

The strategic environment strategy of ikea



**ASSIGN
BUSTER**

While it is apparent that present accomplishment is no predictor of future achievement, it is improbable that such a successful organization would achieve its remarkable global operational competences without a “ central master plan”. A centralized strategy and planning process is apparently used in building its unique processing infrastructure and services portfolio. This report thus shows an appreciation of the process of strategy formulation of IKEA using The Strategic Management Model depicted in the module’s notes. The model presents a logical attempt to put the elements of decision-making process into sequence and these elements will be used for application to IKEA’s case. This report therefore covers five main parts: the first is a brief introduction of IKEA which encompasses its Mission and Vision; the second is the strategic analysis of IKEA and thereafter, its market position; the fourth part gives us an assessment of IKEA which evaluates the strengths and weaknesses of IKEA’s decision-making process and finally the last part is the recommendations on how the process may be improved.

With a grand total of 313 IKEA stores in 37 countries/territories (IKEA Group itself owns 276 stores in 25 countries, 37 stores are owned and run by franchisees outside the IKEA Group in 16 countries/territories), sales for the IKEA Group for the financial year 2009 (IKEA fiscal year: 1 September 2008 to 31 August 2009) increased by 1. 4% to a total of €21. 5 billion. The IKEA Group has 123, 000 co-workers spread across functions such as purchasing, distribution, whole-sale, range, retail, support functions and the Swedwood Group[1]. IKEA also has 28 distribution and 11 customer distribution centres in 16 countries.

So, what role does the mission statement play in strategic management? In practice, a strong mission statement can help in three main ways. It provides an outline of how the corporate strategy should seek to fulfill the mission, a means of evaluating and screening the marketing plan and an incentive to implement the marketing plan.

In other words, although beautifully crafted, an openly defined mission and vision is by no means an assurance in itself that an organization will remain successful in the long run. The key in maintaining the guiding principles of the organization is the dedication and capability of management in passing on this message. It is hence important to identify IKEA's decision making process (if any) that leads to the development of its corporate strategy. With this in mind, it is apt to query if organizational learning, where individuals experiment and trade information, is a one-off practice or is in fact harmonizing to the strategic planning. In order to do this, we need to look into IKEA's strategic position. Johnson et al (2008) believes that understanding the strategic position of an organization is concerned with the impact on strategy of the external environment, an organization's strategic capability (resources and competences) and the expectations and influence of the stakeholders.

Strategic Position

In order to understand the strategic position of IKEA, the SWOT, Porter's Five Forces Model, Core Competencies, Value Chain and Stakeholders Analyses will be used.

SWOT Analysis

A SWOT (strengths, weaknesses, opportunities, threats) analysis allows a company to evaluate its operations from an internal and external point of view. The organization examines strengths and weaknesses internally. Opportunities and threats are external.

Strengths

IKEA's strengths include a strong global brand, a clear vision, a strong concept and "balanced design" (the equal balance of function, quality, design and price). It also has strengths through its production processes, such as in increased use of renewable materials, 'smarter' use of raw materials, long-term partnerships with suppliers and economies of scale.

Weaknesses

A business must know its weaknesses in order to improve and manage them.

IKEA needs to consider:

The size and scale of its business as its global activities may make it difficult to control standards.

The demand for low-cost products and to strike a balance against quality.

The need to keep the public and IKEA stakeholders well informed about its environmental activities.

Opportunities

A business uses strengths to gain from opportunities. IKEA's opportunities come from linking its sustainability plans to growing demand from customers for greener products, low prices and lower water usage and carbon footprint.

<https://assignbuster.com/the-strategic-environment-strategy-of-ikea/>

Threats

If businesses are aware of the possibility of external threats, they can plan to counteract them. Threats to IKEA include:

changing social trends – like fewer first time buyers in the housing market

market forces – as more competitors offer similar products

economic factors – with people having less disposable income due to recession

Porter's Five Forces Model Analysis

Porter (1980) introduced the view that the profitability of an industry is determined by five competitive forces and in order to stay competitive in the industry, IKEA should examine the forces or threats presented.

Bargaining Power of Buyers

There is a little power because of the existing low-price options as the low price strategy is another way of the company to response in buyer's needs.

Bargaining Power of Supplier

IKEA has its thousands of suppliers that set standards in delivering the materials. Most of the suppliers work in IKEA and compete with other suppliers and they have little bargaining power.

Threat of New Entrants

As IKEA stores do not reach many small towns, another furniture company rolling on a low-cost strategy should be able to compete with IKEA as the excellent entrant in delivering the furniture/house wares. This is an

opportunity for the new competitors to move into small and mid-sized cities with smaller stores and less selection.

Threat of Substitutes

There is no specific product that can be a substitute for the furniture.

Another advantage is that, through its cutting and leading technology, IKEA could copy any new style fairly and move the product into its stores.

Rivalry among Existing Firms

The IKEA's furniture competitors' offers different styles and functionality.

Cratel & Barrel offers furniture in a box which is subject in higher prices and Wal-Mart is equipped with big box furniture that is categorized under the general store must-have-items, but do not have much of a style. IKEA is the most successful in delivering the complete package for the customers that reflects on weak rivalries.

Core Competencies Analysis

One of the capabilities of IKEA is the leaders' ability in doing its business.

Guided by its vision and mission, the leader and management clearly illustrate integrity in all its actions. The management has also strong commitment in promoting the organization values and the value of diversity among the employees and staff. In addition, the management of the organization has been able to understand the priorities of the business and make every decision in line with the strategic direction by giving consideration to the effect on all aspects of the business and on other stakeholders.

Another sustainable capability of the organization is its continuous focus on the importance of both internal and external customers to ensure that these customers remain loyal to them. The organization also makes sure that they motivate, inspire, coach, guide and support its staff to realise the mission of the IKEA.

Value Chain Analysis

According to Normann et al (2000), IKEA is able to keep costs and prices down because it has methodically redefined the roles, relationships and organizational practices of the furniture business. The result is an incorporated business system that invents value by matching the various capabilities of participants more economically and effectively. IKEA takes its responsibility in the value chain seriously and organises its operations in order to have a positive effect on the environment. A key part of IKEA's success is due to its interactions with materials' suppliers and manufacturers. IKEA is more than a link on a value chain. It is the centre of an assemblage of services, goods and designs.

Stakeholders Analysis

It has been noted that aside from the management of the organization, the customers of IKEA plays a crucial role for attaining the organizational goal of IKEA. The devotion of customers and the trust they gave to the organization has helped the organization maintain its competitiveness. The role of the staff and employees are the ones that make the organization continuously achieve the needs and demands of the customers. The suppliers and other stakeholders support can be considered as additional factor that makes the IKEA what it is right now.

Market Position

With reference to Appendix 2 and as indicated in IKEA's mission statement, the organization is in business to produce high quality products at a low cost. This would support a cost leadership strategy. However, the organization is also applying an indirect differentiation strategy due to its exclusive way of incorporating the customer in the value chain.

IKEA does not have its own manufacturing facilities. Instead, it is using subcontracted manufacturers all over the world for supplies. To aid shopping, IKEA provides catalogs, tape measures, shopping lists and pencils for writing notes and measurements. This combination indicates a focus strategy. The firm is focusing on one particular target segment – young and low-to-middle income families.

It is delivering the customer with a quality product with apparatus derived from all over the world employing multi-level competitive advantages, low-cost logistics and large simple retail outlets in suburban areas. Furthermore, cost-leadership has been effectively incorporated into the organization's culture through symbols and well-organized processes. In return for high sales volume, IKEA accepts low profit margins. Also, IKEA's marketing emphasis on budget prices and good value clearly communicates cost leadership to customers. IKEA's strategy clearly expresses that the perception that cost leadership equals poor quality in products and services is erroneous. High quality is associated with input and process variables. Cost reduction, on the other hand, does not mean reducing the quality of these variables, but rather do things better and more efficiently. Cost leadership is a part of the management process and culture. From this

<https://assignbuster.com/the-strategic-environment-strategy-of-ikea/>

discussion, it is possible to deduce that IKEA effectively aligns its cost leadership proposal with focus on the needs of its target market segment.

IKEA's Decision-Making Approach

From all the discussions illustrated above, it is concluded that IKEA has adopted the strategic planning approach and autonomous actions - where managers can make independent decisions - simultaneously. The strategic planning process has been depicted as the development of decision-making rules that guide future organizational actions. Centralized strategic planning systems are developed to integrate operative activities and co-ordinate long-term organizational dealings. Autonomous actions enable the firm to react faster to altering conditions and learn from new experiences.

Strengths

The organizational structure enhances IKEA's performance by increasing the main sense of control. The flatter formation per store means that the co-workers can all contribute more to other jobs that may not necessarily be in its job specifications. Ultimately the structure of IKEA can and usually does affect how well they meet its objectives, globally and on a national scale. IKEA set the global objectives, which are then distributed around the 313 stores in 37 countries. From these primary objectives, the national stores then distribute its own more compact objectives which they hand to the top of the business hierarchy structure, as the process goes on the objectives reach the ground floor co-workers, who work towards its weekly set goals. This hierarchical process where top management outlines an overall strategic plan based on corporate goals, before general managers develop

their goals and strategic business plans, and middle managers set functional goals and strategies works well for IKEA.

Weaknesses

While such a hierarchical process is good for IKEA generally as a whole, it has been argued that reliance on centralized strategic planning processes is insufficient. IKEA should allow managers to make more independent decisions which in turn craft the organization to be more responsive to changing market conditions, which is particularly beneficial to firms operating in dynamic and complex industries. IKEA might learn about new strategic opportunities through the decentralized strategic actions taken by ground managers.

Recommendations for IKEA's Decision-Making Process

Consistence in simple and stylish furniture

IKEA bases its design and new product policy on the customer feedback it receives from its locally-based sales and marketing operations throughout the world. Thus any product modifications or new product ideas are subject to a carefully thought-out operation from original design concept and product development to the selection of suppliers, distribution to the stores and then to customers - mainly through take-home flat packs. IKEA's contest in this area is to challenge people's expectations and to make them question their taste without offending them.

Concentrate on simple structure for internal control

The present organizational structure can be defined as highly functional with a global market strategy. In such a structure, IKEA is able to maintain

centralized control over functional activities and at the same time take advantage of low cost and enhanced quality from international suppliers.

The route from supplier to customer must be as uninterrupted, cost-effective and environmentally friendly as possible. Flat packs are an important aspect of this work: eliminating wasted space means we can transport and store goods more efficiently. Since efficient distribution plays a key role in creating the low price, goods routing and logistics are a focus for constant development.

IKEA has modified the value chain approach by integrating the customer in the process and introducing a two-way value system. In order to furnish the customer with good quality products at a low cost, the firm must be able to find suppliers that can deliver high quality items at low cost per unit. The headquarters provides carefully selected suppliers with technical assistance, leased equipment and the necessary skills needed to produce high quality items. This long-term supplier relationship does not only produce superior products, but also add internal value to the suppliers.

Standardization VS Localization

IKEA did not customize its products to local markets, but kept to standardized products and operations worldwide. This standardized strategy of internationalizing minimized costs. It adopted an ethnocentric strategy for going international - where it had standardized products and standardized operations. This helped to keep costs low, but ignored the different tastes and preferences of the other markets and the way they purchased furniture. IKEA had to change the model of operating, giving greater ownership to its

subsidiaries, to become polycentric. Costs increased as a result, but this localization approach was necessary for sales.

Appendix 1

IKEA's Empire

Despite its Swedish roots, IKEA is owned and operated by a complicated array of not-for-profit and for-profit corporations.

The IKEA corporate structure is divided into two main parts: operations and franchising. Most of IKEA's operations, including the management of the majority of its stores, the design and manufacture of its furniture, purchasing and supply functions are overseen by INGKA Holding, a private, for-profit Dutch organization. Of the IKEA stores in 37 countries, 276 are run by the INGKA Holding. The remaining 37 stores are run by franchisees outside of the INGKA Holding.

INGKA Holding is not an independent organization, but is wholly owned by the Stichting Ingka Foundation, which Kamprad established in 1982 in the Netherlands as a tax-exempt, not-for-profit foundation. The Ingka Foundation is controlled by a five-member executive committee that is chaired by Kamprad and includes his wife and attorney.

While most IKEA stores operate under the direct purview of Ingka Holding and the Ingka Foundation, the IKEA trademark and concept is owned by an entirely separate Dutch organization, Inter IKEA Systems. Every IKEA store, including those run by Ingka Holding, pays a franchise fee of 3% of the revenue to Inter IKEA Systems. The ownership of Inter IKEA Systems is exceedingly complicated and, ultimately, uncertain. Inter IKEA Systems is <https://assignbuster.com/the-strategic-environment-strategy-of-ikea/>

owned by Inter IKEA Holding, an organization registered in Luxembourg. Inter IKEA Holding, in turn, belongs to an identically named organization in the Netherlands Antilles that is run by a trust organization based in Curacao. The owners of this trust organization are unknown (IKEA refuses to identify them) but are assumed to be members of the Kamprad family.

In Australia, IKEA is operated by two companies. Stores located on the East Coast including Queensland, New South Wales, and Victoria are owned by INGKA Holding. Stores elsewhere in the country including South Australia and Western Australia are owned by Cebas Pty Ltd. Like elsewhere, all stores are operated under a franchise agreement with Inter IKEA Systems.

Non-taxable profit

In 2004, the last year that the INGKA Holding group filed accounts, the organization reported profits of €1.4 billion on sales of €12.8 billion, a margin of nearly 11 percent. Because INGKA Holding is owned by the non-profit INGKA Foundation, none of this profit is taxed. The foundation's non-profit status also means that the Kamprad family cannot reap these profits directly, but the Kamprads do collect a portion of IKEA sales profits through the franchising relationship between INGKA Holding and Inter IKEA Systems.

Inter IKEA Systems collected €631 million of franchise fees in 2004, but reported pre-tax profits of only €225 million in 2004. One of the major pre-tax expenses that Inter IKEA systems reported was €590 million of "other operating charges." IKEA has refused to explain these charges, but Inter IKEA Systems appears to make large payments to I. I. Holding, another Luxembourg-registered group that, according to *The Economist*, "is almost

certain to be controlled by the Kamprad family.” I. I. Holding made a profit of €328 million in 2004.

In 2004, the Inter IKEA group of companies and I. I. Holding reported combined profits of €553m and paid €19m in taxes, or approximately 3.5 percent.

The Berne Declaration, a non-profit organization in Switzerland that promotes corporate responsibility, has formally criticized IKEA for its tax avoidance strategies. In 2007, the Berne Declaration nominated IKEA for one of its Public Eye “awards”, which highlight corporate irresponsibility and are announced during the World Economic Forum in Davos, Switzerland.

Control by Kamprad

Along with helping IKEA make non-taxable profit, IKEA’s complicated corporate structure allows Kamprad to maintain tight control over the operations of Ingka Holding and thus the operation of most IKEA stores. The Ingka Foundation’s five-person executive committee is chaired by Kamprad. It appoints the board of Ingka Holding, approves any changes to Ingka Holding’s bylaws and has the right to preempt new share issues. If a member of the executive committee quits or dies, the other four members appoint his or her replacement.

In Kamprad’s absence the foundation’s bylaws include specific provisions requiring it to continue operating the Ingka Holding group and specifying that shares can be sold only to another foundation with the same objectives as the Ingka Foundation.

Appendix 2

Porter's Three Generic Strategies

Porter (1980) identifies three long-term strategies on which an organization can build its core-competencies and these strategies are:

Achieve overall low-cost leadership in the industry

Market products that are differentiated

Focus on market segments for growth in cost and/or differentiation

A cost leadership strategy involves placing great emphasis on efficiency in all organizational activities in order to reduce the overall costs of products delivered to customers. A generic low cost leadership strategy will only work effectively when the organization can provide products and/or services at a lower cost than the competition. On the other hand, a differentiation strategy is aimed at delivering products and/or services that are different from the product mix of the competition. Differentiated products are often marketed at premium prices in order to cope with added costs of differentiation, leading to higher profit margins. Apart from high costs, the potential risk associated with this strategy is that consumers may not perceive product and/or services as differentiated. The focus strategy outlined by Michael Porter is a mix of the two earlier discussed generic strategies. It focuses on cost leadership and product differentiation simultaneously in one particular market segment, or a niche.