Ikea case analysis; hill ; jones

Business, Company

Executive Summary

This analysis detailed the history of IKEA Company since its establishment by Ingvar Kamprad in 1943 to the world wide expansion and future it faced in 2008. IKEA was striving for future expansion and growth in sales, but was faced with what to do in order to achieve these. With poor previous attempts at global expansion, lack of investigation into future countries in which IKEA wanted to expand to, and no diversity on its board of directors;

IKEA would have to find a way to achieve company success and accomplish thesegoals. IKEA had a number of threats, opportunities, strengths, and weaknesses to consider.

The three threats IKEA faced were:

1) competition,

2) changing government laws and regulations, and

3) economic and social changes.

The opportunities for IKEA were:

1) global expansion,

2) product demand,

3) low switching costs,

4) market demographics,

5) external relationships, and

6) a successful global business model.

The strengths for IKEA were:

1) marketing and branding,

2) outsourcing and supplier management,

3) mass customization of products, and

4) research and development.

IKEA's weaknesses were identified as:

1) company organization and

2) thefailureto research geographic markets before expansion.

Using this SWOT analysis, we recommended that IKEA develop strategies for expanding globally by opening new stores in Beijing, China; Wuhan, China; New Delhi, India; and Jakarta, Indonesia, and also thoroughly investigate the geographic markets before this expansion. They also need to develop a third strategy to recruit a more diverse board of directors by recruiting more independent directors. These three strategies would aid IKEA in maintaining a competitive advantage in the furniture industry.

Introduction

IKEA was one of the world's largest furniture retailers, recognized for its unique Scandinavian style. The majority of IKEA's furniture was flat pack, ready to be assembled by the consumer. This allowed a reduction in costs and packaging. IKEA carried a large range of products, including home furniture and accessories.

IKEA's success was based on its integrated low costleadershipand differentiation business level strategy: an integrated set of actions designed to produce distinct goods (or perceived to be so) at low cost to narrow market segments. Low prices were one of the cornerstones of the IKEA concept and helped to make customers want to buy from IKEA. This low price strategy was coupled with a wide range of well designed, functional products. IKEA created products that were entry level items for young families and newlyweds.

The success of IKEA also relied on its corporate level strategy, transnational/regionocentric. Through this strategy, IKEA attempted to blend its unique item design with the preferences of each target market they sold goods in.

Company History

IKEA was founded by entrepreneur Ingvar Kamprad in 1943. He began by selling pens, wallets and watches by going door to door to his customers in his home country of Sweden. When he started selling his low priced furniture, his rivals did everything to stop him. Local suppliers were banned from providing raw material and furniture to IKEA, and the company was not allowed to showcase its furniture in industry exhibitions. What did IKEA do? It innovated to stay in business. It learned how to design its own furniture, bought raw material from suppliers in Poland, and created its own exhibitions. In 1949, IKEA published its first catalog and begin taking catalog orders. IKEA opened its first store in Sweden in 1958, but it wasn’t until much later that it began to expand into the United States and China (see Exhibit 1). By 2008, IKEA was the world's largest furniture retail chain and had more than 285 stores in 36 countries.

Objectives

Through this analysis of IKEA we developed a SWOT matrix to identify strategies to help IKEA maintain its competitive advantage. IKEA had an opportunity to broaden its overall market by the process of global expansion. One of IKEA's weaknesses was the lack of research into geographic markets before expansion. This presented IKEA with the addition of a strategy to ensure a proper blend of its differentiated style with the preferences of the proposed geographic market. The third strategy we recommended was the recruitment of a more diverse board of directors. This strategy provided IKEA with an opportunity for diverse views and valuable knowledge.

External Environment

The externalenvironmentof a company was made up of many different characteristics. By examining a company's external environment, and each of its characteristics, managers are able to better determine the threats they may face and the opportunities to take advantage of. This examination also aids managers in determining the strategies they want to employ and be of guidance for what may not be working well.

Remote Environment

The remote environment of an industry consists of five forces: economic, social, technological, demographic and political/legal. These five forces impact the external environment of an organization, and are important for every business to consider. Economic

IKEA had very few economic concerns, and was successfully creating profits in foreign markets. IKEA's success was dependent on the economies of the countries they operated in, and an economic downturn in any of these countries would have impacted IKEA’s sales.

In 2008, the United States and many other western markets were experiencing an economic recession. This downturn had a negative effect on interest rates, employment rates, and GDP growth, however non-western markets were not affected in the same way. Since IKEA is a global organization, it experienced the economic recession in its western market operations, but fared better in its operations in India, Indonesia and China, as these markets were still growing. Social

IKEA’s business model depended on a throw-awayculture. In the past, furniture was an investment, something handed down through the generations that people would keep forever. IKEA tried to change the thinking of its target market to buy new furniture more frequently. They made it lower cost so that anyone can afford to purchase their own furniture.

The different cultures of foreign countries has affected IKEA’s success also. The furniture and housewares industry varies from one country to another. IKEA cannot simply expand to another country and sell its existing product line, but has been forced to customize products by region. The failure to do the appropriate market research before opening up its operations in countries outside of its base in Sweden, lost IKEAmoney.

Technological

IKEA had a technological advantage in the furniture industry. Historically, they have been successful in developing new, better, more efficient ways of doing things, and sharing this knowledge with suppliers. The challenge this poses to IKEA is maintaining their competitive advantage by constantly making research and development into new technologies a priority.

Related article: Challenges Facing By Ikea

Demographic

The demographic of the market can affect IKEA's profitability, as its target market is a narrow one. This target market consists of the young, middle-class who are looking for trendy and low-cost furniture and household items. If the age distribution and social class of the populations in the regions they do business in change, it would affect IKEA's ability to turn a profit, and could possibly affect its strategic planning. Political/Legal

The politics and laws of the countries and regions IKEA did business in, and the countries in which its suppliers were located, had greatly impacted its profitability in the past. The reason IKEA chose to integrate its suppliers and outsourcing efforts the way it did, was because of a problem it faced in the early 1990s. In 1991, IKEA had outsourced about 25% of its production to communist governments in Eastern Europe. IKEA spent a large amount of time and energy developing these relationships, and sharingtechnologyand knowledge with these suppliers, and when communism collapsed and the factories had change in management, they no longer feltloyaltyto IKEA. Contracts were destroyed, prices were raised and they stopped investing in new technology. This forced IKEA to begin building new supplier relationships and diversify its outsourcing efforts. In 2008, 90% of its products were outsourced to many different suppliers. This is just one example of how the laws and politics of another country can impact IKEA.

Industry Environment

The industry environment consists of Porter's five forces: barriers to entry, supplier power, buyer power, substitute availability and competitive rivalry. Porter's five forces has been expanded to include one additional force, complementors. These forces all have a significant impact on the external environment of an organization, and affect the strategic planning it chooses to pursue.

Barriers to Entry

The entry barriers for the low-cost furniture industry were fairly high. The costs involved to get to the size and scale of IKEA were immense. The buildings, inventory, research and development, marketing, and branding involved would be extremely costly and time-intensive to acquire. IKEA had the ability to leverage its size to lower manufacturing costs and provide furniture at low prices. Since IKEA produced such large quantities they could take advantage of economies of scale, therefore decreasing their manufacturing costs and prices charged to the consumer. This decreased cost and allowed savings to be passed on to the customer.

IKEA also had a unique product that served a niche market in the furniture industry. Its scandinavian styling and young target market drove the company. There were few ways to achieve differentiation that had value to buyers because most buyers used the products in similar ways. What differentiated IKEA was their unique styling and marketing campaigns. These two factors aided in creating high barriers to entry.

Supplier Power

IKEA’s suppliers were weak-“ price takers”. IKEA supplied manufacturing knowledge, technology and assistance to these suppliers, but demanded that they provide their products at low-cost. Because of the knowledge they received, combined with the long-term, high-volume relationships IKEA offered, the suppliers accepted the low prices IKEA demanded.

Buyer Power

Buyer power was relatively high, as there were many companies for them to choose from. Customers could shop at KMart, Target, Walmart or Pier 1 Imports instead of IKEA. It was extremely important that IKEA create positive relationships with these buyers, to encourage brand loyalty.

Substitute Availability

The furniture and housewares industry had no substitutes. Everyone needs furniture and housewares, so this was a very positive force in IKEA’s external environment. Competitive Rivalry There was a strong competitive rivalry in the furniture industry, which forced IKEA to stay on its toes to stay ahead of the competition. Complementors IKEA offered its Chinese customers product delivery, which was considered a complementor to its product line. Chinese consumers relied more on public transportation, as not many owned vehicles, which made it necessary for IKEA to offer a solution for its customers in this market.

Operating Environment

The last portion of the external environment to be considered is the operating environment which consists of five important forces: competitors, creditors, customers, labor and suppliers.

Competitors

There was a strong competitive rivalry in the furniture industry, which forced IKEA to stay on its toes to stay ahead of the competition.

Creditors

IKEA was a $29 billion company with a strong history of profitability, and most likely a strong credit history. This would have made financing and an operating line of credit rather easy to obtain, when needed.

Customers

IKEA's success definitely depended on sales to customers, and IKEA had a strong customer relationship. IKEA's strong brand and positive image in the mind of consumers aided toward a profitable customer relationship.

Labor

IKEA's large size allowed it an advantage over its employees also. Although the impact of labor issues would be low, there is still a risk. IKEA's labor force received low pay and very few " extras". This could cause IKEA to experience high turnover rates, as employees move on for better pay elsewhere. Many people are also motivated by the " extras" offered in many organizational structures, such as private offices, titles, privileges, and special perks. This lack ofmotivationcould negatively affect IKEA's profitability.

Suppliers

IKEA had built strong relationships with its suppliers. IKEA supplied manufacturing knowledge, technology and assistance to these suppliers, and in turn demanded that they provide their products at low-cost. Because of the knowledge they received, combined with the long-term, high-volume relationships IKEA offered, the suppliers accepted the low prices IKEA demanded. It was important for IKEA to maintain and continually develop these relationships, as 90% of its products were outsourced.

Threats

Threats were changes in the environment that endangered the integrity and profitability of the company's business. We identified three threats IKEA faced:

1) competition in the industry,

2) changing government regulations and

3) economic and social changes.

Competition

IKEA's external environment was complicated by very high competitive rivalry. IKEA's competitors were certainly widespread and only a few major discount suppliers could match IKEA's output and contemporary design. These competitors included KMart, Target, Walmart and Pier 1 Imports (in the US), Habitat (UK), and many more in other countries, which were also very large companies that could effectively compete against IKEA for market share. Changing Government Laws and Regulations

Expanding to foreign markets forced IKEA to deal with government rules and regulations. This could include anything from sourcing conditions to the type of government entity set in place. For, example, China's lack of protection for intellectual property rights presented a challenge for IKEA's expansion plans for China. IKEA needed to be concerned about China imitating their products and selling them to the Chinese market at lower prices. That would cause IKEA's profits to decrease in the Chinese market. IKEA could attempt to sue the Chinese manufacturing company. However, even though IKEA could afford to go to court they would most likely not win in that country.

Economic and Social Changes

Economic factors like the recession caused customers to save more and spend less. IKEA's profitability depended on its customers' ability to regularly update their furniture and encouraged a throw-away society. As the amount of disposable income decreased, consumers were less likely to purchase new furniture. Their target market of low income individuals and newlyweds had less money to spend and were more likely to get furniture that was passed down from their parents instead of spending the money to buy new furniture. IKEA would also be affected by social changes in the environment, especially with the encouragement, of a throw-away society. If the social norm changed and consumers felt that purchasing low-cost furniture more often was wasteful, IKEA's sales would be impacted. Opportunities

The opportunities of an organization are conditions in the environment that a company can take advantage of to become more profitable.

IKEA's opportunities were:

1) global expansion,

2) product demand,

3) low switching costs,

4) market demographics,

5) external relationships, and

6) a successful global business model.

Global Expansion

With only 285 stores in 35 countries, IKEA had opportunity for expansion into other countries. Although China was IKEA's top supplier, its sales were mostly in western markets such as Germany, the United States, France, the United Kingdom and Sweden (see Exhibits 2 and 3). Exhibit 2 - Top Five Sales Countries, IKEA 2008

Exhibit 3 - Top Five Supplying Countries, IKEA 2008

Product Demand

Global demand for furniture was high because everyone needed furniture and housewares, and there were no substitutes for these items. IKEA had the benefit of a stable market that experienced high demand. Low Switching Costs

IKEA's low-cost strategy presented an opportunity to convince more of its target market to switch to the IKEA brand for all their furniture and houseware needs. Since the price to switch to the IKEA brand was relatively low, it would be easy for consumers to switch from their current brands to IKEA. The increase in customers would help increase IKEA's sales and profitability.

Market Demographics

IKEA had the opportunity to increase its sales by capitalizing on the growing economic market in the Eastern countries of Asia, India and Indonesia. As the economies of these countries grow, the middle class gets larger, which increases IKEA's target market. With the increasing uprise in the middle class in these regions, IKEA had an opportunity to capture these growing markets.

External Relationships

IKEA's control was maintained by the Kampradfamily. Its board of directors was made up of Kamprad, his wife, and his three sons. This should offer the company an opportunity to build relationships with key influential people outside of IKEA, by diversifying its board of directors.

Successful Global Business Model

IKEA's business model was one that could be implemented globally with high success, which aided in its success expanding into more and more countries. This possession of a business model that could provide low-cost and differentiated products, gave IKEA offered an opportunity for further expansion.

Internal Environment

A company must examine its internal environment in order to accurately identify its strengths and weaknesses, and then to form management strategies. The internal environment is comprised of a company's resources, capabilities and core competencies. Resources

Resources are assets of the company. They are valuable when they enable a company to create strong demand and lower their costs. IKEA had many resources, both tangible and intangible. Knowing a company's resources aids its managers in determining its capabilities and core competencies.

Tangible Resources

Tangible resources are the physical assets of the company. The tangible resources of IKEA included its production plants, equipment, skilled labor, stores, the inventory in the warehouse, capital, Swedish headquarters, Swedwood plants and operations, and Habitat stores and inventory in the UK.

Intangible Resources

Intangible Resources are non-physical entities that are created by managers and other employees. The intangible assets of IKEA included the knowledge of its highly-skilled workers; (product development, product strategy counsel, and knowing how to work with suppliers to develop good relationships), research and development, branding, business plan, mission, company culture, trademark, franchises, and processes.

Capabilities

The capabilities of a company refer to its abilities at coordinating its resources and using them efficiently, or the things they do well. It is very important for the managers of a company to identify their capabilities. We identified IKEA's capabilities as branding and marketing, outsourcing and supplier management, mass customization and research and development.

Marketing and Branding

One thing IKEA did well was marketing and branding. Their marketing was extremely successful, and they've managed to create a recognized brand name. This success was a product of advertising, department flow within the stores, store layout, and their Product Strategy Council. IKEA's unique advertising was extremely successful. After expanding into the United States, they were not generating as much sales as they expected, so they started their " Unboring Campaign". The idea of this marketing campaign was to introduce a new way of thinking to the average American consumer. Americans had the mindset that furniture was a long-term investment, and something that was passed down through generations. IKEA's businessphilosophywas that furniture was just furniture, and it was okay to throw away the old and purchase new, and their low prices made this even more possible.

To promote their philosophy, they produced commercials that made fun of Americans' reluctance to part with furniture. This tactic proved to be successful, and in a four-year p, IKEA's revenues more than doubled - from $600 million in 1997 to $1. 27 billion in 2001. Another marketing and branding technique employed by IKEA was the strategic store layout they designed for their storefronts. Every store had the same layout, with some minor differentiations in certain countries when necessary. The stores were laid out like a " maze" of sorts (see Exhibit 4).

Exhibit 4 - Store Layout, IKEA 2008
Source: http://crosscutting. tumblr. com/

The IKEA store comprised of a two story building, with one entrance and one exit, and when customers entered the store they were forced to go through the entire store and every department before reaching the exit. This had proven to be a profitable plan for IKEA, as it increased impulse purchases, which in turn increased IKEA's profits. A customer going into the store to purchase a $40 coffee table could end up spending $500 on various items before leaving. Near the entrance of the store, there was a childcare area, so parents could shop without having to keep an eye on children, which also made it easier for them to shop longer. Every store also had a restaurant in the center, encouraging people to stay longer and spend some time to enjoy a budget-friendly meal.

The checkout counters were located at the exit of the store, and right before the checkout counters was the warehouse where customers could pick up the larger, flat-packed items they would like to purchase. Another marketing strategy that helped increase IKEA's revenues was management's ability to change the department flow within the store. Management of one location added a tool section near the home textile department after noticing that men would get bored and restless while their wives shopped in the home textile department. After implementing this change, tools sales increased.

Another significant technique employed by IKEA was the implementation of its Product Strategy Council. This council was made up of senior managers within the organization who met to decide which products IKEA should produce, and set priorities for these products. Once a product was decided upon, developers would survey the competition for that specific product, and then set its price 30%-50% below these rivals. This process of setting a price before designing and producing the product, set IKEA apart from its competition. After setting the price, IKEA's designers negotiated with suppliers to find the best supplier at the best price. For each product it produced, IKEA spent the time to find the exact right supplier for each one, who would produce it at the lowest cost possible. Although this was a lengthy process (it could take up to three years), it was valuable to IKEA. Outsourcing and Supplier Management

The relationships that IKEA had with its suppliers were extremely successful and beneficial. Although IKEA was demanding and forceful with the production of high quality, low cost products, they were able to form long-term and high-volume business relationships. The supplier management connection between IKEA and its suppliers from other countries was not solely a one-way street, as they provided research and advice to their suppliers on how to expand, purchase materials, and increase overall productivity processes. Mass Customization

IKEA became extremely successful at mass customization. When they first expanded to new countries, they struggled because they began by offering the same products they sold in Sweden. Management was quick to react to prevent failure, and began to design products to fit each market. When they first expanded into the U. S., their beds were measured in centimeters, instead of king, queen twin, as Americans expected. Americans felt their sofas and drinking glasses were too small. IKEA was forced to change its product line to fit the needs and preferences of each of its different markets, creating 36 different product lines, and now uses the same strategy for expanding into other markets around the world. Research and Development

IKEA valued creativity and innovation in its workforce. The company frequently told stories of employees stepping up and introducing new ideas. The stories of Gillis Lundgren's idea to sell furniture that needs assembly and the Stockholm manager who began the concept of customers picking up their own furniture in the warehouse, were kept alive in the company, and helped motivate employees and encourage them to think innovatively.

Core Competencies

To determine which of IKEA's capabilities were core competencies, we " tested" each of them based on whether they were valuable, rare, costly to imitate and substitutable. The capabilities that met all four of these criteria were IKEA's core competencies, or strengths. By doing this, we have identified IKEA's core competencies as branding and marketing, outsourcing and supplier management, research and development and mass customization (see Exhibit 5). Exhibit 5: Core Competency Test, IKEA 2008

Capability:

Valuable?

Rare?

Costly to Imitate?

Non-

substitutable?

Branding ; Marketing

Yes

Yes

Yes

Yes

Outsourcing ; Supplier Management

Yes

Yes

Yes

Yes

Research ; Development

Yes

Yes

Yes

Yes

Mass Customization

Yes

Yes

Yes

Yes

Weaknesses

A company must also identify its weaknesses in order to form an appropriate strategy to defend against these weaknesses. IKEA’s weaknesses included: company organization and failure to research cultural norms in new countries. Company Organization

When Kamprad started to think about ownership as he prepared to leave the company, he struggled with the idea of his sons owning it and arguing over it, but he didn’t want to take the company public either. What he decided to do with the ownership created one of the most unique corporate structures in the world and a confusing ownership status (see Exhibit 6).

As shown in Exhibit 6, Kamprad transferred ownership of the stores and factories to the Stichting Ingka Foundation. Stichting Ingka Foundation owned Ingka Holdings, which was run by a five person committee chaired by Kamprad included his wife. The franchises and trademark ownership were transferred to IKEA Systems, which was owned by Inter-IKEA (Luxembourg).

Inter-IKEA (Luxembourg) received all franchise fees, including fees from the largest franchisee, Ingka Holdings. Inter-IKEA (Luxembourg) was owned by Inter-IKEA (Netherlands). The complex ownership resulted in the franchising of the IKEA concept to IKEA stores and established a way to transfer money to him and his family. Another weakness about the company organization was not having a diverse board of directors.

The board consisted of Kamprad, his wife, and three sons. Kamprad made decisions that benefited his interests, and there was no one on the board of directors to disagree with him or monitor his actions. Without having a diverse board this also resulted in IKEA having a limited access to knowledge because they did not have independent board members. Independent directors would have offered outside knowledge to the company that would have helped them make better decisions. They would have used their knowledge to set objectives and implement strategies for managers to follow also. The final weakness of the company organization is who they hired and top level management compensation. IKEA did have educated employees in subordinate positions such as their website design, accounting, and marketing but they lacked educated employees in their CEO position.

As an example, Kamprad gave the CEO position to a college dropout, who may less have knowledge about how to run IKEA than an educated CEO. Part of IKEA’s problem was that they did not offer special perks to senior managers or pay them enough. IKEA needs to change this so they can hire someone with the knowledge and skills to run a $29 billion company and must be willing to pay a qualified CEO what they are worth. Failure to Research Geographic Markets

As IKEA expanded internationally they failed to adequately research the geographic markets before moving forward with the expansion. In Europe the expansion was so fast that some stores were barely ready for IKEA to enter and setup for business. Part of this was due to the decisions that were made by Jan Aulino who failed to pay attention to details in the rapid expansion. When they tried to enter the U. K. they failed to research their competition and their expansion was slow because the store, Habitat, offered similar furniture at a low price like IKEA.

When they first entered the United States they had many difficulties selling their products to Americans. The beds IKEA sold were measured in centimeters but Americans were used to twin, queen, and king. Sheets also did not fit IKEA beds. Another major issue was glass sizes. IKEA sold glasses that were too small and many customers bought vases to use as drinking glasses. They failed to research that Americans like to add more ice to their drinks than Europeans. Strategies

After preparation of the SWOT Matrix (see Exhibit 7), and a careful analysis of the internal environment and the external environment, we identified IKEA’s current business level strategy and corporate level strategy. Further analysis of these two strategies, combined with an in-depth analysis of the SWOT matrix, helped us determine which strategies they should implement in the future.

Exhibit 7 - SWOT Matrix, IKEA 2008

STRENGTHS - S

1. Marketing ; Branding

2. Outsourcing ; Supplier Management

3. Mass Customization

4. R; D

WEAKNESSES - W

1. Company Organization.

2. Failure to research geographic markets.

OPPORTUNITIES - O

1. Global expansion.

2. Product Demand

3. Low switching costs.

4. Market Demographics

5. External Relationships.

6. Successful global business model.

SO STRATEGIES

1. Expand by opening new stores in Beijing, China; Wuhan, China; New Delhi, India; and Jakarta, Indonesia (O1, O2, O3, O4, O6, S1, S3). WO STRATEGIES

1. Thorough investigation of geographic markets (W2, O1, O4). 2. Recruit a more diverse board of directors(O5, W1).

THREATS - T

1. Competition

2. Changing government laws and regulations.

3. Economic ; Social Changes

Business Level Strategy

The business level strategy that IKEA followed was integrated cost leadership/differentiation. IKEA's focus was on selling its goods at the lowest cost in the industry to narrow market segments. IKEA also had a strong set of actions that were designed to create distinct goods (or perceived to be so) to narrow market segments. IKEA accomplished differentiation by maintaining its Scandinavian product style in every country it entered, while still customizing products to each country. This allowed for Americans, Chinese, and other nationalities to purchase these unique products without having to leave their homeland. International Corporate Level Strategy

The international corporate level strategy that IKEA implemented was transnational / regionocentric. IKEA faced substantial pressure to provide locally customized products at low cost. It was necessary for IKEA to create products specific to each nation and culture, but also provide them at low cost to the consumers. This strategy allowed IKEA to blend their Scandinavian style with the preferences of each country they operated in. Expand by opening new stores in Beijing, China; Wuhan, China; New Delhi, India and Jakarta, Indonesia

IKEA was looking to expand their store locations to the non-western market. By opening stores in Beijing, China; Wuhan, China; New Delhi, India; and Jakarta, Indonesia, IKEA would capitalize its strengths in marketing and branding and in mass customization. This strategy would also take advantage of IKEA’s opportunities for global expansion, product demand, low switching costs, and market demographics. The middle class in many foreign markets, such as China, India, and Indonesia was large and still growing larger, which would mean a significant increase in IKEA’s target market.

The populations of China, India and Indonesia were extremely large, offering a huge market for IKEA to capitalize on. The sheer size of these economies alone offered an opportunity for large profits by expanding into them. As shown in Exhibit 3 on page 15, IKEA had already established a large supply network in China; this close proximity to suppliers would aid in keeping prices low in the new stores. IKEA was also known for compact furniture, which allowed it to blend well into many eastern markets whose consumers had small living spaces, such as China, Indonesia, and India. This strategy would allow IKEA to maintain its competitive advantage around the globe and continue to provide differentiated, low cost products to their narrow market segments. Thorough Investigation of Geographic Markets

While expanding IKEA needed to keep its customers' needs in mind and perform research and development to learn about the design and function of furniture to develop. They did not want to repeat what happened in the United States and offer customers in the new locations products that would not work for them. Once they have identified the products they will produce, IKEA will need to use their marketing skills to gain customers from their competitors in the new locations. IKEA had struggled with the different cultures in the countries it expanded into. Because management had not taken the time for proper research, they spent a lot of money on the marketing and production of products that were all wrong for the country they were in. By not doing the proper research, IKEA's initial business approach in the United States was not successful. After some decisions had been made, IKEA was able to turn the company's approach around.

This research would help IKEA gain and keep competitive advantage. Potential sales in other countries may be lost without the knowledge of the different cultures. If IKEA were to continue without change they would experience failure and not be able to accommodate the customers' needs. It is in IKEA's best interest to do the research, to not only accommodate the customers but to also stay true to the IKEA promise of low priced household goods.

This strategy would allow the opportunity for IKEA to continue its expansion of stores globally, which broadens their entire target market. The global population was diverse and IKEA should move focus to the in-depth research that will help their sales continue to grow. Recruit A More Diverse Board Of Directors

IKEA did not have a diverse board of directors, as it only consisted of Kamprad, his wife, and three sons. This allowed Kamprad to do what he wanted with the company, and his wife and sons went along with what he said, so there was no monitoring or regulating of the actions and decisions that were made. Since Kamprad and his family were the only stockholders there was no agency problem within the company. He did not delegate decision making authority to another party (agent) and made the decisions that maximized his interests. However, this strategy would benefit IKEA because it would allow them to develop external relationships with key educated and influential people, and provide them with a board that could monitor and regulate business decisions.

IKEA needs to recruit professionals that have experience working in a company the size of IKEA. This should include candidates that have access to unique professional networks: an attorney, an accountant or financial advisor, a few women and minorities for diversity, an expert or two in marketing, and someone with knowledge of the furniture industry. Ideally, the majority should come from outside the company and include a few individuals from within the company as well. This mixture of professionals would help provide the company with diverse views and opinions about how to manage the company, would help them gain a competitive advantage. Conclusion

In conclusion, IKEA was a successful and growing furniture retailer with the promise of integrated cost leadership/differentiated goods. IKEA had a number of threats, weaknesses, opportunities, and strengths to consider. The threats included 1) competition, 2) changes in government laws and regulations, and

3) economic and social threats.

The opportunities were

1) global expansion, 2) product demand,

3) low switching costs,

4) market demographics,

5) external relationships, and

6) a successful global business model.

The strengths included:

1) marketing and branding,

2) outsourcing and supplier management,

3) mass customization of products, and

4) research and development.

IKEA’s weaknesses included

1) the company organization and

2) the failure to research geographic markets.

Using the SWOT analysis, we recommended that IKEA should develop strategies for

1) global expansion,

2) thorough research of geographic markets, and

3) recruitment of a more diverse board of directors to take strides at developing a better company organization and future success.

Bibliography

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