

# Ikea value chain analysis marketing essay



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Value chain analysis describes the activities within and around an organization. There are two levels: interrelationships among activities within the company and (2) relationships among activities within the company and other external stakeholders like customers and suppliers. Its primary activities contribute to the physical creation of the product or services, its sale and transfer to the buyer, and its service after the sale. They are involved in the company inbound logistics, operations, outbound logistics, marketing and sales and services. For their support activities of the value chain, it either add value by themselves or add value through important relationships with both primary activities and other support activities such as procurement, technology development, human resource management, and general administration.

Value is the amount that buyers are willing to pay for what a firm provides them and it is measured by total revenue. Decisions made on resources, capabilities and core competencies significantly influence the ability to earn above-average returns: investing in areas that create value.

Internally, IKEA is constantly creating value for its company through its resources, capabilities and activities. Before their products hit the stores, the items need to reach the company main design goals: affordability, sustainability, good design and fantastic function. Buyers are willing to spend as long as the products are of good designs and functions. And for buyers who are more price sensitive, they will be able to purchase affordable home furniture with good design from IKEA too. IKEA designers will design the products using science and technology to ensure consumers safety and Swedwood Group will be in-charge for the production. From the trees

harvested from a local sustainable forest being brought in to the factory and make them into timber. From a raw timber, it will be cut and painted into their best seller bookshelves and have it packed into a flat box and they will be ready to send to the outlets for sale.

A big international company like IKEA managed to maintain their high quality of products because they have an IKEA Test Lab, which is one of the world's largest furniture laboratories located near the company headquarters. In this laboratory, there were 22 laboratory technicians carrying out 50,000 experiments a year to test for the durability, strength and lifespan of the new and current products.

External analysis is also important for a big organization. In this case, PEST analysis is used to analyze its potential issues that will affect the organization.

Political issues faced by IKEA will be the level of political stability within markets, the level of corporate and consumer taxation, the international and European trade regulation and consumer protection legislations. Economic issues will be the currency exchange rates in the local markets as IKEA has many outlets out of Sweden, the inflation rate caused by the recession.

Social issues such as the lifestyle changes and consumers' buying patterns, IKEA has to have the knowledge on them in order to create products that the consumers will possibly buy. And lastly, the technological issues with the emergence of new industry-specific technologies and the level of potential for technological innovations (Applegate and Johnsen, 2007).

New Picture3 IKEA Value Chain Analysis

Figure 1. Value-Chain analysis (Michael Porter 1985)

<http://reocities.com/TimesSquare/1848/ikea3.jpg>

Figure 2. IKEA modified value chain (Czinkota & Ronkainen, 2003)

IKEA has quickly evolved from a local Swedish home furnishing manufacturer into the largest home furnishing company in the world. They convinced their customers to transport back their purchases and assemble the furniture themselves, focusing on the “ Do It Yourself” concept of the furniture manufacturing value chain.

For inbound logistics, 10, 000 IKEA products are manufactured by 2000 suppliers and transported to the IKEA outlets from 27 distribution centres.

For operations, IKEA operation in more than 36 countries with over 300 stores and IKEA does not manufactures its own products and they are all outsource to save cost.

For outbound logistics, IKEA packed their products into flat boxes which can easily enable customers to carry them out of the stores, into their cars and straight back home.

For marketing and sales, IKEA target audience are mainly low-income families, students and single. And creating a family friendly environment within the stores with the set-up of café and children playground where family can spend their quality time together at the stores.

For services, IKEA focuses on the “ Do It Yourself” concept and provide little customer service. Information of the products is provided through

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explanatory catalogues and displays. This allows IKEA to cut staffing cost and therefore there is a low number of sales assistants in the stores.

The support activities of IKEA are further explained below.

For firm infrastructure, IKEA stores are usually large in size and they have tall hierarchical organisational structure.

For human resource management, IKEA have a high level of commitment to HR practices with effective staff training and development programs for their employees.

For technology development, all research and development activities are initiated in Sweden with extensive use of information technology in various business processes.

And lastly, for procurement, there is no need for raw materials as IKEA does not produce their own products and they have established a long-term strategic relationship with their suppliers.

From the above mentioned value chain, IKEA's main value is seen to be created by reducing costs, producing creative and safe products, distribution, flat packaging and their before and after sales service. This allows IKEA to remain competitive in the furniture market through offering low-cost yet durable products.

In conclusion, IKEA's low-priced, durable and creative products have established their reputation in the market around the world and this showed that the company's value chain has created value for the organisation.

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