

# A case study on a popular retailer ikea marketing essay



**ASSIGN  
BUSTER**

\n[[toc title="Table of Contents"](#)]\n

\n \t

1. [Marketing strategy](#) \n \t
2. [Brand recognition](#) \n \t
3. [Layout of the building](#) \n \t
4. [Current Managers](#) \n \t
5. [Outsourcing](#) \n \t
6. [Competitors](#) \n \t
7. [New fashions, fads, or cultures](#) \n \t
8. [Recessions and declining economies](#) \n

\n[/toc]\n \n

The following report is on the case study on one of the most popular retailing store which has made a colossal success due to the company’s unique concept. The company by name is “ IKEA”.

IKEA is facing very high competition, leaving behind the question if the company can still keep the core founding values alive because IKEA is still run by managers who were trained by the founder himself. In addition to the former issue the strategy IKEA is using though successful has a danger of being ‘ stuck in the middle’.

The key issue underlined in the case is the challenge IKEA is facing currently, to keep up the standard and quality which was brought about so far. As the organization is worldwide, plus the fact that at times it diversifies according to the culture the company is in; the organization has a tendency of going

out of track if the links with the founder is lost. Sub issues addressed can be noted as, supply been bottleneck and increased competition.

Unity consulting firm which I work for has been requested by IKEA to provide consulting services for the strategic management of the company's future. Conducting strategic analysis of the environment, industry and the company, present strategic choices, and recommended new strategic initiatives and areas for improving the senior management level of IKEA are the main tasks for the following consulting project.

As a member of the Unity consultancy firm, in analysing the case, I have undertaken the issues of the Macro-environmental analysis, Industry analysis and internal analysis which would include the organization's strategic capability analysis.

### Company Overview

Ingvar made use of the knowledge he gained from the Smaland province, where people had a reputation for working hard and making the most out of limited resources. The killer idea that he came up in the late 1940's gave birth to IKEA. The acronym has four letters which accordingly indicates the first letter of the founder's first name, the first letter of last name, the first letter of the farm he grew up and the first letter of his home village. (Ikea, 1999).

The parent company of IKEA is INGKA Holding B. V. It also includes the industrial group Swedwood, which outsources manufacturing of IKEA furniture. Stichting INGKA Foundation which is a non profit organization owns

<https://assignbuster.com/a-case-study-on-a-popular-retailer-ikea-marketing-essay/>

INGKA Holding B. V. The later had reported profits of € 1. 4 billion from the sales from € 12. 8 billion and with a margin of nearly 11 %.(Ikea, 1999).

(Refer appendix 1- INGKA Holdings)

Inter IKEA systems B. V. process allows franchises only if there is a store in that particular country. The organizations and individuals should obtain a strong market position and market penetration to obtain franchise. (Ikea, 1999).

IKEA's innovative idea was to offer quality home furnishing products for a cheaper price, more over they are designed in the ' DIY' style allowing the transportation cost and the storage costs incredibly low. (Refer appendix 2 - Products). IKEA currently has 265 shopping centres in 36 countries.(Ikea, 1999). (Refer appendix 3).

The company's colours are the same as the national colours of Sweden. (Refer appendix 4- Stores). IKEA buildings are designed in such a way that every customer is able to view all the products as they proceed along the marked path. Such techniques have helped IKEA come along way successfully. (Refer appendix 5- Awards).

#### Critical Issues / Core problems

According to the case study provided the critical issue stated, is the challenge of keeping up the standard which was so far brought about. IKEA currently employs managers who were trained by the founder. Kamprad has the power to control Ingka Holdings and the operations of Ingka Holdings.

In the absence of Kamprad, regulations indicate requirements for it to continue operation by Ingka Holding group and it specifically notes that shares could be only sold to another company which has the same objective as Ingka Foundation. (Ikea, 1999).

The existing problem is that when the organization becomes more and more larger there is a risk of the links with the corporate culture getting thinner. As long as the founder has the control over the management and, the respective persons are devoted to the founder a problem may not exist but in his absence there is a risk of the existence of the organization.

The sub issue of the following case is the supply of the manufacture. " We can't increase by more than 20 stores a year because supply is the bottle neck" (Lennart Dahlgren, Russia). Since the organization is mainly based on timber; there is an impact between the manufacturing and the existing timber as a resource. (Refer appendix 6 -intact and remaining forests).

The company is currently undertaking proactive measures for the safety of the environment. (Refer appendix 7- Conditions for sustainability by Robert). As a result, replacing poloylchloride in wallpapers, eliminating PVC from packaging and eliminating acid-curing lacquers ahs been implemented.

### External Analysis

Factors such as identifying opportunities, threats, trends, strategic choices and strategic uncertainties; even though external, has an impact on the organization. External analysis facilitates to develop a finite list of opportunities that a firm can benefit from and avoid threats. The external

analysis offers IKEA to respond either offensively or defensively to the external factors by formulating new strategies in such a way to take advantage of external opportunities or minimize the impact of potential threats. External environment can be divided into macro-environment and industry analysis.

### Macro- Environment

The macro environment consists of all factors which influence the company as a whole which are out of their direct control including political, economical, social, technological, environmental and legal factors. The analysis of those factors is therefore known as PESTEL analysis. (Refer Appendix 8- PESTAL Analysis)

### Industry Analysis

An industry can be considered as a group of organizations or business units that produces close substitutes. The purpose of an industry analysis is to identify and analyze the attractiveness of an industry. Industry analysis will be covered by analyzing the Porters five forces and Industry life cycle. (Refer Appendix 9- Porters Five Forces), (Refer Appendix 10- Industry Life Cycle).

### Internal Analysis

The internal analysis for IKEA includes Value chain and SWOT analysis. The main objective of this internal analysis is to identify IKEA's resources and capabilities.

### Value Chain Analysis

<https://assignbuster.com/a-case-study-on-a-popular-retailer-ikea-marketing-essay/>

The value chain analysis illustrates the various value adding processes that occurred inside a firm or a business. This analysis provides an insight to understand how a firm builds up its capabilities and activities that make up the firm's competitive posture. Value chain is also a useful tool to analyze utility and cost.

The value chain can be classified into two broad categories as primary and supporting activities. According to IKEA primary activities consists of inbound logistics, operations, outbound logistics, marketing, sales and services. Support activities refer to those tasks assists the firm's primary activities. The support activities include procurement, technology development, HRM and firm's level of infrastructure. (Refer Appendix 11- Value Chain Analysis)

Since IKEA provides products as well as services the organization has outbound logistics which makes itself different from the other firms which provides services only.

## SWOT Analysis

### Strengths

## **Marketing strategy**

The hybrid strategy which is been used by IKEA is very successful and difficult for the competitors to copy. IKEA is able to stand a head of the competitors because; targeting the middle class, they provide differentiated products at the lowest cost possible. These products can be very simple ones such as paper measuring tapes, pink plastic watering cans, scented candles and pencils. IKEA is able to grab the attention of the customer making them

purchase items worth \$ 500 from glassware to storage units, when the customer had just stepped in to purchase a coffee table worth \$ 40.

According to one of the shoppers at IKEA, they have this way of making one believe that nothing is expensive.

## **Brand recognition**

IKEA has its network around the globe (Appendix- countries currently IKEA operates in) with a well recognized brand name, especially for its 'DIY' design in the array of furniture. IKEA Concept is based on 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. Rather than selling expensive home furnishings that only a few can buy, the IKEA Concept makes it possible to serve the many by providing low-priced products that contribute to helping more people live a better life at home.

## **Layout of the building**

The blue and yellow buildings average 300, 000 square feet in size (28, 000 m<sup>2</sup>). The customer is supposed to walk along a marked path through the showrooms. For the reason that the building takes the shape of a circle it allows all the customers to see, all the products for display. It gives the customer the opportunity to take as long as possible shopping, allowing the kids to enjoy themselves at the playroom.

Weakness



## **Current Managers**

The managers currently appointed are still the ones who were trained and groomed by the founder. The culture of the organization is at a risk at the absences of the founder. Kamprad can be noted as a charismatic leader if not the existence of the organization around the founder cannot be expected. However, he should train the managers and his employees self leadership, because the values of the company will exist around, for the future if so done.

Opportunities

## **Outsourcing**

Outsourcing from China is one of the opportunities, because sourcing from low cost countries like China would reduce its cost and enable IKEA to concentrate on increasing its market share through competitively priced product offerings.

Threats

## **Competitors**

Within growing competitive retail markets mainstream retailers are beginning to mirror the model of low cost value flat packed furniture which will impact on the buoyancy of IKEA. Wal-Mart Stores Inc. which despite vast strengths, France's Carrefour has been overtaken by IKEA the Swedish retailer. However the company currently is undergoing vast competition, as a result of the suppliers bargaining power and competitors' recruiting top designers. (e. g. Target recruiting Thomson O'Brien).

## **New fashions, fads, or cultures**

With globalization and changing processes comes a lot of culture change within the countries. IKEA had to differentiate the closets designs for American in a way they can fold their cloths and for the Italians in a way that they could hang their cloths. Such examples prove the fact that the target market of IKEA is much diverse for study, therefore there is a risk in the existence in the market for IKEA if they do not understand the preferences of the particular customer. As an example IKEA had a change the size of their glasses, sofas and sizes of the beds.

## **Recessions and declining economies**

With economic concerns over rising living costs and depleting disposable income there is an overall threat to the performance of the business in UK and American markets specifically.

### Recommendations

As a member of the Unity consultancy firm, I recommend the following for a better performance.

The critical issue addressed in the following report is the challenge of maintaining the standard of performance in IKEA due to the main reason as the current managers are still the ones who were trained by the founder. Therefore IKEA needs advisory services regarding the development of schedules of practice and procedures of responsibilities each person in the organization holds.

IKEA is very successful in cutting the unnecessary cost incurring. Therefore IKEA has been able to employ the least number of employees needed to work on the floors. Taking the following as a plus point to success IKEA should have consistent training for the new and energetic too. It is vital for IKEA to understand the different staffing policies the host countries would prefer. This knowledge would result a multicultural perspective for the success of the organization.

Internal auditing and calibration visits to IKEA supplier's premises are recommended.

## Conclusion

This report was prepared for the Swedish retailer, IKEA. External factors and internal factors affecting the business have been clearly discussed in the following report.

The external analysis covers the macro environment and the internal environment of IKEA. To discuss these aspects I used the PESTEL, Porters five forces, the life cycle model and the strategic group model.

The internal analysis was discussed by using key success factors, value chain model and the SWOT analysis.