

# How ikea became a global cult brand



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This report is based on the case study of the IKEA: “ how the Swedish retailer became a global cult brand’. The case study showed that some of the biggest challenges that the organization is facing is how do they keep the core founding values of the organization alive when the organization grows and become more complicated to manage. It also talks about how the organization failed in the Japanese market once and they are again gearing up to the Market of Japan.

IKEA is a company implementing the low cost strategy. Also as the case study suggests now they have also started to differentiate their products. This means that IKEA is now focusing on becoming a best cost provider where according to case study the organization might run in to a stuck in the middle.

For critically analyzing the case study some of the strategic models such as porter’s diamond model, PESTEL and many other where used. Some of the key findings used using these models where that IKEA has been successful in reducing the cost and increasing the value proposition in its value chain in the after sale services.

All of the models with explanation are attached in appendix.

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## **Introduction**

This project is an analytical report on the Case study on the world’s largest Furniture retailer IKEA. (IKEA: how the Swedish Retailer became a global cult

brand). This case study is an abridged version of an article from Business Week online (N. American edition) published in 14th November 2005.

IKEA is a Swedish based furniture retailing firm which provides its customers with affordable furnishing and house wares. It was founded in 1943 by Igvar Kamprad. The business focuses on the concept of creating a better life for everyone. IKEA is the largest furniture retailer which has its stores in Asia, Europe, Australia and United States.

### **Critical issues faced by IKEA**

IKEA, a company successful in retail trading of furniture and household items has been very successfully initiate and implementing the Low cost strategy in the organization. But with the increase in competitors the IKEA today is facing new challenges. The organization has to become a Best Cost provider that is while cutting cost (low cost) and differentiate it's product at the same time. The biggest challenge that IKEA is facing is avoiding in getting in to what is called “ stuck in the Middle” as explained by Michael Porter.

Some of the other issues faced by IKEA are that the difficulty of keeping their founding values alive as the organizations grows larger and the founder is retired. Also they have failed in Japan once and entering the market again and are facing more competition than ever.

This report is pooled with analytical information gathered from the case study using different methods/ models of strategic planning. To analyze the case a macro-environmental analysis, industry analysis and internal analysis is conducted. The methods/ models used to analyze this case study are PESTLE, Porter's five forces, Porter's diamond model, SWOT, Value Chain  
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analysis, sustainable competitive advantage and strategic group analysis is used. As for a preface, a brief about IKEA's vision, mission and responsibility follows.

A vision statement shows the long term strategic objectives of an organization.

The IKEA's Vision: to create a better everyday life for the many. (IKEA, 2010)

IKEA is well known for its affordable furniture. At IKEA, the company has vision to provide all the people with designed furniture at a lower price so that everyone could have a better and comfortable place. The company has its branches all over the world such as Europe, Asia, Australia and United States.

Mission: " 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". (IKIA, 2010)

Responsibility: " Low prices are the cornerstone of the IKEA vision and our business idea – but not at any price. At the IKEA Group, we believe that taking responsibility for people and the environment is a prerequisite for doing good business." (IKIA, 2010)

A mission statement mostly describes how the company will work to achieve its vision. At IKEA the company wants to achieve its vision while being a socially responsible company. Furniture industry relates to environment a lot and that is one main reason that at IKEA they believe protecting the environment is one of its key responsibilities.

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## **External environmental analysis (Macro-environmental analysis)**

The external environment of any organization directly or indirectly affects its business. Managers need to critically evaluate the factors before business strategy formulation. There is the general environment and competitive environment that the organization must look in to. (Appendix 1)

In this project to analyze the general environment of IKEA, PESTLE analysis is used. PESTLE analysis is a detailed and investigated analysis of the political, economical, socio-cultural, technological, environmental and legal factors which could have an influence on the organization. Refer: Appendix 1

## **PESTEL**

It is very important that any organization carry out a PESTEL analysis before it begins activities such as marketing and also strategic planning. The business environment today is dynamic and changes very rapidly. Therefore, it is very important that companies have a close look in the external environment of their organization. PESTEL analysis will find out the Political, Economical, Socio-cultural, Technological, Environmental and technological aspects which might affect the organization. Appendix 1

## **2. 2. Industry Analysis**

### **2. 2. 1. Porter's five forces**

Porter's five force analysis is a powerful tool used in the strategic management to analyze the external environment of the firm. It helps the marketer to contrast the competitive environment to formulate the strategies. According to (Porter. M, 1980), five forces drives competition in

the industry, challenging the competitive environment with five different forces which has impacts on the firm. According to porter those five forces are; (appendix 2)

Existing competitive rivalry

Threat of new market entrants

Bargaining power of buyers

Power of suppliers

Threat of substitute products

### **2. 3. Porter's Diamond Model**

This is another strategic model of Michal Porter. According to Porter this model will help to explain the competitive position that a nation holds in a competition in a nationwide global competition. (Value based management, 2010). (Appendix 3)

To get a clear understanding on how IKEA can use this model, United States will be taken as the base and the competitive position of IKEA will be shown as how it is in U. S.

The model has four interlinked factors in between the organization of these clusters. All these factors will be influenced by the government. The factors are;

Firm strategy, structure and rivalry

Demand conditions

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Related supporting industries

Factor conditions

## **2. 4. Strategic Group Analysis**

It is impossible that an organization to analyze and understand and search on all of its competitors. It takes a lot of time and effort plus it is very costly. Therefore, organizations uses an easier way so that they could get an understanding on what and where they stand in the market and where do they have to enter or do they need to exit from the market. Also with the help of this analysis the companies can have clear cut understanding of which are their direct competitors and who to they focus on while building their strategies. (Fletcher, 2003). (Appendix 4)

## **Internal Analysis**

### **Value Chain analysis**

The value chain analysis model is another model designed by M. Porter in his book competitive advantage (1980). According to Porter this chain is a systematic approach to examining the competitive advantages and it consists of such activities which creates and builds value in the organizations different areas. (Porter. M, 1980). Appendix 5

<http://marketingteacher.com/lesson-store/lesson-value-chain.html>

In the value chain analysis Porter divides it in to two main parts. The value chain consists of five primary activities and four support activities. The activities are listed below;

Primary activities:

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Inbound logistics – it is all the activities concerned with the receiving of raw materials or supplies need for the organization.

Operations – this is about how the raw materials or the inputs are converted in to finished products. In this case of IKEA its furniture.

Outbound logistics – this about the distribution channel. How the finished products (furniture) gets to the buyers.

Marketing and sales – this activity focuses on the aspect of providing customer with information about the product such as price, benefits and usage etc.

Service – this is all about the after sales services.

Support activities:

Firm infrastructure – consists of activities such as legal, quality management, finance etc.

Human resource management – this activity concerns with all those activities relating to the human resource aspect where there is hiring, developing, motivating and rewarding the employees.

Technology development – it includes research and development, IT and other technological improvements which supports the value chain.

Procurement – this activity is concerned with how the organization gets hold of the resources.



## **SWOT analysis**

The SWOT analysis is a situational analysis which focuses on the Strengths, Weakness, Opportunities and Threats of an organization. It is very important for every organization to do a situational analysis as by making one they will be able to find out where their company could improve on. Following is the SWOT analysis for the furniture retailer IKEA. Appendix 6

## **Sustainable Competitive Advantage**

The objective of every strategy is to achieving a competitive advantage. Sustainable competitive advantage is the main component which drives the organization to successfully maintain its position in the market. Barney defines the sustainable competitive advantage as “ A firm is said to have a sustained competitive advantage when it is implementing a value creating strategy not simultaneously being implemented by any current or potential competitors and when these other firms are unable to duplicate the benefits of this strategy”. (Barney, 1991) Appendix 7.

## **Key success factors of IKEA**

IKEA has been having standardized products everywhere. Either its Russian market or Australian they have provided the same quality and the same standardized furniture. This has led them to do mass production achieving economies of scale.

The organization encourages trial and error. It spends lot money in research and development. That is why it is able to find out better ways to pack furniture and other areas to minimize cost.

IKEA's Low cost business strategy. IKEA was able to reduce most of its cost through reducing the after sale service. In fact they do not provide any as their customers assemble and collect the flat packed furniture to their homes in their own vehicles. Thus, a bigger cost of IKEA's value chain is carried out by the customer.

The organization look for what its customer wants. This is identified as they found out that Americans like to keep their clothes fold they made the furniture according to that market. Identifying and localizing some of its products to its customers want is IKEA's one of the main reason to be success.

## **Conclusion**

IKEA is the world's largest furniture retailer hosting 410 million shoppers every year. The organization has created values in many part of its value chain. One main area is how well they have transferred the cost to the customer in the value chain of primary activities services. The company merely focuses on providing its customers with affordable furniture. Thus, they have a low cost business strategy. IKEA closely works with its suppliers so that they could be easily accessed to the inputs for their production. At IKEA they also try to have differentiated products from their competitors.

The biggest competitors for IKEA are the Wal-Mart and Kmart. As these organizations are large and they have many other product ranges they are the biggest and the biggest challenge that IKEA faces. These organizations also provide customers with low cost furniture.

## **Recommendation**

With the information gathered from the analysis the following are recommendations which are made to IKEA.

IKEA needs to keep more concern on the cultural aspects of the markets. As known from case study the Americans needed to use vase for drinking because everything is bigger there. So IKEA should keep in mind these types of things.

IKEA can have go for a backward integration and start on supplying for its furniture products. This will help them to maintain the quality of the supplies and also they can control the prices. As they are the manufacturer and they themselves is the supplier of inputs.

As IKEA now has very limited number of manufacturers it is recommended IKEA to get in to the production either by taking over some of the subcontractors or investing in manufacturing. This will reduce the cost of production in the long term.

With the help of the strategic group analysis it is established that IKEA's main competitors are Wal-Mart and Kmart. Therefore, IKEA should and keep a closer look on the moves of these organizations.

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