

Company overview of ikea



IKEA is an internationally known home furnishing retailer. It has grown rapidly since it was founded in 1943. Today it is the world's largest furniture retailer, recognised for its Scandinavian style. The majority of IKEA's furniture is flat-pack, ready to be assembled by the consumer. This allows a reduction in costs and packaging. IKEA carries a range of 9, 500 products, including home furniture and accessories. This wide range is available in all IKEA stores and customers can order much of the range online through IKEA's website. There are 18 stores in the UK to date, the first of which opened in Warrington in 1987. In July 2009 IKEA opened a store in Dublin too – its first in Ireland.

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. In August 2008 the IKEA group had 253 stores in 24 countries, with a further 32 stores owned and run by franchisees. It welcomed a total of 565 million visitors to the stores during the year and a further 450 million visits were made to the IKEA website. IKEA sales reached 21. 2 billion Euros in 2008 showing an increase of 7%. The biggest sales countries are Germany, USA, France, UK and Sweden. In 2008 IKEA opened 21 new stores in 11 countries and expects to open around 20 more in 2009 as part of its strategy for growth.

IKEA Vision and Business idea

The IKEA vision is 'to create a better everyday life for the many people' puts this concern at the heart of the business. Our business idea supports this vision by offering 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.

Aims and objectives

SWOT (Strengths, Weaknesses, Opportunities, Threats)

Strengths

- Flat-pack technology
- Numerous global suppliers
- Focus on “ low price with meaning”
- Extra in-store perks: restaurants, shopping carts, pencils, etc.
- Unique store environment
- Modern design pieces as well as traditional pieces

Weaknesses

-Not doing appropriate market research when branching into a new culture’s market-such as when IKEA came to America.

-Ratio of sales representatives to consumers

IKEA’s self-service ethos, American’s are not used to this type of service.

Opportunities

-Saving money on labor by establishing supplier relationships with developing countries

-Movement into other countries that do not have this type of retailer

-Capitalize on good design with reasonable pricing

-Capitalize on the unique and appealing shopping experience

Threats

-Lower prices of general retailers like Target and Wal-Mart that have the ability to regain losses on other merchandise

-Finding ways to appeal to a broader public-Scandinavian design and style is a niche not specifically suited to everyone's tastes. Therefore, IKEA must figure out how to do this before someone else does.

PESTLE ANALYSIS External Environmental Factors

IKEA faces a variety of external environmental factors when conducting business in a competitive, global furniture market.

These different factors, provides an explanation of what faces IKEA (The Broad Environment)

Research shows in the broad environment, an individual firm can do little to directly influence these factors.

In this study, IKEA is broken down by social, economical, technological and political/legal factors to dissect the broad environment.

Socioculturally it was hard for IKEA to integrate itself in the American market.

The furniture market in the United States contained a wide dichotomy between high-end and low-end design. Within this fragmented market, the top 10 furniture retailers were only responsible for 14. 2% of the entire market share. The general discount stores, i. e. Wal-Mart, Target, Office

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Depot bring up the low-end market. These stores usually marketed their furniture on the basis of cut-rate pricing making margins low in for these channels. There were also smaller shops offering cheap furniture to price-conscious customers such as college students. However, these stores reflected their low price focus with dreary, dingy environments containing haphazard displays and poor, inconsistently managed inventories.

Conversely, the high-end specialty markets offered luxurious store environments with clean, plush displays, conjuring up affluence, prosperity and comfort. These specialty retailers include Ethan Allen, Thomasville, and Jordan's Furniture. Many of these retailers offered easy payment credit options lessening the debate when considering big-ticket items. Also, these stores came complete with high-touch sales consultants who assisted with measurements and product selection.

These retailers offered interior design services for consumers whom were more interested in complete home makeovers. In addition, they boasted of huge inventories often containing many sub-styles within each specific style. Complete with delivery services, retailers could guarantee that consumer's new purchases would be delivered and set up in their homes in a matter of weeks without them even having to lift a finger. Lastly, these specialty retailers focused on the quality of the furniture touting that their quality pieces will last a lifetime hence the justification of steep prices-a customer would not or should not " need" to replace the piece again within their lifetime.

The other large part of IKEA's bumpy entry to American culture was the lack of market research. Many Americans didn't like IKEA products because the beds and kitchen cabinets did not fit American sized sheets or appliances, sofas were too hard for American comfort, the dimensions were in centimeters, and the kitchenware was too small for American serving preferences. A manager of the first store in Philadelphia (1985) recalled people drinking out of the vases instead of the serving glasses.

Economically, IKEA is low cost. This is a big piece of breaking into the American market. IKEA had to focus and advertising campaign directed specifically to thwart American's unwillingness to part with their furniture. Part of this angle is the low cost. "It is only furniture, change it." By being willing to listen to consumer feedback and changing the way American's looked at furniture, during the mid-1990's IKEA's profit share in American markets improved.

Technologically, IKEA's Flat Pack is unlike any other furniture retailers shipping method-IKEA claims that they do not want to pay to ship air. This is precisely why they can be "self-service" and do not have to employ as many people as someone would think. These flat packs make it possible for people to lug their packages home without having to wait weeks for delivery. IKEA provides pencils, measuring tapes, store guides, catalogs, shopping carts, bags, and strollers to assist with the shopping experience. Customers are expected to transport their own purchases as well as assemble them on their own. The method in which IKEA's stores are lined up are ingenious. A customer will shop displays and then take their selections (jotting their item

numbers) down to the warehouse to pick up their flat packed items before proceeding to check out.

Utilizing Porter's Five-Forces Model of Industry Competition, IKEA can be evaluated in the following way:

1. Customers

Americans-the primary consumer base for IKEA's debut in the American Market. The most likely IKEA shopper are those sort of people who travel abroad, like taking risks, enjoy fine food and wine, have a frequent flier plan, and are early adopters of trendy consumer technologies such as Discmans, laptops, and cell phones (incidentally, IKEA's most atypical customer would be they type of person who collects guns).

2. Suppliers

IKEA relies heavily on global suppliers. Once IKEA sets its base price for an item, they then seek to balance cost-effective labor with the company's quality product standards. It does so by working with 1, 800 suppliers in over 50 countries. In many instances, IKEA circulates its idea within supplier rings and encourages them to compete for the production package. Sometimes to meet the base price, IKEA will have one design with pieces from several different suppliers.

3. Existing Competitors

Traditional Furniture stores are abundant in America. There are none exactly like IKEA in the United States. Therefore IKEA has an advantage over those traditional stores that have high priced furniture. If that is not

what the consumer is looking for, then they can go to IKEA for quality, less expensive furniture with a modern design edge.

4. Potential Competitors/Entry Barriers

Since IKEA is such a unique, original idea/store it would be very “ hard to duplicate the ‘ totality’ of IKEA’s culture.” A store could probably duplicate one or two of the things which compose IKEA’s atmosphere but they would fail in other aspects. Like, a store could try and copy the Scandinavian design niche but it would be hard and unauthentic (like what IKEA embodies) without the Scandinavian heritage.

5. Indirect Competitors/Substitutes

Wal-mart, Target, Office Depot and other low-cost suppliers are indirect competitors in the fact they do offer low-priced furniture that consumers assemble themselves. However, these indirect substitutes differ in the fact that these are general retailers instead of where IKEA is a specific retailer of home goods. Target, for instance, retails apparel, accessories, home goods, groceries, office products and cleaning supplies.

IKEA Strategy and Strategic options

Company vision

IKEA’s vision has from the start been “ To create a better everyday life for the majority of people”.

IKEA’s business concept originates in the decision to meet a need that no other company appeared

concerned with and led it to develop a niche market: manufacturing beautiful, inexpensive and

durable furniture for the majority of people. 27 I. Kamprad states that IKEA should “ stand on the side

of the majority of people, which involves taking on more responsibility than might at first seem to be

the case”. 28 A recent example is the company’s exceptionally costly move into the Russian market,

but considered necessary as affordable furniture is a pressing need for the Russian population. 29 The

democratic design also involves representing the interests of ordinary people and getting rid of

designs, which are difficult and expensive to produce, even if it is easy to sell. 30 The concept was

formalized in 1976 in Ingvar Kamprad’s thesis “ Testament of a Furniture Dealer”, which became an

important way to spread the IKEA philosophy. 31 The fundamental goal was and is to provide

affordable furniture for the people and cost cutting is key to achieving this. Cost-consciousness is a

strong part of the business idea and the waste of resources is considered a “ mortal sin at IKEA” 32. By

ensuring that ordinary people are able to afford to furnish their homes beautifully, many associate

IKEA with a company that stands on the side of the “ little person” and this is a positive image for a

company to have. In addition to this, I. Kamprad had another dream: the “ dream of good capitalism”

which is the idea that the good in a profit-making business can be combined with a lasting social

vision. This implies the goal of developing and achieving a better future for IKEA’s customers as well

as people working for IKEA believing that by working for IKEA, they are working for a better society

and thereby contributing to a better world. 33