

# Strategic analysis and proposal for ikea



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The name IKEA comes from the initials of Ingvar Kamrad, I and K, plus the first letters of Elmtaryd and Agunnaryd, which are the names of the farm and village where he grew up.

Ingvar kamrad came with a unique idea to offer home furnishing products with good design and lower prices than other competitors. But he didn't want to compromise with the quality. So he used simple cut costing solutions. He tried to find every opportunity to reduce costs. That's how IKEA concept began.

IKEA is a home furnishing company with a fully integrated supply chain, including its own industrial groups – Swedwood and Swedspan. The IKEA Group, directly or indirectly, also owns retail centres, always with an IKEA store as unique anchor tenant. The IKEA Group works in four basic areas: range strategy & product development, production, supply and retail. The parent company of the IKEA Group of Companies, INGKA Holding B. V., is owned by Stichting INGKA Foundation in the Netherlands. The Stichting INGKA Foundation was established in 1982 by the founder of IKEA, Ingvar Kamrad, to create an ownership structure and organization that stand for independence and taking a longterm approach. It has two purposes – to reinvest in the IKEA Group and to fund charity through the Stichting IKEA Foundation.

The business idea is focused on the concept of “ help create a better life everyday life for many people”.

IKEA is a renowned global home furniture and household products retailer which is privately owned. IKEA was started by Ingvar Kamarad by 1943. Now

the company owns more than 300 stores in 35 countries with more than 130,000 workers around the world. The company selling now a day more than 10000 products and the 190 million copies of catalogues distributed around all over the world. We can see how IKEA expanded by having more stores each year.

Figure 1: IKEA stores expanding.

“ To offer 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.”

That is the business idea of IKEA. This concept of the IKEA is the base of their business operations which includes product designing, manufacturing, transportation, retailing and assembling.

When IKEA develop their products, their starting point is the idea that, even with a thin wallet, people can create a beautiful home with well designed, functional, safe and healthy products. To understand the different living situations and needs of people all over the world is the key to success of IKEA.

IKEA website had 712 million visitors and 676 million store visitors in 2010. And 197 million copies of catalogue were printed in 29 languages. Total sales in last year 2010 were 23. 1 billion Euros as stated in graph and IKEA food services turnover is 1. 1 billion Euros.

Figure 2: Annual sales in billion Euros. (FY2010)

Every single company tries to use unique, distinctive and effective business strategy which will help them to stay in very competitive market and

especially in the global market. We will use different tools to provide a strategic analysis of IKEA. The analysis will be use SWOT analysis, Porter's five forces model.

### **SWOT analysis:**

SWOT analysis is strategic planning tool which helps business to focus on key issues. This tool helps to identify and evaluate of the strengths and weakness of a firm internally, threats and opportunities of external environment. Strengths and weakness is such internal aspects of the company which can be controlled. Usually these refer to marketing, finance, and manufacturing. In same way threats and opportunities are external aspects which can't be controlled. These refer to environment, local issue, government policy and others.

### **Strengths Weakness**

### **Opportunities Threats**

### **Internal**

### **External**

Figure: SWOT analysis.

### **Strengths:**

IKEA is one the leading strong global brand in household furniture's in its global operation which attracts consumer group and ensure the same quality and range with almost 10000 products in their all 300 worldwide stores.

IKEA's interest in how people's lives at home is the source of all their business. The key to the success of IKEA's business, understanding of peoples different living situation and needs of all people around the world.

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Their starting point of developing a product is how people can decorate their house with a thin wallet without compromising the quality. IKEA offers a wide range of functional household furniture in a low price that as many people as possible will be able to afford them.

IKEA is completely committed to their vision to create a better everyday life for the many people. This commitment even extends to their suppliers. IWAY is the way of purchasing IKEA products. Buying bulk and large volume for long time keeps the price down from suppliers. And suppliers feel secured also. Most of IKEA products come from supplier direct to store. That means low cost and less carbon footprint. Increasing use of renewable and smarter use of raw materials helps them to keep the price low. Customers contribute in keeping low price by collecting, taking home and assemble product by themselves. Initialization of flat packing and easy assembling made it possible. Now a day people can design their kitchen wardrobe and others household furniture themselves by IKEA computerized tools.

## **Opportunities:**

IKEA states:

‘ There is a true business potential for IKEA in providing solutions that enable customers to live a more sustainable life at home. IKEA is developing effective solutions for customers in order to support them recycling or reusing used products, aiming at no products ending up at landfill and the recycled materials used in producing new IKEA products.’

IKEA Increases use of renewable and smarter use of raw materials helps them to keep the price low. By initialize of flat packing and easy assembling

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help the customer to take their product home and assemble themselves. These all business policy of IKEA is just to ensure a quality product in low price but if we look deeply we can see that IKEA using their strengths to take advantages of opportunities. Now a day's all over the world everyone is concerning about carbon footprint, greener products, low cost products. IKEA is making best out of these opportunities.

Now a day demand is growing for low priced products. Current financial situation made consumers trading down from expensive stores.

All most everyone is concerning about carbon footprint. IKEA most of product comes to store direct from supplier by which they gradually phase out wooden pallets and use of the most spaces of transport. Using of less transport which is less carbon emission. They keep redesigning products so that they take less space. This way they save costs and contribute to environment also. Other business may be has to change their business policy because of these global concerning. But IKEA is taking advantages of these opportunities.

### **Weakness:**

Each single company tries to find out their weakness and try to resolve them. IKEA is a global brand with 300 stores globally. So the size and its scale of global business can be a problem. It could be hard eventually to keep up with their standard and quality.

IKEA suppliers are in such country where government doesn't implement the legalization to control working conditions. It can affect business supply chain. On the other hand IKEA need low cost raw materials but good quality for  
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their products. But because of global warming and other financial and environmental issues it could be hard to get the supply.

### **Threats:**

Emerging a new household company with low price and its own food in the market will be a strong threat for IKEA. Though emerging a new company with such range and scale is not so easy, but by keeping their standard IKEA can held their position.

### **Porter's five factors:**

Porter's five factors is a strong analytical tool. It helps us to understand business strength of current competitive situation and the strength of the position we are moving into. The outcome of this framework is five important factors which determine the competitive intensity, as it may in use of when creating strategy, plans or making decisions regarding investment about a business.

Figure: Porter's Five Forces model.

### **Powers of buyers:**

IKEA make sure to satisfy their customers in every aspect by providing quality service. IKEA is global brand for household furniture for reasonable prices. The management of IKEA tries to keep the standard globally so their customer is happy about the quality and the prices. Furniture and other household has small alternative and consumers has limited choices which makes IKEA unique in his competitive market. Low price strategy is other way to response buyers needs.

**Powers of Suppliers:**

We have to consider power of supplier for our competitive situation. To ensure the quality and low price business policy IKEA must have some supplier who can supply according to the demand. IKEA set some rules for their supplier. IWAY is one of it. All suppliers should follow these set of rules. IKEA get the contracts with supplier for a long time. In this way supplier and IKEA both feel more secured. If something happens with the supplier IKEA also got time for supplement. So in this case supplier got limited powers.

**Competitive rivalry:**

IKEA's furniture competitors offer different functionality and design. However, the IKEA still holds the first position in his competitive market through his quality and low price policy in Sweden and globally also. Flat packing policy saved a lot in price and easy for customer to carry out.

**New entrants:**

There is less chance to enter