

Ikea was established  
by ingvar kamprad  
marketing essay



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With a clear vision since its initial establishment, IKEA offers a comprehensive range of functional and quality home furnishing products at low prices. For over 60 years, IKEA strives on creating value-added experience for low prices through reduced cost of raw materials, manufacturing and transportation. The prominent concepts that differentiate IKEA from other major international retailers are its cost-effectiveness and service innovation - its self service store design and flat packaging furniture that allows consumers to assemble themselves. With the development of a new paradigm for home furnishing, IKEA continues to strive in its vision by providing a better everyday life for people.

### **Macro-Environment Analysis: PESTEL Model**

In the context of IKEA, PESTEL model would be conducted to assess its opportunities and threats in the macro-environment. The analysis would focus on the external influences of the organization with political, economic, social, technological, environmental and legal aspects.

#### **Political**

As a global leading home furnishing retailer, IKEA is greatly affected by the political conditions of countries all over the world. For instance, IKEA has recently ventured its way into the lucrative India market. With significant investment of \$2 billion over the next twenty years, it could bring vast opportunities for IKEA in the long term. However, many international leaders are hesitant in executing plans in India due to the upcoming general elections in 2014 (BBC 2013). Hence, IKEA might face possible risk since there is uncertainty in the political affairs as well.

## **Economic**

Economy is one of the significant factors that would pose a direct threat to the sales of IKEA as it determines consumers' disposable income and spending power. Looking within the home furnishing industry, Danziger (2012) foresees that the home furnishing market would be escalating. Based on an IBM analytical-based forecast, the projection of the overall market sales in United States is expected to increase by 5% in 2012; and the figures are expected to increase to rise even higher. With a strong global brand and its unique strategy, it is likely that IKEA would secure its share in the flourishing home furnishing market.

## **Social**

According to Alvey (2012), today's consumers are very savvy and no longer just cost-conscious. Consumers emphasize on safety, functionality and design rather than just the price. In this aspect, IKEA is not affected as it is already offering quality and stylish home furnishing products yet low pricing. However, it could be a good opportunity for IKEA, for example, to extend its product line for higher end consumers. Since there is potential growth of home furnishing industry, IKEA could exploit its prominent brand name and extend its home furnishing into the luxury sector.

## **Technological**

Technology is an important aspect that influenced the development of IKEA products and service. With increasing use of technology, IKEA has implemented its use in providing online service that brings convenience to consumers. While in IKEA store, it offers a comprehensive range of

technology that many furnishing stores have not implemented like the intelligent scale, electronic shelf labels, self check out machines and its latest computer operated lifts. Therefore, it is an opportunity for IKEA to provide further improved products and services through emphasis in its research and development.

## **Environmental**

In recent years, there are increasing awareness for business to be concerned about ethical issues and move beyond sales profit mindset to be more environmentally responsible. It is essential for successful businesses to integrate eco-friendly approach into the business strategy. IKEA has established firm environmental standings. Among its many sustainable strategies, IKEA stop providing disposable plastic bags and encourages the use of its reusable blue bag instead. By 2016, IKEA aims to phase out all its bulbs and promote only LED energy saving lights. With the continuous effort, IKEA could further work towards establishing itself as an environmental leader.

## **Legal**

Today's businesses are strictly enforced to comply with legal policies like employment regulation and health and safety guideline. However, in the recent news, Morrison (2012) stated that IKEA was discovered of using prison labours in the 1960s for nearly 30 years. Although now IKEA asserted its stands on policies like minimum wages, no forced or child labour etc. Inevitably, it might still pose as a negative reflection on the brand.

With reference to the analysis using the PESTEL model, the positioning of IKEA in its macro-environment is generally favourable. With positive outlook in its economy and social factors, IKEA could exploit the opportunity in increasing higher sales by expanding its market; while technology is also one of the factors that support its development in providing consumers with more efficient service. However, it is vital that IKEA approaches the political and legal aspects with caution as it might face possible complication in the future. With the constant increase of complexity in the macro-environment, the best approach would be to sustain a balanced global structured strategy.

### **Industry Analysis: Porter's Five Forces Model**

After assessing the PESTEL framework, an industry analysis would be conducted by using the Porter's Five Forces model, where competitive advantages of IKEA within its macro-environment would be evaluated, in terms of the threat of entry, threat of substitutes, bargaining power of buyers, bargaining power of suppliers and the extent of rivalry between competitors.

#### **Threat of entry**

In the context of IKEA, the threat of entry is generally low, and the chance of new entrants emerging is insubstantial as IKEA possesses strong global brand as a well-established home furnishing retailer. For potential new entrant to enter the market, there are considerations like significant financial investments and expertise to provide the products at a low cost in the global scale. The opportunity for new competitors is considerably low since IKEA has already established its presence in terms of its product and geographic diversity, as well as its vast supply chain. Furthermore, with the instability of <https://assignbuster.com/ikea-was-established-by-ingvar-kamprad-marketing-essay/>

political factors in many foreign country, it is relatively challenging for any new competitors to pose a threat.

### **Threat of substitutes**

The threat of substitute is particularly low, currently there is no specific product available in the market that could substitute the demand for home furniture. Furthermore, IKEA (2013) stated that there is constant expansion of its range of products through its leading technology, adding on to its already extensive range of 12, 000 home furnishing products, thus it reduces the possible threat of substitutes.

### **Bargaining power of buyers**

Unlike other home furnishing retailers, the bargaining power of buyers for IKEA is moderate. There are competitors who retail furniture at low cost as well, which allow buyers to have alternatives to choose from. However, there is limited power as IKEA maintains its low price strategy by providing quality products at minimal pricing, which differentiates itself from competitors. According to Tuttle (2011), IKEA's cost-cutting innovation enables the retailer to reduce the price of its products by around 5% in the past two years. Thus, the bargaining power of buyers is likely to remain relatively tolerable.

### **Bargaining power of suppliers**

According to IKEA (2013), there are over 2, 000 suppliers in more than 50 countries that manufacture its products. Occasionally, IKEA would bid for contracts with various suppliers to manufacture the same products. IKEA being a prominent brand in the market industry, suppliers would benefit by working with the high value retailer, so many would compete among each

other to form strategic relationship with IKEA. Thus, the suppliers have little bargaining power.

## **Extent of rivalry between competitors**

For IKEA, the intensity of rivalry from competitors is moderate. Other than the local furniture retailers, there are major global retailers like Wal-Mart and Target which offers home furnishing range as well. However, at current no other store provides the comprehensive range of quality products at such low prices comparing to IKEA. Furthermore, IKEA is recognized for its innovative technology which given IKEA a competitive edge among its competitors. IKEA faces considerable extent of rivalry, however, there is no direct strong competitor yet, thus the competition intensity remains in control.

After evaluating the industry framework, it assesses that IKEA's distinct strategy of providing quality products at low prices enhanced its competitive advantages within its macro-environment. Judging from Porter's Five Forces analysis, IKEA is in a favourable position as a home furnishing retailer at this moment. However, it is important to recognise that macro-environment changes, thus IKEA should constantly review and work on its competitive advantages. For instance, even though the threat of entry is relatively low, however, new competitors might establish in smaller cities and work its way to become a potential competitive retailer. As for the bargaining power of buyers, IKEA is considerably resilient in the aspect; until potential retailers are able to provide similar value or alternative, then IKEA would need to revise its strategy in order to remain as the industry leader.

## **Strategic capabilities**

In this part, IKEA's resources and competencies would be assessed with its strategies. Also, there would be an evaluation of how IKEA's strategic capabilities might provide sustainable competitive advantage on the basis of its value, rarity, inimitability and non-substitutability.

## **IKEA's resources**

### **IKEA's competencies**

Machines

Manufacturing factory

Automated machines in warehouses

Distribution warehouses

Retail stores

## **Physical**

Designs own furniture

Cost saved from their supply chain when passed on to consumer

Computer planner tools help consumers to design their own space

Balance sheet

Cash flow

Managing suppliers



Transportation

## **Financial**

Manufacture own designs and make use of economies of scale to buy from suppliers and produce products

Flat packaging, easier transportation

Designers

Employees

Managers

Suppliers

Consumers

## **Human**

Special designer teams to design new products

Consistently update of website information and catalogue

## **Core competencies**

### **Consumer value**

The value comes from the cost savings on price of IKEA's furniture. Value saved from its supply chain is passed on to consumer. They have distribution centres that are closely located to the major transportation routes that transport the products to the retail stores. Also, IKEA store their furniture at

the retail stores so consumers could immediately bring the products home with no waiting time.

Differentiate from competitors

IKEA offers unique products that cater for smaller homes and help to maximize space in the house. With the flat packaging, it eases the transportation of the furniture home and could be handled by the consumers themselves to save additional cost needed for transportation.

## **Resources, Competencies and VRIN**

Value

IKEA sources for suppliers that are closer to the manufacturing plant, as well as building distribution centres near to seaports, to reduce transportation costs. IKEA prefers rail and sea transport as transporting on the road is more costly. IKEA also save on additional holding and inventory costs because its warehouses are attached to their retail stores and enable to store large quantity of products with its flat packaging design (Splatty 2005).

There is a viable market in Singapore for furniture that could maximize space and which is stylish and functional. IKEA took advantage that Singapore's household space was similar to that of the Swedish and expanded into the Singapore market.

Rarity

IKEA has special designers to design interesting furniture that allows consumers to save space. They also provide additional service and have a

special concept at their stores where families could shop freely at IKEA by first dropping their children off at the children play area and also bringing their family for food at the cafeteria in the store where they sell Swedish style eats.

### Inimitability

Competitors are also coming up with cost and space saving furniture however, IKEA has first movers advantage and brand image is already strong in consumers mind and they are definitely a market leader in the products they offer.

IKEA need to continue maintaining its quality and giving consumers the value that is expected.

### Non-substitutability

Substitute products are matter of searching for other products, which could perform the same function as the product of the industry. While furniture couldnot be the substituted product by the majority of people, IKEA has used its store design and online services to help consumers design their homes instead of having to visulize it by themselves, consumers could get inspiration from stores or simply use the software to design their homes.

IKEA provides a full retail experience at their store and differentiates themselves from the other furniture stores. They are also the market leader in cost-saving yet stylish furniture and have constant innovative ideas to reduce supply chain costs.

## **Generic strategy**

### Mission statement

IKEA's mission statement is "to create a better everyday life for the many people." and their business idea is "Offering a wide range of well-designed, functional home furnishing products at prices so low that as many people as possible would be able to afford them." (farfan, 2003)

From the above statements, we could see that IKEA is working towards their mission by having good cost saving supply chain and selling affordable furniture to their consumers.

## **Value chain of IKEA**

Source taken from Porter Michael E. (2008), Competitive advantage: creating and sustaining superior performance. Simon and Schuster

IKEA's thoroughly thought out plan for their value chain system enable them to maximize productivity and resources and reduce additional cost wastage by maximizing on their transportation and storage.

## **Key value chain activities**

### Supply chain

They make the route from the manufacturer to the consumer as short as possible by skipping a lot of processes which adds to the cost but maintaining the value by using a global distribution network.

### Packaging and design

Another key value activity is the innovative design for their transportation and storage purposes. IKEA uses flat packaging where by most of the furniture could be dismantled and are packed in a flat and slim box which saves inventory space and is easier for consumers to transport home (IKEA, 2003). This helps consumers to save transportation cost and it also saves transportation cost from the manufacturing factories to the distribution centers by saving container space when travelling by sea as they maximize the amount of furniture that could be put into one container.

### Economies of scale

They also use large volumes be it for manufacturing, buying materials from suppliers or for transporting to use economies of scales so that overall cost is minimized.

### **IKEA's strategy**

<http://www.mindtools.com/media/Diagrams/GenericStrategies.jpg>

IKEA uses Combination strategy, which is a combination of the cost leadership strategy and differentiation strategy. From the IKEA's mission statement, they intend for IKEA's furniture to be affordable for the masses and have become a market leader for providing low cost furniture. Also they have differentiated themselves by providing furniture that are suitable for tight spaces in smaller homes. Besides IKEA products, they also provide various different services to differentiate themselves, for example having the child drop off area at their retail outlets and also the cafeteria that provides Swedish food. From their value chain activities, many of the key activities

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have to do with minimizing the cost of production so that IKEA could charge consumers furniture at a cheaper price.

IKEA's strategy has been proven successful as no other company have yet so efficiently been able to reduce the cost, differentiate themselves and yet provide and all rounded service like IKEA does in the furniture industry.

### **Suitability of IKEA's current business strategy**

Suitability is concerned with accessing which proposed strategies address the key opportunities and constraints an organization faces, through an understanding of the strategic position of an organization (Johnson, Whittington and Scholes, 2011).

### **Strengths**

IKEA makes and sells their own furniture, using highly integrated supply chain, they are able to reduce costs and pass on the savings to their consumers. IKEA has a strong global brand and promises good quality and price with a wide range of well designed, functional products at low prices.

According to PESTEL factor, IKEA's technological advancement in creating a software that enables consumers to plan and furnish their virtual rooms has shaped the way in which consumers makes decisions when buying furniture. Also IKEA organizes the furniture in its store in such a way that the consumers would not need to try on the furniture to see if they fit and look good in their rooms. Such strategies have yet remained underutilized and such no other competitors have been seen adopting this strategy yet.

## **Weaknesses**

The size and scale of its global business could be one of its weaknesses; this could make it hard to control standards and quality. When quality is compromised, consumers might link the low-cost to the lacking quality and the brand name would be affected. IKEA avoids this by having quality checks (IKEA, 2012) in some countries to ensure that the products delivered are up to standard.

## **Opportunities**

Deriving from their current strategy of being the cost leader and differentiating their products by being stylish and affordable. IKEA could further venture into their green movement by using recycled products to be made into furniture. Social factors show that there is a shift in consumers using environmentally friendly products and being more environmentally friendly. IKEA has already started the green project by asking consumers to bring their own bags when shopping at IKEA as they do not provide plastic bags (Jeffries, 2009). This new opportunity would perfectly fit in with Ikes'a current strategy as increasing the demands of greener products is equivalent to increasing demand for low priced products.

## **Threats**

IKEA is a company that is very adaptable to changes. Economic changes and factors consumer spending as there is less disposable income. Market forces like competitors entering the low price household and furnishings markets would also gives consumers more choices and might affect market share.

IKEA has a good pricing strategy that targets consumers with limited financial resources. Should there be an economic recession, IKEA could offer better prices because they have a good supply chain, which uses economies of scale. The low cost manufacturing because of using economies of scale, puts up high barriers to entry for smaller companies entering the market which deters more competition from joining the furniture industry.

IKEA's strategy addresses the key issues relating to the opportunities and constraints that they face. They have good opportunities to venture into new types of products that is related to their current business strategy and they have been very successful at being the market leader and deterring new competitors from entering into the same market.