The strategic positioning of ikea marketing essay

An analysis of the strategic position of IKEA has shown that IKEA has different strategic positions in different markets. This assignment will analyse IKEA's strategic position, identify and evaluate various strategic options.

While IKEA does not form government policies or make legislation it is important that IKEA understands their implications (Lynch 2009).

Take India for example, 100% FDI by a full ownership single brand retailer is not permitted. IKEA could therefore, consider entering into joint venture with local furniture retailers in countries which it wants to expand into or consider other options such as franchising or licensing (Cavusgil et al 2008).

IKEA could also consider working with the World Trade Organisation (WTO) to get governments of potential markets to relax legislation and policies as a long-term plan as changing policies and regulations is a process which takes time. China for example has already committed to relaxing regulations since joining the WTO in 2004 and IKEA continues to expand in this market (EmeraldManagementXtra 2007).

As there are significant political & legal barriers as well opportunities in markets such as Asia and Eastern-Europe which are in the Introduction or Growth Stage of the Industry Life Cycle (Lynch 2009) [Appendix C] and have not yet been dominated by other global furniture companies it is imperative that IKEA move fast to find a way round barriers if it plans on maintaining its position as a global brand in future.

Economic, Socio-cultural & Technological

Continual increase in GDP in the BRIC nations and other markets (NexisUK, 2010) outside Western Europe and North America makes these markets an attractive option and IKEA could expand into these markets going forward.

On the contrary increase in GDP may pose a challenge rather than an advantage is it may mean increased competition.

Moreover, it may also pose a challenge to IKEA as it may mean that raw materials become more expensive (Coulter 2009) as these countries are also large suppliers of raw materials for IKEA (ScienceDirect 2008).

Despite the fact that consumer income expenditure in Western markets dropped significantly since 2008 and they are in the mature stage of the industry life-cycle (Lynch 2009), exiting these markets might not be a good option for the future. Mintel reported that consumer expenditure will increase significantly by 2013; hence IKEA could seek to maintain its position. Furthermore, looking to the future, buyer behaviour could change in favour of IKEA due to economic pressures as customers who previously would have opted for more expensive furniture are likely to opt for reasonably priced furniture.

Suggesting a limitation to the Industry Life Cycle model as IKEA is operating in a dynamic environment the factors which caused a market to be mature or in decline can change unexpectedly and IKEA itself can instigate change (Lynch 2009).

Increase of life expectancy in markets such as Japan, North-America and Western Europe (Mintel 2010) could mean IKEA must look towards focusing on a different market segment in future as IKEA's target market is currently young middle class.

Furthermore, research by GMID, 2010 has shown that the aging population (silver-surfers) in Western-Europe prefer online-shopping due to the convenience of having bulky items delivered at home (Appendix B).

IKEA could take this as an opportunity, by widening its internet services it can use the technology to broaden its reach and tap into this market segment in the future. This will not only increase market share and profits in can also be used to enhance customer loyalty as internet purchases can be a good tool of monitoring buyer behaviour (Mintel 2010).

On the other hand, IKEA might opt not to take advantage of this social change and technological influence as the store experience is essential to IKEA's competitive advantage and becoming well-known as an e-shop might change its image.

That being said, even IKEA's current target market is internet savvy and ignoring such a significant factor may be risky as it is necessary to be adaptive to sustain competitive advantage.

•

Environmental

Green issues are increasingly a large concern for IKEA. Rise in green consumerism (Mintel 2010) has seen IKEA paint a picture to the public that its designs are eco-friendly and it must maintain this image as consumers have become more aware and concerned about the environment. While IKEA's designers are conscious of designing eco-friendly products (Johnson et al 2008), its suppliers may not necessarily practice eco-friendly manufactures. With a large network of suppliers in mostly developing nations some suppliers do not source raw materials through legit channels.

The consequences of green-issues are inevitable and in order to maintain competitive advantage IKEA is could to work hand in hand with suppliers and local governments as Corporate Social Responsibility to see that global carbon-footprint is minimised, to avoid backlash from environmental pressure-groups.

Comment on Analysis

Given that the environment in which IKEA operates is dynamic, IKEA must think fast and move fast on all counts in order to obtain first mover advantage and gain competitive advantage. On the other hand, because the environment is very dynamic, IKEA might move fast in areas where there is less risk and wait for competitors to move first in other areas thus taking advantage of gaps on their strategy.

Outcome of Five Forces Analysis

The analysis revealed that the industry is more favourable in some markets than others with Asia and Eastern-Europe appearing to be more favourable to a greater extent than others.

Competitive rivalry is the key element to consider as it is most likely to have more influence on the future.

Bargaining Power of Suppliers

IKEA has a large network of suppliers thus there in hardly any threat posed by suppliers. Five-Forces Analysis suggests that suppliers as part of the environment pose a threat which is one of the limitations of this method of analysis as the environment does not have to be a threat; it is possible for IKEA and its suppliers to engage in closer cooperation (Lynch 2009). Cooperation with suppliers would be important for IKEA as it is likely to need to work with its suppliers to tackle green issues if IKEA wants to keep these suppliers which allow it to be a cost-leader.

Bargaining Power of Buyers

Outcome of Five-Forces implies that buyers have little power which would make the industry favourable.

Buyers have little power according to 5-Forces Model, yet there is evidence that IKEA consistently aims to satisfy buyers. Lynch 2009 argues that this is a limitation to the model as the organisations interests do not necessarily come first and the buyer is more important than other aspects of strategy development in this model hence cannot be considered and equal aspect in such an analysis.

•

Threat of Substitutes

This is a key element which makes the low-cost furniture industry unfavourable as threat of substitutes is high particularly in developed markets (Lynch 2009).

IKEA is therefore likely to react by widening its online services, in order to protect and expand its market-share.

IKEA could consider re-thinking the locations of its stores in order to tackle the threat posed by retailers such as TESCO and Walmart (GMID).

To tackle retailers it may also consider backward integration (Johnson et al 2008) as these retailers also have easy access to suppliers and can achieve scale benefits. However, backward integration might prove difficult as IKEA’s network of suppliers might be too large to control.

Extent of Competitive Rivalry

Markets in Developing Economies

Competitive rivalry is key because of influences in the macro-environment, that is, (i) increase in GDP in BRIC markets, (ii) barriers to trade in growing markets which are potentially extremely lucrative.

IKEA stands a good chance of doing well in these markets, and could take advantage of opportunities through joint venture or franchise as they have already got experience in this region, hence IKEA can maximise on increase in consumer expenditure and change of lifestyle in this region. It would need to be a first mover in untapped Asian markets as rivalry is intense (Cavusgil 2008).

Competitors (existing local firms in the industry) are likely to attempt to imitate IKEA’s product & they might have home ground advantage. To counter this IKEA must be highly differentiated (Lynch 2009).

Intense competitive rivalry in BRIC could imply that IKEA must look to other markets such as Africa and the Middle East.

North-America and Western-Europe

Markets are unfavourable to a greater extent with well established competitors and economic-crises all intensifying rivalry. Target-market is not growing in comparison to other parts of the world, such as South America, Asia and Eastern Europe again intensifying rivalry.

On the other hand, Mintel reported that consumer expenditure will increase significantly by 2013.

Possible solution therefore is not to exit this market but acquisition of competitors and making sure the product differentiated.

Strategic Capability

Critical Success Factors (CSFs)

IKEA meets most of its CSFs effectively.

IKEA provides a unique shopping experience space, children's camp) which no other competitor offers; as a result IKEA has gained competitive advantage.

The exception is delivering and assembling products. While Mintel 2010 suggests that this is an advantage as customers do not have to stay home waiting for a delivery man, and can assemble goods in their own time, GMID 2010 argues that IKEA is missing out on sales as this CSF is not met yet some competitors provide the service.

IKEA could opt to maintain this stance in a bid to cut costs or could look into partnering with a company which provides the delivery and assembling service.

Unique-Resources and Core-Competencies (Resource Based View)

Taking into consideration that resources and competencies may be vague (Lynch 2009) IKEA are well positioned in order to exploit their unique-resources and core-competences for the long term.

IKEA is well positioned to exploit its unique resources long term in comparison to a number of its competitors due to experience (Johnson et al 2008).

(For IKEA's position on the experience curve see appendices)

Furthermore, IKEA is extremely well positioned because whilst competitors can attempt (with difficulty) to imitate other core-competencies and unique-resources, they cannot imitate IKEA's culture.

Stakeholder Mapping

Placing IKEA's stakeholders on the power/interest matrix is difficult as the matrix has limitations (Johnson et al 2008).

Shareholders

IKEA's shareholders are a small secretive trust. Little is documented about them hence it is difficult to position them thus determine whether there is need to reposition or maintain their position. It is however probably safe to assume that they have high power and interest.

Pressure groups

Pressure groups particularly environmentalists and human rights groups (child labour) have moved in recent years from low power to high power thus likely to be blockers of strategy and must be repositioned to become facilitators.

IKEA is could reposition them through Corporate Social Responsibility (CSR) working hand-in-hand with them for their causes.

Improving towards environmentally friendly manufacturing as well as suppliers and being transparent about these procedures in the future as the public have caught on to the ‘ green-wash’ (Mintel 2010).

Governments

Local governments have repeatedly proven to be blockers of strategy. IKEA could take one of two options to reposition them.

First option could be to make them an offer, which is profitable in the long term as development is mutually beneficial (Cavusgil 2008).

Second option could be working with the World Trade Organisation to tackle unfair trade policies (however, this may take years). China has already changed most the policy it was asked to change by the WTO since 2004 (BusinessSourcePremier 2010).

For any strategy to work is important that the implementers of strategy are onboard hence some key employees who are against the strategy might have to be repositioned preferably by involving the gatekeepers in the implementation (Mullins 2006).

Repositioning shareholders will result in increased market share, increased profits, increased access to resources, increased competitive advantage as well as increased competition as competitors are likely to react to IKEAs actions (Johnson et al 2008).

Strategic Group Analysis

Mapping of strategic groups (Appendix F) reflects that IKEA does not fall into a specific group. IKEA is not just a retailer, it is also a manufacturer. IKEA has created its own niche.

For the long-term, this might mean focus on maintaining its strong brand image and protecting the niche.

Moreover, mapping of strategic groups reflected attractive strategic spaces (Johnson et al 2008), for example there is room for a global-brand which sells bespoke furniture on a global scale.

IKEA might want to take advantage of the strategic space long-term perhaps by starting a new brand which targets the gap (Johnson et al 2008).

It could also cover strategic space by entering geographical regions which other low-cost global brands have not yet entered such as Africa.

PART B

IDENTIFICATION OF MAJOR STRATEGIC OPTIONS FACING IKEA

STRATEGIC CHOICE

IKEA has a low-cost base and reinvests in low price and differentiation, simultaneously seeking differentiation and price lower than that of competitors as evidenced by added value, store design, durability and functionality of products at a low-price. IKEA therefore follows a hybrid strategy (Johnson et al 2009).

Hybrid strategy is appropriate for IKEA because there is opportunity for economies of scale and cost reduction and IKEA seeks to enter new markets such as Asia where there are existing competitors (Johnson et al 2008).

In addition, Hybrid strategy is recommended as an entry strategy into markets which have established competitors (Johnson et al 2008) therefore it would be highly appropriate for IKEA’s future as IKEA seeks to enter markets in Asia and Eastern Europe.

Furthermore, Hybrid fits IKEA’s core competencies, thus allowing IKEA to sustain competitive advantage.

STRATEGIC OPTIONS & STRATEGI DIRECTION

IKEA competes in different geographical regions, therefore may opt for different strategic options in different regions.

North America Northern and Western Europe

Consolidation in most of Northern Europe could be an option as there is little or no room for growth. Differentiation strategies when defending market share in order to build customer loyalty and switching costs are often effective (Johnson et al pg. 260 2008)

Market Penetration is an option in North America and Western Europe (mature stage) as there is opportunity to gain market share, for instance in the USA IKEA has 2. 7% market share (Appendix G).

Market penetration in this case could be done via acquisition of an existing competitor or merger.

Market Development could be a strategic option for IKEA in the UK as life expectancy has increased. Increased ageing population could be opportunity by IKEA to use its core competencies to enter a new market segment. Entering into new market segment could be done by developing a new brand which serves new market segment [existing product offered to new market] (Johnson et al 2008).

Methods which could be used to execute this are organic development or merger.

Developing Economies – Africa, Asia, Eastern Europe, Middle East and South America

Market Development – entering new territories is an option. IKEA has a proven track record on entering new markets therefore it could take advantage of the growth opportunities in markets such as Eastern-Europe and other potentially lucrative developing economies (Johnson et al 2008).

IKEA could pursue market development through acquisition, merger, franchising or licensing depending on the various macro and micro environmental influences (Cavusgil 2008).

All regions

Product development as a strategic option could work globally. For example, IKEA could use its existing competencies to sell electrical appliances to its existing customer base (Johnson et al 2008).

Diversification on existing competences or capabilities is another strategic option which IKEA could opt for.

IKEA could start Training and Development, (training on management and teambuilding) as it is renowned for good operations management and teamwork.

Consultancy on entering foreign markets could be another route as IKEA has vast experience in this area.

IKEA already designs modern style low-cost furniture and could take advantage of this to change the Interior Decoration Industry as this service is usually only afforded by an elite few. IKEA could change this by offering this service at a low cost.

The various diversification options could be done through organic growth as suggested diversification is based on existing competences and resources.

PART C

Evaluating Strategic Options.

Consolidation

Suitable in Northern Europe as the market is declining (see appendix D) and there is little of no room for growth. Likely acceptable to stakeholders as it is low risk and aims to protect current market share. Consolidation is feasible as no new key resources and core competencies are required in order to execute it.

Market penetration

This option is suitable given that there is little room for growth in North America Northern and Western Europe. In addition, there are several significant barriers to trade outside the West hence North America, Northern and Western Europe remain important markets for IKEA’s future, thus penetration is suitable. Furthermore, gaining market share will help maintain scale advantages which IKEA currently exploit, which is essential to IKEA as a cost leader (Johnson et al 2008).

On the other hand, established competitors are likely to in retaliate.

Moreover, legal constraints may come into play; for example, in the UK, the Competition Commission can investigate any merger or acquisition which would account for more that 25% of the market (Johnson et al 2008).

It is likely that this option will be acceptable to stakeholders as no new competencies or resources are required. The same reason makes it feasible (Johnson et al 2008).

Market Development

Market Development would be suitable as most major current markets are saturated and at the moment there are new opportunities for entering new segments (UK, ageing population) and new geographical locations (developing nations). Furthermore, it fits well with IKEA’s resources and competencies.

Market development in the UK is likely to be acceptable to stakeholders as due to low risk. The UK economy is more stable than most and there is political stability.

However, market development in regions such as Africa or Asia is likely to be deemed unacceptable as soft currencies pose high financial risk and so does political instability.

It can be said that market development would indeed be feasible in any world region as IKEA could carry it out without developing new competencies and resources and has the experience. In a dynamic environment IKEA has little choice but to exploit its existing resources and competencies.

On the other hand, feasibility can be questioned due to lack of infrastructure in developing in some nations

Product Development

(Electrical appliances)

Option is suitable. IKEA has the facilities to offer existing customers new products (majority of IKEA stores are large). In addition, it is an opportunity for IKEA to exploit existing knowledge of customer needs of its existing customers.

On the other hand, IKEA is known for furniture, introduction of new products risks changing brand image in the customer’s perspective; hence it might be an unsuitable option.

Stakeholders are likely to deem it acceptable because it can be done in existing stores, is low risk and could have a high return.

Product development is feasible, as long as IKEA has the resources and competencies. Product development based on new resources and competencies could be challenging for IKEA.

Diversification

Over the years IKEA has developed several competencies and gained resources which can be applied in other industries. IKEA could provide diversification options at low cost because of existing competencies (e. g. skills) and resources (e. g. employees).

These diversification options done through organic development would be feasible as IKEA already has competencies and resources hence other methods such us merger would be of minimum benefit to IKEA

This method and option would be suitable because current markets are saturated in major existing markets and it is based on existing resources and competencies.

In addition, it is a low risk and low revenue investment; hence likely acceptable to stakeholders.

Recommendation

IKEA is already a global brand and could work towards expanding as a global brand through Foreign Direct Investment.

Market Development in developing economies particularly South America could be seen as the best option out of all the options mentioned.

There is political stability in the greater part of this region and the economy is growing at a steady rate in most of South America.

IKEA targets young families and students and demographic studies in South America show that this population is not in decline.

Many governments in this region welcome investors, thus it is likely to be favourable which will work in IKEA’s favour as it already has a significant amount of experience dealing with foreign governments.

South American market has not yet been dominated by other global furniture retailers which IKEA competes with.

In addition, in comparison to other new markets such as Africa and parts of Asia, South America has better infrastructure making it an even more attractive option (MINTEL 2010). Acquisition or merger would be an appropriate method based on the points mentioned.

Market Development in developing economies, particularly South America would therefore be suitable, feasible and most likely acceptable.

While other methods such as Franchising and Licensing may be low cost, they are not recommended as it may be challenging to train on culture to outsiders. Moreover, IKEA is the only furniture retailer which provides the unique shopping experience hence the risk of that the franchisee or licensee may take advantage of acquired knowledge is likely to be one not with taking in a potentially large market such as South America Cavusgil 2008).

Acquisition or merger would therefore be more suited to exploit IKEA's key resources and core competencies during market development.

APPENDIX

Appendix A

PESTEL ANALYSIS

Political – Legal

Barriers to trade – tariffs, taxes, bound to enter into joint venture with local business in China

Russia – government intervention on rates & India – government wants to limit IKEA's growth rate in India

Politics influences legislation hence Barriers to trade – tariffs, taxes, bound to enter into joint venture with local.

Economic

Economic down turn – Subprime crisis, recession

Foreign Currency Risk

Increase in GDP in Asian some markets (particularly China & India)

Socio-cultural

Aspirations of middle class to have good quality furniture in the markets in which IKEA competes

Demographic – aging population in some markets, eg UK

Technological

Increased use of the internet

Environmental

GREEN CONSUMERISM – Increased concerns regarding environment (eco-friendly) influence manufacturing.

Environmental pressure groups

Global carbon foot print of suppliers is constantly under question by the public.

Appendix B

Source: Global Marker Information Database Inter IKEA Systems BV in Retailing – World July 2010

Appendix C

Industry Life Cycle

Industry life cycle is more useful as an analysis tool in some markets that others, as suggested by Dhalla & Yuspeh, it has its limitations. Competitive forces change over time, the impact of effects of the five forces therefore varies depending on the Industry life cycle (Johnson et al 2009). The use of the Industry Life Cycle as an analysis tool will therefore be used to analyse the competitive forces in markets which are at the initial stages of the cycle, that is, introduction & growth. It will not be used in US & UK markets as it is unclear whether these markets are in the decline or mature stage.

It will be applied to Aisan and Eastern European Markets as it will allow us to identify the dynamic factors that are shaping IKEA’s future.

Source: Online

Western Europe – Mature.

North-America and Western-Europe – Mature or Decline?

Asia, Eastern Europe, South America and Africa – Growing. (Competitors attracted to enter market and maximise on advantages of early entry / expansion as other global furniture companies have not yet dominated these markets.

Appendix D

Market Growth Trend

Source: Global Marker Information Database Inter IKEA Systems BV in Retailing – World July 2010

Appendix E

Porter’s Five Forces Analysis

Bargaining Power of Suppliers

Raw materials account for a large portion of IKEA’ s costs yet power of supplies remains low regardless. There is no or little possibility of forward-integration hence power of suppliers can be said to be low as (Lynch 2009).

Little to no possibility of forward integration (mastering the key competencies of IKEA is likely to be a daunting task for suppliers). LOW

Supplies/raw materials account for a large portion of IKEA's costs. Raw materials are mostly sourced from. HIGH

Buying Power Buyers

Low switching costs would increase the power of buyers yet in IKEA's case it does not count as other factors are more significant. Price is important to IKEA's target market and IKEA competes on price hence buyers are unlikely to switch which lowers buyers power. Moreover, there is little or no possibility of backward integration again lowering power of buyers.

Little to no possibility of backward integration (buyer competition threat). LOW

Low cost of switching. HIGH

Price is important to IKEA's market. IKEA is consistently works to have lower prices than several competitors, hence customers are unlikely to switch. LOW

Threat of Entrants

The market in which IKEA competes, economies of scale are important, hence it is difficult for new-comers to enter as it is likely to take a long time before they can achieve economies of scale. Which in turn makes access to supply channels is likely to be difficult for entrants.

Moreover, the furniture industry requires high revenue investments and entrants might find difficulty in raising such funds.

In addition, IKEA has differentiated its product also making it tougher for new entrants as it is difficult to imitate.

Economies of scale are important & it is difficult for new comers to achieve economies of scale. LOW

High revenue investment / High capital requirements. New comers might find it difficult to raise such funds. LOW

Cost of switching is low. HIGH

Access to supply or distribution channels.

Differentiation. IKEA’s product is highly differentiated. LOW

Threat of Substitutes

Increasingly high as retailers such as TESCO and Walmart are increasing their furniture ranges (GMID 2010). Furthermore, internet sales on sites such as Amazon are growing and are likely to continue growing in developed markets thus encroaching on store based sales.

Product for Product – Plenty competition in all markets, low cost of switching HIGH

Retailers such as Tesco & Walmart are increasing their furniture ranges

With the growth in internet retailing sales likely to retain its momentum in developed markets and encroaching on store-based sales eg Amazon HIGH

Extent of Competitive Rivalry

Western-Europe and North-America as markets are in the mature stage of the Industry Life Cycle thus intensifying rivalry as there is little room for growth.

Furthermore, competitors in North-America are equally as big as IKEA

Companies such as Nitori in Japan and PPR in Europe are increasingly matching IKEA in offering attractive designs at low-prices through economies of scale and efficient logistics thus gradually eroding IKEA's competitive advantage and intensifying rivalry.

Fixed-costs in Russia which is an important Eastern-European Market are high

Decline stage of Industry Life Cycle in European Market increases rivalry INTENSE

Rivals such as Nitori in Japan and PPR in Europe can increasingly match it in these areas. INTENSE

High fixed costs in Russian market – INTENSE

Competitors of equal size in US market – INTENSE

Competitors Attracted to enter Asian market as it is growing. Evidence suggests that 1st movers have strategic advantage INTENSE

With the growth in internet retailing sales likely to retain its momentum in developed markets and encroaching on store-based sales eg Amazon – INTENSE

Appendix F

Strategic Grouping

Mapping of strategic groups reflects that IKEA and some competitors do not fall naturally into one group. Furthermore, it reflects that IKEA is not at the bottom but it's not at the top either and has a large geographical coverage. IKEA competes with both local competitors and global competitors hence it does not fall under one specific strategic group. IKEA competes on price, design, product range and geographical coverage. Furthermore, one of its core competencies which is difficult to imitate is, the idea of the shopping experience. IKEA has created its own niche.

Appendix G

Home and Garden Specialist Retailers – Top 10 Global Companies by Value, 2006-2009

Company

4-year trend

2006

2007

2008

2009

Home Depot Inc, The

f¨

1

1

1

1

Lowe's Companies Inc

f¨

2

2

2

2

Inter Ikea Systems BV

f¨

3

3

3

3

Kingfisher Plc

f¨

4

4

4

4

Leroy Merlin Groupe

f¨

5

5

5

5 <