

Ikea how the swedish retailer became a global cult brand



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IKEA is a well-known global brand with hundreds of stores across the world. In order to improve performance, it must assess its external and competitive environment which will reveal the key opportunities to analyze there advantages and threats. IKEA responds to both internal and external issues in a proactive and dynamic manner by using its strengths and reducing its weaknesses. This helps IKEA to retain its strong identity in market. IKEA's passion combines design, low prices, economical use of resources, and responsibility for people and the environment. IKEA believes that there is no compromise between doing good business and being a good business. It aims to go beyond profitability and reputation. IKEA is intent on becoming a leading example in developing a sustainable business. This will create a better everyday life for its customers. IKEA has discovered a business truth - being sustainable and responsible is not just good for customers but it is also good for the business. 1

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1. 0. Introduction

The purpose of this assignment is to identify the critical issues from the given case study about “IKEA – how the Swedish retailer became a global cult brand”. This was an abridge version of the article from Business Week

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Online issued on 14th November 2005, in Helsingborg - Sweden. IKEA is famous for its affordable furniture which consumers are required to assemble for themselves (Appendix 1).

According to the case, IKEA is in a critical situation. The company is gearing up to return to Japan, seeing more competition than ever, problem of the Hybrid Strategy, how to keep the core founding values alive. The "Double loop learning model" would be used to identify IKEA's internal and external strengths and weaknesses and it will guide develop strategies to weaken the performance gap (Appendix 2).

I work for a management consulting firm "Kindling Investment Group" and my firm has been requested by IKEA to provide consulting services for strategic management of the company in the future. In the terms of reference of the contract signed by my firm and IKEA, the main tasks of this consulting project is to conduct a strategic analysis of environment and the industry as well as the company, present strategic choices, and recommend new strategic initiatives and areas for improving strategy implementation for the senior management team of IKEA.

2. 0. Identify Critical Issues

IKEA's founder, Kampard is the main strategic driver who leads the business into success. So it's a risk that if he disappears, that may lead to serious management problems in making key strategic decisions and the culture itself may start to fade away.

The company is gearing up to return to Japan. Its first attempt to break into the Japanese market was a bust. At that time, IKEA only based on single
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model of low cost strategy which made them loosen their market share in the industry. They failed to think about the external conditions of the environment which had a drastic impact on them. (Appendix 3)

IKEA is seeing more competition than ever from various countries. In the U. S., Target Corp. (TGT) has recruited top designer Thomas O'Brien to develop a range of low-priced furnishings, which were launched in October. Kmart has been collaborating with Martha Stewart on its own furniture line. An IKEA-like chain called Fly is popular in France. In Japan Nitori Co. has a lock on low-cost furniture.

Hybrid strategy is a problem as IKEA is concentrating only on low cost and differentiating in design without considering the cultural values and norms enriched in different countries. American customers want more comfortable sofas, higher quality textiles, bigger glasses, more spacious entertainment units. Japanese want high quality and great materials, not low price and particle board. Large Hispanic families need dining tables and sofas that fit more than two people, which is the Swedish norm. They prefer bold colors to the more subdued Scandinavian palette and display tons of pictures in elaborate frames.

3. 0. Analysis of the External and Internal Analysis

3. 1. External Environment

The world is experiencing tremendous and influential change. Although the company opened 14 new stores in fiscal 2003, sales growth was only 2. 7%, largely as a result of the depressed economic conditions across Europe, the company's core business region (Global Market Information Database, 2004).

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Thus, it is clear that, in order to improve performance at a significant level, simply opening new stores is not enough. Instead, IKEA must assess its external and competitive environment, determine the key opportunities and threats which face it, and align its strengths and weaknesses to best counter the weak consumer market, and thus generate the strong growth it needs to remain a strong brand and presence in its chosen markets (Johnson, Scholes and Whittington, 2005)

3. 1. 1 Macro Environment

Macro Environment (Appendix 11) includes all external forces and conditions that affect every firm and organisation within the economy. (Hubbard, 2008)

3. 1. 1. (a) . PESTEL Analysis

PEST Analysis might have an important impact on the organization.

Therefore IKEA have to consider the several trends namely, political, economical, socio cultural and technological while they are formulating the strategies. By understanding the threats and opportunities, can formulate better strategic decisions for IKEA. Lastly will predict whether the future strategies of IKEA is applicable or not in their perspective. IKEA have to consider the several trends namely, political, economical, socio cultural and technological while they formulating the strategies. (Appendix 4)

3. 1. 2 Micro Environment

3. 1. 2 (a) Porter's Diamond Model

Porter's diamond model which explained competitive and cooperative growth of clusters of organisations in a country, leading to international success for

the industry. It also helps us to understand the existence of the competitors. (Appendix 6)

IKEA is known as the world's largest home-furnishing retailer, which specializes, in stylish but inexpensive Scandinavian designed furniture. IKEA has been expanding sales all over the world by having national competitive advantage. Factor Conditions of IKEA is their Heritage – the logo itself is blue and yellow which are the colours of the Swedish flag. Swedish lifestyle is reflected in the IKEA product range. The brightness is reflected in the colours and materials used: blond woods, natural textiles and untreated surfaces. The Competition Advantage Strategy of IKEA's product, IKEA's success in the retail industry can be attributed to its vast experience in the retail market, product differentiation, and cost leadership. IKEA wants its products to have the minimum impact on the environment by manufacturing the products in a more socially responsible way.

3. 1. 2. (b) Strategic Drivers Model

Strategic Drivers Model provides IKEA opportunities and threats. IKEA are moving from International to global status through the development of Asia and Eastern European market. Traditional product for IKEA has been within value, low price high volume product however the movement into mid and higher price points will spot an opportunity to move the demographic base and increase the average basket value with less reliance on a limited demographic group.

Within the growing competitive retail markets, retailers are beginning to mirror the model of low cost value flat packed furniture, which would be a

highly threat for them. With economic concerns the increase in the standard of living, and depleting disposable income there is an overall threat to the performance of the business in UK and American markets specifically.

Strategic Drives Model guide IKEA to face global strategy. To become market leader in the best cost provider in the market by using the IKEA strategies (Appendix 7).

3. 1. 3. Industry Environment

Industry Analysis determine the forces within organisation and the profitability and how forces changing and expected to change overtime.

(Hubbard, 2008)

3. 1. 3. (a) Porters' Five Force Theory

Porter's five forces demonstrate the competitive forces in an organization's environment. (Aaker, 2005). These forces help determine an organization's position when compared with its competitors in the industry environment.

The problem is to estimate how profitable the average firm will be. Threat of new entrance, bargaining power of buyers, bargaining of suppliers, threat of substitute products are the five components of five force model. Each factor plays a role in explaining why some industries are historically more profitable than others. Porter's five force model is shown in Appendix 5. This model is more important for IKEA's managers to analyse the current situation of their industry in a structured way as several entry barriers will appear from this new entrance and it is likely to be very high due to high investments.

3. 1. 3. (b) Strategic Grouping

In an industry, all competitors do not compete directly with each other.

There are several different groups of competitors. These groups called strategic groups, because each groups consists of competitors competing along similar strategic dimensions as an example product, quality, and range, whereas other organisations in the industry have either a different strategy or a different target product market (Appendix 9).

3. 2. Internal Analysis

Internal analysis of strengths and weakness focuses on internal factors that give an organisation certain improvements and drawbacks in meeting the needs of its target market.

3. 2. 1.(a) SWOT Analysis

SWOT Analysis is mainly all about what is explaining about the company's situation and thinking about what actions are needed. Furthermore it explains how the company strategies and other resources can overcome the weaknesses of the company, how the external environment will effect to the company. SWOT analysis must be a basis of action, to have managerial and strategy making values. (Wikimedia Foundation)

Strengths:

Strengths could include a company's specialist marketing expertise or its location. They are any aspect of the business that adds value to its product or service. IKEA's strengths include:

A strong global brand which attracts key consumer groups. It promises the same quality and range worldwide

Its vision - ' to create a better everyday life for many people'.

A ' democratic design' - reaching an ideal balance between function, quality, design and price.

IKEA's ' Cost Consciousness' means that low prices are taken into account when each product is designed from the outset. These strengths contribute to IKEA being able to attract and retain its customers.

IKEA has strengths right through its production process:- Increasing use of raw materials Smarter use of raw materials Volume Commitments Using New Technologies

Weaknesses:

IKEA has to acknowledge its weaknesses in order to improve and manage them. This can play a key role in helping it to set objectives and develop new strategies. IKEA's weaknesses may include:

The size and scale of its global business. This could make it hard to control standards and quality. Some countries where IKEA products are made do not implement the legislation to control working conditions. This could represent a weak link in IKEA's supply chain, affecting consumer views of IKEA's products.

The need for low cost products. This needs to be balanced against producing good quality. IKEA also needs to differentiate itself and its products from competitors.

IKEA needs to keep good communication with its consumers and other stakeholders about its environmental activities. The scale of the business makes this a difficult task. IKEA produces publications in print and online (for example ' People and the Environment') and carries out major TV and radio campaigns to enable the business to communicate with different target audiences.

Opportunities:

IKEA has a number of areas of focus to its work with sustainability, each of which it supports in various ways:

Solutions for a sustainable life at home - IKEA gives online tips and ideas for this. Sustainable use of resources. IKEA aims for zero waste to landfill, wastewater treatment and programmes to reduce its use of water.

Reducing carbon footprint. IKEA aims to reduce energy use, use more renewable energy, cut its use of air transport and reduce packaging. Its green transport initiative includes an aim to reduce business flights by 20% in 2010 and 60% by 2015.

Developing social responsibility. IKEA's policy includes support for charities such as the World Wildlife Fund, UNICEF and Save the Children.

Being open with all its stakeholders. This involves building trust through good communication with consumers, co-workers, key opinion formers and the press. Being sustainable is a central part of IKEA's image.

Threats:

If a company is aware of possible external threats, it can plan to counteract them. By generating new ideas, IKEA can use a particular strength to defend against threats in the market. Threats to IKEA may stem from:

Social trends - such as the slowdown in first time buyers entering the housing market. This is a core market segment for IKEA products

Market forces - more competitors entering the low price household and furnishings markets. IKEA needs to reinforce its unique qualities to compete with these

Economic factors -the recession slows down consumer spending and disposable income reduces.

3. 2. 1. (b) Value Chain Analysis

Value chain considers a set of activities. The customers will only purchase a particular product if it creates value to each of them (Appendix 11). Ikea has modified the value chain approach by integrating the customer in the process and introducing a two-way value system between customers, suppliers, and Ikea's headquarters. The company wants customers to understand that their role is not to consume value, but rather to create it. (Norrman et al, 1993: 67).

Michael Porters Value Chain Analysis will help to identify how IKEA can build its capabilities to compete with other competing businesses as well as to keep its market positioning (Appendix 10).

4. 0. Identifying Strategic Capabilities

Strategic capability is the satisfactoriness and appropriateness of the resources and competences of an organisation for it is to survive in its market and prosper. (Hubbard, 2008) (Appendix 12)

4. 1. Resources

Resources can be defined as tangible and intangible assets of the organisation. Tangible assets are the physical assets of the organisations and the intangible assets are non physical assets of the organisations. IKEA is an organisation, where the customer itself has to choose and engage in assembling the product. The quality products received by the end customers are more valued than intangible service provider. Resources can be sources of competitive advantage by themselves.

4. 2. Core Competencies

IKEA is providing flat-pack furniture, ready to be assembled by the consumer. This allows a reduction in costs and packaging for the company and transportation costs can be saved by the consumers as well. Besides the quality furniture products, the subsidiary services provided on the spot is an added advantage for customers. IKEA stores include restaurants and cafés serving typical Swedish food. They also have small food shops selling Swedish groceries, everything from the famous meatballs to jam. Stores are

located worldwide. IKEA's other competencies includes the internet services which increase sales by having a competitive advantage.

4. 3. Dynamic Capability

Dynamic capabilities are the processes that lead to development of improved resources (customer data base), capabilities (a better customer relationship system and strategic decision making. (Hubbard, 2008)

Knowledge management, learning and innovation are the key areas of dynamic capabilities. Knowledge management lead to change in capabilities which learning would occur. The results of the learning can have a drastic impact in innovation, maintaining or extending strategic capabilities.

5. 0. Conclusion

This assignment is critically discussed about the current performance and the strategies of IKEA.

The report assessed the internal and external environmental factors such as SWOT analysis, PESTAL Analysis, Strategic Grouping model, Porters five forces theories and critical problems as well as the key success factors.

IKEA currently follows a cost leadership strategy. Porter argued if you differentiate while simultaneously reducing cost, this would lead to strategic confusion " stuck in the middle". It is possible IKEA does do this by constantly trying to improve design.

IKEA currently poses a negative reputation in the Japanese market; hence first they need to reposition themselves in the market. It is vital to take into consideration the cultural values and norms different countries value most,

in order to have a competitive advantage in the market. Continuously identifying the customers' needs and improving the marketing strategies are one of the key factors that should be taken into consideration by IKEA.

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7. 0. Appendices

Appendix 01

Company Background

IKEA is a Swedish home furnishing retailer. It has 231 stores in 33 countries, most of them in Europe, the rest in the United States, Canada, Asia and Australia. More than 20 opened during

2005. IKEA is one of the few store chains to have locations both in Israel and in other Middle Eastern nations

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Mission Statement:

“ The IKEA vision globally is to create a better everyday life for the many.

At IKEA Tempe we are dedicated to giving to the local community will being regarded by our customers and co-workers as a social responsible company”

Appendix 02

Double Loop Learning Model

Cooperate Performance

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Strategy Implication

Strategy Development

Loop 1

Improving Efficiency

Loop 2

Strategy Unsatisfied

Tighter Control

Effectiveness Improvement

Develop modify change strategy

Double loop learning model guided IKEA for strategy development, strategy implication cooperate performance by analyzing customers performance (whether customer is satisfied with the service or not), employee performance (Whether employees are motivated or de-motivated, financial performance (profit, ROI) and finally operation performance. If their current strategy unsatisfied (If the customers and employees are dissatisfied) they have to develop modify change strategy.

Appendix 3

Critical Issues:

Lars Petersson, CEO of IKEA's Japan operations gave a valuable advice pertinent to any international company looking to avoid the fate, " I think to

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come to Japan thinking you are in just another country is the start of the failure because there are a lot of local things you need to understand. You need to have local people employed right from the start, at a high level that understands what this country is all about." (Lane, 2007)

Appendix 4

External Environment - Macro Environment

PESTAL Analysis

Legal

Political

Economical

PESTEL

Socio Cultural

Environmental

Technological

Political - Political and legal trends focus on laws and policies can be affected to the organization. IKEA should consider consumer protection legislation, government and economic policies, foreign policies because they can have far reaching effects on their business.

Economic - due to the economic changes and trends, company is adopting different kind of strategies that will take an appeal on their customers and

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aiming to own the customer loyalty. The company adopts furniture style such as dinnerware, lightings and even rugs. Yet, the economic conditions affected the company's market performance and declared a slowdown because of lacking the strategic direction. In order to generate the high performance of the business, IKEA should be careful in analyzing and considering the key issues that involved in any aspects of the business and act accordingly.

Social - The IKEA contributed much in the society as they provide opportunities in people and the employees are entitled in different benefits such as insurance and pensions. Moreover, the company promises to provide more high quality furniture that sticks to their original concept - stylish furniture at low prices.

Technological - The IKEA used 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 made the 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 stores of IKEA.

Legal - The legal compliance of IKEA is strictly implemented with the relevant and applicable laws and regulations that pertain to the environment, social and working conditions. The company also scheduled the most demanding requirements to be specific in maintaining the list of laws and regulations and with the procedures.

Environmental - With regards to the environmental factors such as the air, noise, and water, inspections are implemented to ensure the company provides corrective actions within the stipulated time. The environmental inspection is part of the legal documentation and environmental authorities as the business operations are on-goings and maintains the competence.

Appendix 5

Porter's Five Forces Analysis

Power of the Buyers - There is a little power because of the exiting low-price options. Furniture and other small items have an alternative and consumers have limited alternative choices that make the IKEA unique among its competitors. In addition, the low price strategy is another way of the company to response in buyer's needs.

Power of Supplier - IKEA has its thousands of suppliers that set standards in delivering the materials. Once in a while, for some products, the IKEA bids for the contracts with multiple companies to craft the same products. Most of the suppliers work in IKEA and compete with other suppliers, and they have a little bargaining power. Because of the low-pricing, IKEA's profit margin also affects the prices in raw materials than by prices in labor.

Rivalry - The IKEA's furniture competitors' offers different styles and functionality. Conrin targets a new low cost in terms of furniture line; Cratel & Barrel offers a furniture in a box which is subject in higher prices; Ethan Allen aimed at a more upscale market; Wal-Mart is equipped in a big box furniture that is categorized under the general store must-have-items, but

don't have much of a style. IKEA is the most successful in delivering the complete package for the customers that reflects on weak rivalries.

Substitutes - There is no specific product that can be a substitute for the furniture but IKEA at least, have to keep up with the latest trends, to avoid becoming out of style. Another advantage is that, through their cutting and leading technology, IKEA could copy any new style fairly and move each the product into its stores.

New Entrants - Another furniture company is rolling on a low-cost strategy and should compete with the IKEA as the excellent company in delivering the furniture and house wares. IKEA stores do not reach many small towns and this is an opportunity for the new competitors to move into small and midsize cities with smaller stores and less selection. But not easier in city because new entrants have to establish a vast supply chain and create a unique brand name.

Appendix 6

External Environment - Micro Environment

Porters Diamond Model

Firm Strategy Structure

& Rivalry

Factors Condition

Competitive Advantage

Demand Condition

Supporting & Related Industry

Appendix 7

Strategic Drivers Model

Global Market Convergent

Similar Customer Needs

Global Customers

Transferable Market

Global Strategy

Global Competition

Global Competitors

Export & Import

Independencies

Cost Advantage

Economy of Scale

Country Specific

Source of Efficiencies

Product Development Cost

Government Influence

Host Government Policy

Trade Policy

Technical

IKEA has a number of areas of focus to its work with sustainability, each of which it supports in various ways:

Solutions for a sustainable life at home - IKEA gives online tips and ideas for this.

Sustainable use of resources. IKEA aims for zero waste to landfill, wastewater treatment and programmes to reduce its use of water.

Reducing carbon footprint. IKEA aims to reduce energy use, use more renewable energy, cut its use of air transport and reduce packaging. Its green transport initiative includes an aim to reduce business flights by 20% in 2010 and 60% by 2015.

Developing social responsibility. IKEA's policy includes support for charities such as the World Wildlife Fund, UNICEF and Save the Children.

Being open with all its stakeholders. This involves building trust through good communication with consumers, co-workers, key opinion formers and the press. Being sustainable is a central part of IKEA's image.

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Appendix 8

External Environment - Industry Environment

Porters Five Forces Model

The new entrance

Switching cost

Relative price

Relative quality

Threat of new entrance

Bargaining power of buyers

Buyer

Switching cost

Buyer volume

Buyer information

Suppliers

Switching cost

Supplier volume

Supplier information

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Competitor Rivalry

Switching cost

Rate of industry growth

Product differences

Bargaining power of suppliers

Threat of substitutes

Substitutes

Switching cost

Relative price

Relative quality

Threat of Entry

High profitability makes high barriers to entry limit the number of competitors, discouraging potential competitors.

The entry for furniture industry cost are high. (E. g.- IKEA successfully enter into the low cost strategy in the furniture industry)

IKEA has major advantage because they have experience with the airline industry market to compete well.

There have high government policies

IKEA have a high level of customer loyalty.

Bargaining power of Buyers

Customers' ability to demand reduce the price which affect profitability. The bargaining power is low because,

IKEA has low price products compared to the quality.

Loyal buyer not easily switch to an another as they are satisfied with the handy affordable quality products..

Providing re order services through IKEA web site.

Bargaining Power of Suppliers

Profitability directly affects Suppliers' ability to influence cost of supplies inputs. The bargaining power is low because,

The prices of raw materials may increase, because of inflation

Have a good relationship with the suppliers as IKEA has been operating for so long.

Threat of Substitute Products

The company profitability and size of the market mainly affected for the emergence of substitutes products rather than competing brands of the same product. The threat of substitute's products is high

As there been a rapid increase in the competition.

Competitive Rivalry

Aggressive competition, reduce prices and increases costs also affect the profitability. The competitive rival is low because,

IKEA is the only furniture business which sells the products in a flat pack.

IKEA has special promotion offers, give free advice on how to furnish both at home and office.

The customer loyalty is high toward the IKEA so there is less possibility to buyers to switch to competitor.

Appendix 9

Strategic Group Analysis

High

IKEA

O'Brien

Medium

Geographic Coverage

Kmart

Low

High

Medium

Low

Marketing effect

A strategic group consists of competitor firms with similar competitive approaches and positions in the market. Same strategic group companies can resemble one another in several ways. IKEA can easily identify who are their real competitors through strategic grouping.

Gap Analysis

Gap analysis is helps to Identify IKEA's actual performance with the potential