

Ikea invades america assignment



**ASSIGN
BUSTER**

The founder of IKEA, Ingvar Kamprad registered his firm 1943. In 1958 he opened his very first IKEA store in Alhult, Sweden. From that moment, IKEA have continuously expanded by invaded new countries and opening new stores. Today IKEA is one of the leading home furnishings brands in the world with more than 235 stores in more than 30 countries. From being a one man enterprise IKEA now have astonishing 110, 000 co-workers and a turnover of over 20 billion Euros on a worldwide basis (IKEA website 2008).

In this assignment I will start by describing IKEAs competitive strategy and strategic fit before I look into the competitive environment and how IKEA have positioned itself in the market and achieved its business strategy. Finally I will critically discuss whether opening smaller “ IKEA Lite” shops is a good idea for IKEA or not. ? 2. Competitive Strategy A company’s competitive strategy (also called business strategy) determines what customer segments a company aims to serve by its products and services.

Establishing a competitive strategy can be seen as an iterative process where the company make decisions on where they would like to position themselves in the market and what set of resources and capabilities they need to develop to successfully do that, and what kind of resources and capabilities they already possess and where these characteristic can give the company a competitive advantage (Beckman & Rosenfield 2008). IKEA has targeted customers who seek stylish furniture at a reasonable cost. IKEA’s business idea is;

The company slogan - “ Low price with meaning” refer to IKEA’s objective to offer tasteful, cleverly designed products at an affordable price without

making the customer feel cheap. This clearly state IKEA's emphasis on competing on price. IKEA is "for the many people" offering a broad variety of products and services. IKEA's product range consists of about 10,000 furniture and household items for the bedroom, kitchen, living room, bathroom and even garage and garden. Despite its enormous range of products, IKEA has limited the variety of styles offered in each product area.

All stores also operate childcare facilities with playrooms where customers can drop off their children while doing their shopping and a cafe serving traditional Swedish food so that no customer would have to shop on an empty stomach. 3. Supply Chain Strategy and Strategic Fit To achieve strategic fit, a company must ensure that its supply chain capabilities support its ability to satisfy the targeted customer segments. It requires consistency between the objectives the competitive strategy seeks to satisfy and the objectives and strategy of every functional unit within the company.

This again is made up of various structural (e. g. vertical integration, process technology, capacity, facility) and infrastructural decisions (e. g. sourcing, business processes and policies, supply chain coordination, information technology and capability development) (Beckman & Rosenfield 2008).

Figure 1: Strategic Fit (Source: Beckman & Rosenfield 2008) To achieve strategic fit the company would have to achieve the balance between responsiveness and efficiency in its supply chain that best meets the needs of the company's competitive strategy (Qiu 2008).

IKEA, with their focus on cost efficiency, would be positioned towards the left on the efficiency vs. responsiveness scale and need to design their supply

chain to fit this strategy. Figure 2: Modified version, efficiency vs.

Responsiveness. (Source: Chopra & Meindl 2007) Cost efficiency pervades every part of IKEA's value chain from product development to the end user. Product development and design is handled in-house with focus on aesthetics, functionality and especially cost efficiency. IKEA's basic principle in development of new products is that the price tag is designed first.

Deciding what materials to use where is of highly deliberate matter. High quality materials are used on visible surfaces and areas particularly exposed to stress and lower-quality materials in areas that are less visible and exposed to stress. Manufacturing is not one of IKEA's core competencies and therefore outsourced to countries with low factor costs. The high level of customer involvement is one of the key features of the IKEA concept. With their unique self-serviced warehouses, customers are required to collect their flat-packed items before proceeding to checkout.

Customers are also involved in the assembly of their purchases after transporting them home in their private car. Because the company's furniture are designed to be shipped disassembled and sold to the customer flat-packaged boxes IKEA saves a lot on shipping costs. As one of the company's mantras said; " We don't want to pay to ship air". The size of IKEA's stores is also an important feature. With their large centralised combined stores and warehouses IKEA can take advantage of economies of scale. This leads to lower costs in every part of their supply chain (e. . facility costs, inventory costs, transport, procurement). From the IKEA concept and their supply chain strategy they have managed to reduce their prices to a minimum. 4. Competitive environment and positioning in the U. S. The

furniture market in United States can be divided into low-end and high-end retailers. The market is not dominated by a few large players, on the contrary the top 10 furniture retailers are holding just above 14% of the market share. The low-end retailers, with general merchandise retailer Wal-Mart as the largest, compete strictly on price.

Margins are shaved down to a minimum, requiring large scales to make a profit. The product displays is generally inconsistent and sales assistance usually poor. The high-end market is as opposed to the low-end market characterized by elegant and luxurious show rooms and close guidance of the customers by highly skilled sales consultants. They tend to carry a high variety of styles for every product and several sub-styles within each style resulting in huge inventories. Ethan Allen is the biggest player in the high-end market being the 3rd largest furniture retailer in the U.

S. Both the low-end and the high-end users offer delivery services. Some also offer assembly and setting up the new furniture in the customer's home.

IKEA's position in the market is somewhere in between the low-end and the high-end retailers. They compete with the low-end retailers on price, but offer a slightly lower service. At IKEA the customers have to collect their flat-packed items themselves and there is no delivery or assembly service. On the other hand IKEA's showrooms and store environment is somewhat more elegant and tasteful than other low-end retailers.

Though IKEA's product range and variety of styles is similar to the low-end retailers they seem to be more focused on design and functionality and emphasising on not making the customer feel cheap. 5. How IKEA has

achieved its business idea In IKEA's early days, the main focus was to push prices as low as possible. They more or less neglected the design aspect resulting in "quite horrible design". However, the last decades the focus has moved toward a more aesthetic and functional focus. IKEA's goal is to offer tasteful, cleverly designed products that do not make the customer feel cheap. This is reflected in IKEA's corporate slogan;

IKEA's corporate culture is one of the less tangible resources of the IKEA Company. Nevertheless, it may be one of the key factors of becoming such a big player in the furniture industry. Although the focus was not entirely on cost any more. The IKEA founder, Ingvar Kamprad, have managed to develop a culture of respect for money and an innovative mindset always striving for improvement. In some ways Ingvar Kamprad can be seen as an early pioneer of lean operations, continuously improving and cutting waste (Vavra 2008). Products get redesigned to enhance manufacturability, functionality, aesthetics and transportability.

Managers take the bus rather than a taxi if possible. These efforts help IKEA get as close as possible to the cost-responsiveness efficient frontier given the existing technology. IKEA's ability to achieve strategic fit throughout their supply chain and staying true to their well known IKEA concept should also have a lot of the credit for IKEA's achievements. IKEA have been able to design a supply chain that supports their business idea and strategy and have continued to sharpen their cost cutting capabilities without letting it be on the expense of design and functionality. . IKEA Lite By introducing smaller, satellite IKEA stores across the United States, IKEA may be able to reach a much broader customer base. Shopping at IKEA would no longer be

something only available for people living in large cities close to a full-size IKEA store. This would consequently increase the brand awareness for IKEA (Kotler & Keller 2005). As United States is a relatively new market for IKEA, opening “IKEA Lite” stores could give IKEA greater proximity to the market and help them better understand the needs of U. S. customers. IKEA Lite” stores may also serve as pilot projects in areas where IKEA consider opening full-size stores. It could by this reduce the risk connected with opening a full size store in a new and unknown market. On the other hand, opening “IKEA Lite” stores could also have some negative aspects as well. The IKEA concept is highly dependent of size in order to be able to cut the costs enough to offer the prices they do today. Benefiting from the scale effect, IKEA is able to reduce costs in their transportation network. Opening “IKEA Lite” stores across the U. S. ould result in less cost efficiency. Another consideration is the concept of self-service. Self-served warehouses are an important part of the IKEA concept and have contributed to minimising IKEA’s operation costs. Introducing “IKEA Lite” would require less efficient warehousing and also enhance the rate of sales personnel per customer. To be able to offer the same low prices in these stores would require cutting the margins and sacrificing profit.

6. 1 Conclusion - IKEA Lite, a good idea?

At first glance the idea of opening “IKEA Lite” stores may look like a good idea.

However, considering IKEA’s competitive strategy and supply chain strategy, it is no good idea. Even though there are many good reasons why it would be a good idea, this idea does not fit into the IKEA concept and does not allow the most important parts of the IKEA concept to be practiced. The practice of self-service would not be realised in its desired form and scale would be too

little to give IKEA the benefits needed to keep prices down. ? 7. References

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