and workplace safety. Economic The global economic crisis is by <https://assignbuster.com/ikea-strategic-position-assignment/>

far the greatest issue being monitored by transnational corporations presently and IKEA has had to make adjustments by adopting different kind of strategies that will still hold the appeal on their customers and aiming to own the customer loyalty.

They also have a very conservative policy when it comes to borrowing money. IKEA prefers to use retained earnings and do not borrow very much. While the reality is that since the 2008 global financial crisis, some people have been coming to the stores less others have been coming to the stores more as people quite naturally seek out low priced but still sophisticated furniture. In the fiscal year 2010, IKEA's sales grew by 7.7% to €23.1 billion and net profit increased by 6.1% to €2.7 billion.

IKEA, (2010) To many this is proof that the company maintains a reputation of high quality though in the midst of an increasingly tough economic climate. Social – IKEA contributes significantly to the society as they provide opportunities for employees as they are entitled to different benefits such as insurance and pensions and part of their various work-life balance initiatives. Moreover, there is a large and growing number of younger do-it-yourself individuals who appreciate IKEA'S philosophy. IKEA (2010).

The company promises to provide more high quality furniture that sticks to their original concept – stylish furniture at low prices. Technological IKEA uses quality technology and systems to promote the shorter queues, proper scheduling, tracking and trading patterns, and staffing. It aims to be more productive and establish employee preferences. The system has placed IKEA

in a position to ensure the right number of staff in a right place and in a right time to match the unique trading patterns at each store of IKEA.

The company's goal is to optimize everything from the supply chain to the workforce in an effort to create an efficient store environment and keep customers happy. The company is also heavily reliant on the online catalogue available to its customers worldwide as a critical technological tool. Comai, A. Tena (2007) Legal - IKEA is aware of the various degrees of rigidity around the world in terms of legal regulations or relevant and applicable laws in the territories in which they operate. Many pertain to the environment, others apply to social and working conditions.

The company has had to place great importance on meeting these requirements and in maintaining laws and employment standards such as: Paying Earnings, Employment Records, Hours of Work, Overtime and Overtime Pay, Vacations and Vacation Pay, Maternity Leave and Parental Leave, Reservist Leave, Termination of Employment, Layoff and Recall, Restriction on Employment of Children, Personal Disabilities. Wijers-Hasegawa, Y (2006) IKEA is also constrained to adhering to all pertinent guidelines to date and with regard to current Workplace Safety.

There are wide ranging provincial and regional building permits that IKEA must obtain in order to build a specific size building and regulations. IKEA has taken on aggressive growth goals over the past several years in an effort to remain competitive. With this in mind, Michael Porter's "Five Forces" are applied to IKEA for better understanding of the organization as such. Using

Porter's analysis, it is possible to illustrate the biggest factors that may enter into the strategic decision-making process for IKEA. Buyer Bargaining Power

For IKEA there is little buyer bargaining power because there are not many other low-price options. As a retail chain, IKEA sells in many instances to a certain group of persons. For kitchen wares and smaller items, buyers have many alternatives; for furniture, the consumers have limited alternative choices because IKEA's furniture is unique. According to Huang, & Sternquist, (2007) It would take organized resistance, lower prices of another chain, or clearly better alternatives, to get IKEA to lower furniture prices in response to buyers' needs.

Supplier Bargaining Power IKEA has close ties with thousands of suppliers to make its product and has a further advantage of having internal suppliers, such as Swedwood, who set standards for contracted suppliers. In the majority of cases these contracted suppliers do not have independent brands of their own. For some products, IKEA takes bids, while for others it contracts with multiple companies to make the same products. Because suppliers work mostly for IKEA and compete with other suppliers, they have little bargaining power.

Carpell, K (2006,) As a low-cost furniture retailer, IKEA's profit margin would be more affected by prices in raw materials than by prices in labour compared to its high cost competitors. Supply issues are therefore limiting factors for expansion (Better management of its supply chain must be investigated, because their raw materials (wood, etc) are commodities which are widely available. Rivalry In the main, competitors include Galiform of

England, Conrins, Target, Crate ; Barrel, Office Depot, and OfficeMax Staples.

Ethan Allen and Independants is one competitor who offers quality customer service which is one area of weakness identified in IKEA's businesses but on the other hand they are unable to beat IKEA'S prices and product quality. Significant competitors in the house wares line include Walmart and Target. Few other stores offer the complete package of IKEA in in furniture and house wares—at least, not for the same low prices. IKEA has wisely attempted to compete by entering the markets which typically pose the largest competition, such as China and Japan. Caplan, (2006).

The result is IKEA's market does not have intense rivalries, because IKEA has a large cult following, and high demand for its unique products. Substitutes Substitutes are not practical as there is no substitute for furniture. IKEA keeps up with the latest trend fads to avoid becoming out of style. IKEA, because of economies of scale, could copy any new style fairly easily, and move the new product into its stores. Used furniture is a major low-price substitute for new furniture but still not substantial enough to cause concern. Complements IKEA sells the full range of complements for its furniture: tableware, dishes, etc.

Services such as delivery, assembly and custom design help create price discrimination and help attract more value driven customers. Other complements include affordable housing, real estate, and homeownership—businesses vastly different than IKEA's. These sectors are booming and are probably not a limiting factor toward IKEA's growth. New Entrants At present,

Target in the US, is rolling out a new low-cost furniture line however, like any new entrant they would have to compete with IKEA's universal brand name and excellent availability of furniture and house wares. Entrants would have to build a vast supply chain, and a powerful brand name. Trompenaars, ; Woolliams, (2004) Companies like Wal-Mart, with its incredible infrastructure, could enter and pose a sizeable threat, but Wal-Mart may not have IKEA's style or cult appeal. Figure 1 Porter's Five Forces

IKEA'S STRATEGIC CAPABILITY

Scanning the external environment for opportunities and threats is not enough to provide an organisation a competitive advantage. Strategic managers also need to identify internal strategic factors.

IKEA'S strategic capability can be determined and or maximized with critical examination and audit of the different generic strategies, core competencies, the resources of the firm and the value chain. Michael Porter proposed three different 'generic' strategies by which an organisation could achieve competitive advantage: 'overall cost leadership', 'differentiation' and 'focus'.

IKEA approach has been to adopt a combination of these or a " hybrid strategy". (See Appendix ii) Its cost leadership thrust is being fuelled by IKEA's concept of using product design to secure very low product prices.

Its products attract cult following because of its differentiation. There is much debate as to exactly what each of these categories means. In examining IKEA's case, many confuse Porter's 'cost leadership' with " low price". To remove such confusion one must employ 'market-facing' generic strategies similar to those used by Cliff Bowman and Richard D'Aveni. These can be more aptly employed to the IKEA model based on the principle that

competitive advantage is achieved by providing customers with what they want, or need, better or more effectively than competitors.

Building on this proposition the strategy clock enshrines Porter's categories of differentiation and focus alongside price. (Appendix iv) Much greater volumes can be achieved than competitors so that margins may still be better because of a low cost base. Capdevielle & Nogal,(2007) The IKEA value-chain encompasses all activities from design of products and services all the way through to the support of customers after they buy the product. Alexander, N & Myers (2000) IKEA stores have developed a labyrinth of nice displays which gets the customer's design thought processes working nicely then funnels them towards the checkouts.

There are in store canteens which add to the satisfaction, the company website through customers and access catalogues at anytime and which tell tells customers the actual stock levels. Not to mention a renewed thrust in after-sales service in addition to the normal guarantees and warranties that are provided. IKEA have obviously listened to its customers in countries such in the US and are in the process of setting up a helpline for people to call if they get stuck when building the self assembly furniture.

With regard to core competences, IKEA starts with one core capability; that of selling of " a wide range of well designed, functional home furnishing products at prices so low that as many people as possible will be able to afford them. " (IKEA, 2007, p. 4) They do this by keeping the inventory costs very low. According to Normann and Raminez (1993) IKEA is doing so by building the stores outside the centres of bigger cities where they pay much

smaller rents. Suburban shops are considered as an important resource of IKEA, as they are well connected to the surrounding infrastructure and provide large parking areas. The second important competency is the global sourcing IKEA relies on. Normann and Ramirez state that IKEA only buys in large scales and tries to keep long-term relationships- two main resources for IKEA. Barthelemy (1996) mentions China with 18% and Poland with 12%, both countries with relatively low wages, as the main supply regions of IKEA. Another key resource is the huge database with product specifications IKEA has developed coupled with its ability to provide technical assistance to suppliers as necessary.

Hence IKEA fulfils two objectives that of making sure its supply expectations after met and at the same time enriching its portfolio with an additional source of revenue. Special competencies are also utilized and these have turned out to be among the main cost savers. According to Normann and Ramirez, the transfer of service tasks to the customer, the self-assembly, the self transport and the abandonment of service on the shop floor are considered as crucial initiatives in this respect.

IKEA has therefore been able to focus time and money on such logistical considerations such as more simplistic designs, small customer friendly packaging and the development of instruction manuals. The self transport is, among others, based on the provision of parking space, the grand scale design of the stores and again small packaging. IKEA goes further in providing notepapers, pens, tape measures as well as showrooms and thereby gives the customers the possibility to figure out alone whether a piece of furniture fits into their existing furnishing.

The most important sources for IKEA's success appear to be a very well working integration of knowledge and the ability to adopt their competences to fit any market situation. Importantly, these initiatives also lend to the simultaneous enhancement of the value chain as described by Porter and outlined above. As mentioned above Grant (1996) considers knowledge as the most important resource. Without it the idea of opening the warehouse for the customers, taking the legs off the table and without considering Poland as a possible source for suppliers, IKEA would not be where it is now.

STAKEHOLDERS EXPECTATION AND PURPOSE

The IKEA group realizes the value of its stakeholders and its duty to keep them engaged informed and contented. The traditional definition of a stakeholder is “ any group or individual who can affect or is affected by the achievement of the organization's objectives” (Freeman1984). In so far the IKEA group is concerned Friedman (2006) states that the organization itself should be thought of as grouping of stakeholders and the purpose be to manage their interests, needs and viewpoints Creditors, customers, directors, employees, and suppliers are all concerned about the survival of the firm to safeguard the long term stakes of each group.

For this reason IKEA adopts what is called a stakeholder approach to strategic management. In this approach, Freeman (1984) suggests that managers must formulate and implement processes which satisfy all and only those groups who have a stake in the business. The main task in this process is to manage and integrate the relationships and interests of shareholders, employees, customers, suppliers, communities and other groups in a way that guarantees the long-term success of the firm. The in

escapable fact is that all stakeholders have requests but all stakeholders do not have the same influence.

IKEA, s prosperity depends of the ability of the company to manage strategic stakeholders and the principal function of managing stakeholder is to take into account and to arbitrate stakeholders requests even when there are contradictory. There are certain perceptions as to what stakeholders expect and these are given high priority in stakeholder mapping and in promoting the “ IKEA concept” 1) Humility and criticism. Humility is about respect: respect for co-workers and their opinions, and respect for suppliers and their skills.

Being humble is about being able to learn from their own mistakes as well as those of others. 2) Environmental responsibility . Willingness to listen to what other people know and have learned through experience has paved the way for years of cooperation and partnership between IKEA and various non-profit organisations. These include Greenpeace, World Wide Fund for Nature (WWF), Save the Children and the United Nations Children’s Fund UNICEF. The purpose behind these relationships is to increase knowledge within IKEA, and, in some cases, to work together on selected projects.

See Appendix (iii) 3) Honest Communication The concept “ honest IKEA” that is implicit in the communication with customers should also apply to the relationships with suppliers. Honesty is essential when IKEA wants to enjoy long-lasting, close relationships with its customers and suppliers. To collect feedback and input from stakeholders, IKEA regularly carries out market

research in the form of Market Capital, which is a tool to monitor and follow up each retailer's implementation of the IKEA Concept.

Since IKEA mainly produces furniture, most of its main stakeholders are non-profit environmentally friendly organizations, such as Clean Cargo Working Group (CCWG) and WWF. By learning and sharing experience with these organizations, IKEA gains knowledge about taking social responsibilities and also builds up its reputation of being green. CONCLUSION IKEA is a well-known global brand. To keep doing well it must assess internal and external factors that may affect the business' performance. It takes advantage of opportunities and manages any threats in a positive way.

IKEA unites design, low prices and good use of resources. One of its key marketing concepts is "IKEA is not for the rich it is for the wise". IKEA stores are key elements to its strategy. The IKEA concept relies on customers to choose collect transport and assemble IKEA product themselves thereby contributing to low prices. Undoubtedly, the overriding concept centres on stakeholder management, participation and satisfaction as a means of attaining cost leadership. Consequently, its products, processes and systems all show a responsible approach to people and the environment.

IKEA knows that behaving responsibly and sustainably is good for customers, the planet and its business. REFERENCES Alexander, N & Myers, H 2000, "The retail internationalization process", *International Marketing Review*, vol. 17, iss. 4/5, pp. 334-353 Aoki, M. (1984) *The Co-operative Game Theory of the Firm*. Oxford: Clarendon Press. Bartlett, C. A. , and Ghoshal, S. (1989). *Managing across Borders: The Transnational Solution* (Cambridge, Mass.

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