

# Swot and five forces analysis of ikea



**ASSIGN  
BUSTER**

IKEA was founded by Ingvar Kamprad in Sweden in 1943 as a mail order company. It is now one of the world's largest furniture retailers with its headquarters in the Netherlands. Ikea's concept is centred on offering a wide collection of well -designed functional home furnishing products, with prices so low that anyone can afford.

Ikea's mission is simple, ' keep making furniture less expensive without making it cheap" (www. Ikea. com) . Because IKEA concentrated on standardizing their products and operations throughout the world, their operating costs were reduced. However, they learnt quickly enough that if they wanted to penetrate the United States (US} market they had to change their operations and adapt to meet the needs of the local market. This resulted in increased cost but it was necessary in order to encourage sales. Today the US Market is ranked in the top five (5) sales countries in the sales area. Sustainability report 2010

## **STRATEGIES**

### **Ikea's**

four additional countries to move to thirty- eight. Their stores are strategically located and conducive for family outing with places available for children to be pre-occupied. For a holistic shopping experience their outlets are equipped with reasonable price restaurants and cafes.

Promotion – The IKEA Catalogue is a vital part of its existence with a wide reach. It assists consumers find the right product at the right time. In 2010 the catalogue was printed in 198 million copies in 27 languages and 56 editions . A new more resource efficient format was introduced in 2009?

(Sustainability report 2009). The second feature of IKEA's promotion is the standardized theme. Their logo can be spotted at a distance.

The following are examples of some of the strategic analysis that may have been considered by Ikea:

## **SWOT ANALYSIS**

In order to compete effectively as they have been doing, Ikea would have had to perform a (SWOT) analysis to assist in obtaining their objectives. This analysis is a strategic planning tool that looks at the strength, weaknesses, opportunities and threats of any business undertaking.

### **Strengths**

Looking at the table above it is clear to surmise that Ikea has ridden the waves fairly well and is a profitable company, earning 23.8 (Eur. billion) in sales in 2010.

Ikea has brand appeal. Because of their modern style and attractive furnishings they are able to attract consumers of different origins and cultures with their same range of functional and well-designed products and quality across borders which can play a vital part in Ikea being able to keep its' customers

The company has a strong international presence. Ikea's store was visited 699, 000, 000 compared to 404, 000, 000 in 2004 worldwide (ikea . com).

They are unique in that customers are allowed to be part of the value chain by playing a direct role in the selection, assembly and transportation of their

furniture. It's also all inclusive to allow families to come in and sit and enjoy with their playgrounds and food courts.

## **Weakness**

One of Ikea's weaknesses could be the location areas of their stores which are located outside of city centres and may not be accessible to pedestrians.

The 'do it yourself' motto may not appeal to everyone and some may even feel intimidated by the wide range and lack of assistance.

## **Opportunities**

Sourcing from China is seen as an opportunity to lower cost and by extension increase market share. Today Ikea has over 120 suppliers in 54 countries (Ikea sustainability report 2009) They have taken advantage of technology by introducing its online catalogue as a means of generating more sales, because of e-commerce, a lot more people shop online. Statistic shows that more people are viewing the catalogues because circulation have increased from 131, 500, 00 in 2003 to 198, 000, 000 in 2010.

## **Threats**

Like any market leaders, the competition would endeavour to imitate Ikea's product. However, Ikea's competition consisted of smaller companies, because of Ikea's huge market, it enjoys economies of scale which would be difficult for the competition to penetrate or compete with.

Another threat that Ikea may face is a reduction in consumer spending caused by the downturn in the economy.

## **PORTER’S FIVE FORCE ANALYSIS**

One of the main strategic objectives of any organisation is to gain sustainable competitive advantage. Because the environment that Ikea is complex and dynamic in nature . Porter’s five forces analysis would allow Ikea to be aware of the forces and understand how to compete with these forces.

Threat of entry- Ikea, being the leader in its industry, threats of entry was relatively low because their competitors were often smaller companies who could not reap the benefits of economies of scale.

Threat of substitutes –

Competitive rivalry – Ikea has taken over its’ rivals on quality of product based on price as well as customer service

Buyer and Supplier Power- The power of suppliers were shown when IKEA entered the United States (us) market and customers were reluctant to purchase their product because it was not in keeping with their type of furniture

## **PEST ANALYSIS**

From the data above one can see that Ikea carried out a pest analysis whichThere are several environmental factors that would impact on ikea’s strategic objectives of which the pest analysis would fall into

Political – Because of the crisis in Japan it was easier for Ikea to enter Japan market

Economical -

Sociological -

## **Ikea Marketing Mix Analysis**

### Marketing Mix

Price- IKEA's strategy is based on cost leadership. Across markets where it currently has a presence, products are sold at low prices. Prices are 30 to 50% lower than competing products. Price variations are only a result of fluctuations in exchange rates. This penetration pricing enables IKEA to gain significant market share. Low prices are a result of large-quantity purchasing, low-cost logistics, store location in suburban areas and a DIY approach to marketing.

IKEA also benefits from economies of scale and healthy supplier-firm relationships. IKEA enters into long-term contracts, provides leased equipment and technical support in exchange for exclusive, low-cost manufacturing from suppliers. For new markets, IKEA should retain its price-image to maintain the brand's positioning.

### 2. Product

IKEA's value chain is unique in that customers are also suppliers and suppliers are also

customers. The transactions between the supplier and IKEA and on to the customer have a value adding step in each stage.

Product differentiation exists in the value-added dimension. IKEA's consumers are treated as 'prosumers' with most of its products requiring assembly after purchase. But although assistance in this aspect is limited, IKEA offers options for choosing, transporting and assembling furniture.

While this is well accepted in areas where IKEA now operates, it may be a point of consideration when entering new markets. Should IKEA encounter a market where DIY is not favored, IKEA may include the cost of the service to the product's price.

### 3. Position/Place

IKEA stores are located in suburban areas. This is a factor in the achievement of IKEA's low pricing. While it may appear as a disadvantage, this fits IKEA's target market of customers willing to transport their own purchases and requiring less assistance in assembly.

- Ikea has taken advantage of technology to gain the company's Ikea's mission

Diagram

Diagram

YEAR

NO. OF OUTLETS

TURNOVER IN MILLIONS OF EUROS

CATALOGUES CIRCULATION

<https://assignbuster.com/swot-and-five-forces-analysis-of-ikea/>

1954 - 1974

1-10

1-169

285, 000 - 13, 000, 000

1984 - 1988

66-75

1, 216 - N/A

45, 000, 000 - 50, 000, 000

2001 - 2003

172 - 190

11, 300 - 12, 370

110, 000, 000 - 131, 500, 000

**2004 – 2010**

**360**

**13, 600 – 23, 800**

**145, 000, 000 – 198, 000, 000**

Source: www. ikea . com



## **IKEAs ACHIEVEMENTs AT A GLANCE**

Sales – IKEA had a competitive growth strategy which, as the table shows that for the period 2006 – 2009 their turnover increased from 12, 370 M (euros)in 2003 to 23, 800 which indicates that customers were satisfied that they were receiving value for their money.

Catalogue -IKEA has a wide range of products available to the consumers. Their catalogue circulation has increased from 131, 500, 000 to 198, 000, 000 in 2010. IKEA stores are located in suburban areas. This is a factor in the achievement of IKEA’s low pricing. While it may appear as a disadvantage, this fits IKEA’s target market of customers willing to transport their own purchases and requiring less assistance in assembly.

Outlets – IKEA’s outlets have increased from 190in 2003 to 318 in 2010. They also operate in Source: [www. ikea . com](http://www.ikea.com)

## **IKEAS ACHIEVEMENTS AT A GLANCE**

Sales – IKEA had a competitive growth strategy which, as the table shows that for the period 2006 – 2009 their turnover increased from 12, 370 M (euros)in 2003 to 23, 800 which indicates that customers were satisfied that they were receiving value for their money.

Catalogue -IKEA has a wide range of products available to the consumers. Their catalogue circulation has increased from 131, 500, 000 to 198, 000, 000 in 2010. IKEA stores are located in suburban areas. This is a factor in the achievement of IKEA’s low pricing. While it may appear as a disadvantage,

this fits IKEA's target market of customers willing to transport their own purchases and requiring less assistance in assembly.

Outlets – IKEA's outlets have increased from 190 in 2003 to 318 in 2010.

They also operate in

## **CONCLUSION**

The IKEA group have proven themselves to be global leaders in the furniture industry retailers in the world. With its unique combination of form function and affordability, Ikea distinguished itself from the competition. Although there was some failure initially in the American market, they have gone on through market research and innovation to capture a share in the US market .

IKEA stores are located in suburban areas. This is a factor in the achievement of IKEA's low pricing. While it may appear as a disadvantage, this fits IKEA's target market of customers willing to transport their own purchases and requiring less assistance in assembly.