

Analysing the strategy of ikea



**ASSIGN
BUSTER**

IKEA, has operations in as many as 41 countries with 29 trading service office in 25 countries along with 27 Distribution Centres plus 11 Customer Distribution Centres in 16 countries Since 1997, Ikea has more than 300 Stores in 35 countries and it has further plans to expand in Russia and China and to Start in India. Inspite of IKEA brand expanding across the world and Sales growth increasing the rise has been moderate considering the economical slum across the world since 2009 and still expected to be around for financial year 2010-2011 Economical uncertainty around people tend to invest less in leisure and comfort and prefer to save for the rainy day , based on this factor , In order to sustain current Sales growth and to improve performance , expanding into new territory and opening new stores won't help the model. Instead, Ikea in order to maintain the Top brand status in it's segment must pursue the model of Cost Effectiveness by assessing the Competitors and External environment, track the key Opportunities and read the Threats which it can affect their Sales growth and business as a whole , study its Strengths and Weaknesses that affects or could affect for current and future financial year to get the best out of the current weak consumer market.

The base of this report is to forcast Strategies for improving the performance of the IKEA in terms of efficiency, effectiveness and returns to investors this we will be doing by assessing IKEA ' s External environment with the help of PESTLE analysis to track the Political, Economical, Social, Technological, legal and Environmental situations along with the Industrial environment using the Portal's five forces model to analyse the core business segment of IKEA. Report will also cover the SWOT analysis to analyse the company's Internal

performance to track the Opportunities and Threats it faces and could be facing in future.

Introduction.

IKEA, the Swedish privately owned chain established in 1943 is a International retailer of home products that ranges from furniture, bathroom and kitchen accessories.

Brand name IKEA is derived from the initials of its founder owner Ingvar Kamprad, the farm ' Elmtaryd' where Ingvar grew up in the village called Agunnaryd. IKEA blue and yellow logo represents the color of the Swedish National Flag,.

IKEA since its inception in 1943, has established its presence and operational base in many countries across continents in Europe, USA, Canada, Asia and Australia. The IKEA group also has expanded the IKEA brand in Russia , China East Europe and Middle East and is looking for a partner to make their presence in India. IKEA started with selling products like picture frames, wallets, table runners before moving to the core main business line Furniture in the year 1948 and year 1955 IKEA started manufacturing its own furniture ranges which were innovative , low cost and yet attractive and that could be self assembled.

IKEA collects Franchise fees in form of 3% sales from each of its stores , In 2004 IKEA group made €631m in franchise fees and after deduction of operational charges made €225m pre tax profits.

IKEA brand is managed and operated by INGKA Holding company which is associated with INGKA Foundation registered as a Charity organisation registered under Dutch law which implies that IKEA's entire asset and earning TAX exempted and with Kampard family controlling the INGKA foundation makes IKEA a tightly controlled family enterprise keeping it safe from hostile takeovers.

IKEA management as part of its Social and Environment committment have taken to Green initiative to reduce Carbon footprint across its worldwide chains of stores have invested into renewable source of power like Wind and Solor based power Utilization for its electricity needs and as part of this IKEA in 2010 brought Six wind farms in Germany with capacity of 45MW generating enough power to run 17 IKEA stores and Four wind farms in France taking the total of wind turbines owned by IKEA to 52 covering 10% of power needs of the IKEA.

IKEA's Charitable initiative includes working in close association with various groups like UNCEF in programs suchs as ' Save the children' to help fight child labour problem in north India, works with American Forest , works with organisation that deals in causes such as violence against Women and children in Uganda and played important role in helping American victims of Hurrican Katrina.

IKEA having establised it's brand name in Western Europe where IKEA is short name for home appliances that comes with latest designs and at a affordable price for the working class, In UK and Ireland IKEA made Sales of £1. 2 bn with 6% market rise. In France which is the third largest market for

IKEA, company has around 28 stores and IKEA had around 17% market share and accounted for 10% of overall IKEA Global growth. Germany has around 45 IKEA stores and it was the biggest market for IKEA in 2009 accounting for 16% of overall Global growth.

IKEA ventured into new horizons particularly in America , Australia , Russia, China and Japan and it's employee base in Year 2010 touched 127, 000, number of IKEA stores grew at rate of 10% annually, IKEA has around 12 Stores in Russia and the sales from Russia was expected to grown in range of around 15. 5 % annually China which has around 8 stores the sales for IKEA in around 2004 to 2006 was around \$120m, Australia has around 5 stores the total sales from Asia and Australia contributed around 6% of global sales and the profits for year 2009-2010 jumped from \$434, 000 to \$4. 9 million. IKEA had in around 2004 set the target for US to have around 50 outlets by 2010 and is second biggest market by sales, IKEA modelled their stores as not just a place strickly for one time shoppers but as a family outing, this model rounds the concept of having wacky promotions and having one Stop Sancture for which their stores have recreational facilities like baby centres and restaurants so that shoppers can take a break , as a breather and fresh mind would always encourage the shoppers to keep going, US and JAPAN venture was a learning curve for IKEA as the sales initially didn't touched the expected level in around the 90's era, inspite of their products being competitive in the price segment IKEA sales were down and hence there was the bottleneck which latter was found out to be matching the phrase ' When in Rome , do what the Romans do", IKEA designers found that in order to increase their sales they had suit to

everyone's need based on the community day to day following in this IKEA's US based designers analysed the home appliance needs of the Hispanic communities which normally have large family hence for example a European styled table for two would have not been a good bargain for the large family, IKEA used this learning curve in US to design their product to match the needs of the local community and used this as a benchmark across the world which helped IKEA brand become a household name outside the Western European zone as well. The European Market accounted for 82% of Sales with revenue reaching \$27 billion by 2007 and in 2008 its websites had touched around 450 million hits.

Current Macro level Study.

PESTEL Analysis

Political Factors: IKEA started with a family business model expanding itself across the world, same way in many countries wood craft business has been main source of Income for many since generations and to protect the locals community and their main source of Income, Local Government takes to Protectionism so that their business can sustain and also help boost local Production and under Protectionists policies local government can put certain restriction like high tariffs on imports and have a fix ceiling price for the products. IKEA main selling concept was that its product were low in comparison however IKEA have always taken note of Local Government policies and worked within the legal framework on all fronts including the pricing.

The recent Economic downturn did help IKEA to sustain without needing to increase the price of its product as many of the local government had

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

reduced the taxes and on provided subsidies to firms on account of the global economic crisis.

Economic Factors: The current economical downturn has had it's affect on the IKEA's over all Profitability with reduced margins as consumers tend to save more and spend less on consumer goods because of the reduced purchasing power for many have been made redundant , working at reduced salary and or freeze on the annual increments and in the environment where you don't know if you will have the job next day.

The constant fluctuation of exchange rates and price of fuels and raw materials that is being used by IKEA have gone up around the world resulting in increased purchasing price and increase in distribution costs which makes it difficult to sell finished products at low price and due to economical crisis many local retailers have reduced their tariffs there by bringing down the profit margin of IKEA. IKEA have to therefore take steps accordingly to adjust to this economical uncertainty to maintain it's brand image and sales.

Social Factors: Social factors plays a very important role in growth of a brand and on Sales that variably decides the profit margins in new territories, for example for the Hispanic community based in USA which normally have large family hence for large family a European styled table for two-four would have not been a good bargain for the large family of say Six, likewise Japanese people who are brand conscious are ready to buy products at high price would think twice to buy IKEA products that are sold as low price products on same line the social following in China and India would differ from the Japanese following as In India and China communities follow the

concept of Saving rather than going by the western lifestyle of living life on Credits so they may prefer IKEA brand which are marketed as best product at low price.

Technological Factors: In order to attract a new customer and please the existing customers, tested product delivered on time and easy to use does the trick and in this mode business to sustain must take to latest technology and systems, IKEA have always taken to modernation model which helped shorter at their walk in stores , on time scheduling and dispatching of goods to trading partners and end online customers using Radio Frequency Identification device(RFID) which have helped the supply chain following of IKEA , proper training to labour force within production line and at stores have also helped IKEA streamline their business model.

Legal Factors: IKEA follows legal parameters down right to the last point as in every country they have their businesses, In some countries logging is illegal and in some countries locals along with international peace organisation protest against wood based Industries , IKEA keeps all these government law, regulations and local concerns in mind and takes to fair business trading,

Environmental Factors: IKEA maintains and sticks to International stated standards across the global when it comes to Environment , IKEA follows that to present a positive corporate Image they have to keep note of local and International concerns on environment, keeping these factors IKEA have taken to sustainable business practices format in relation to air, water and noise pollutions in terms of their finished products.

IKEA forest practise is encompassed within their IWAY which specifies labour , environment and forest management for itself and it's suppliers

Internal Analysis

IKEA since it's inception with it's vast experience in the Furniture segment and Cost management, best business practice and product differentiation have turned the brand into a International name in the Home appliance retail business , IKEA with it's Strengths and different Opportunities have it's own Weaknesses and faces Threats from certain determined and some unforeseen conditions.

SWOT analysis for IKEA:

Strengths: IKEA have over the years able to place themself as a household brand in the Home appliances segment across continents across communities and across the Economical class.

IKEA vast network of stores, malls , partners and supplies along with their Customer and market based pricing model keeps the Sales growth not to fall down below a level even in tough economical crisis.

IKEA with years load of experience in the Home Appliance business have Product specialists who comes handy to design sleek attractive product at affordable prices for the end user.

Weaknesses: IKEA believes in following Strick Labour and Environment policies set by local government , however due to their sheer volume of Global Business it might happen that in some countries local partners may not be following all the policies to the full spirit which might bring down the

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

Image of IKEA in the eyes of the end Consumers who are conscious and concern for these Issues.

IKEA even thou is a Established across continents the bulk of the Revenue comes from european market where 90% of it's Stores are based.

IKEA even thou employes latest technology right from purchasing of raw material to the despatching of the finished product , their Customer service model is still contact based and in this day and night age of having 24*7 voice based customer service some customer may get swayed across by competitors advertising their customer service as being best to current world following.

Opportunity: IKEA pricing model have attracted people from all Income groups in Europe and America and since IKEA is concentrating on Asian market specially India and China with such a large middle class population that are cost conscious , IKEA business model will be best suited for growth in these price conscious based market.

IKEA's vast years of experience in this segment helps them to design products as per local community and changing market needs.

Threats: IKEA since is spread worldwide any Change in Political and economical needs due to religious, cultural and political uprising for example the current situation in the middle east where locals are up against Administration for seeking implementation of democracy could affect the overall business model in short and the long term plans in-terms of Sales growth and revenue generations.

Uprising in terms of political, cultural and religious Issues which could lead to rise in fuel price which in turn could lead to increase in distribution cost affecting the supply chain link and the pricing model of IKEA. IKEA Partners who have been given franchisees rights could suddenly put in new conditions to the central IKEA management. IKEA main suppliers of raw material may run into problem again due to political, Cultural or religious uprising in the local government zone which could affect the overall supply chain link of IKEA.

Porter's five forces model for IKEA

Power of the Buyers: Economical situations do alter the buying pattern across the globe however IKEA has a edge over its competitors as IKEA have always followed the a pricing model that is flexible to change in situation and caters to all class of customers to fit the buyer's need.

Power of Supplier: IKEA Utilizes the service of several third party suppliers for its product line who have to follow strick International standards laid down by IKEA. Normally suppliers try to set in conditions in midst of their business relationship however uptill now IKEA have not faced such situation as IKEA have business relationship with several suppliers who competete with each other.

Rivalry: Furniture brands cater to special styles and functionality for example Cratel & Barrel have their product in a box format and is priced at a high end same goes for brand Wal-mat which again comes in box format even thou prices are at affordable range but they lack the style appeal. IKEA has very strong hold in the home appliance market and has become a house hold

name across the world and their product line come in complete package and at a attractive price which keeps no scope for rival firms to adversely effect the Sales growth of IKEA.

New Entrants: IKEA which is a established brand world wide there is little scope for new entrant to affect IKEA business in cities and towns where IKEA have a hold for their best pricing model , good supply chain link and their advertisement so it is difficult for new entrant to take on such a big brand name to have affect on growth sales of IKEA.

Substitutes: IKEA have vast experience in the home appliance segment and have designers who have expertise in this segment and use latest technology and development in the home appliances segment so even if there is any new trend or development on the product line technology and style IKEA have resources who can come up their own to be in line with the needs of current trends.

FUTURE: Strategic Direction for the future.

All established Business enterprises have suffered on the profit margin charts since 2009 todate due to the economical turmoil that has hit across the world, IKEA in order to sustain the profit margins in future have to plan keeping current market situation in which many numbers have been made redundant, retained by employers at a reduced pay package and or their Increment have been freezed, IKEA have always attracted customers because of their attractive product which are priced at low end and IKEA which have their own research and design team who have years load of experience in this field will have to come out with products that are Multi-

purpose, cost effective , cuts production costs and can appeal to large section of the society in midst of the economical recession.

Some of the IKEA suppliers for example Shaw Wood at their Nova scotia plant took to Lean Management which goes on the concept of Faster, Better, Cheaper which helped Shaw Wood reduce production time, reduced production costs and reduced nonessential activities in the product line as everything happened as planned this helped IKEA directly , IKEA taking lessons from Shaw Wood supplier could seek to implement the same Lean management concept at it's own production plants across the globe and also suggest it's other suppliers to take to this route as production cost saved can partly offset rise in raw materials and fuel prices and this inturn will help IKEA in their low pricing model which can increase the Sales growth .

Most of the business have moved major chunk of their selling directly to the customer via telephone booking and on-line booking , IKEA have always had a sucessful online selling model with nearly 450 million hits for FY 2007, IKEA should carry forward with their good advertisement concepts that capatures the local community and how IKEA product fits into the daily needs of their life plus IKEA could promote online Advertisements on different networking sites like Orkut and facebook as most of the end consumers have moved their shopping needs online and constant promotional based advertisements can tempt the online implusive shopper into going for the deal bargain.

IKEA even thou employes latest technology right from purchasing of raw material to the despatching of the finished product , their Customer service model is still contact based and voice recorded based in this day and night

age of having 24*7 live voice based customer service some customer may get swayed across by competitors advertising their customer service as being best to current world following

IKEA have managed to sustain Sales growth inspite of the recession and their low price model by having good supply chain link, to continue further on this growth path IKEA should associate with local established suppliers on a long term basis and contracts that tides away uncertainties like fluctation of exchange rates , increase in fuel costs or turmoil in the region of distribution by political or social uprising, to have good supply chain link IKEA needs to have a robest logistic system at their distribution centre which cuts costs as for moving the products around IKEA would need the use of trucks and trains, IKEA can go for cost effective by renting trucks instead of owning trucks from local established vehicle rental companies on a long term agreement contract as this would save IKEA distribution centres costs of vehicle Insurance, Vehicle breakdown , on Vehicle services and MOT as most of the vehicle rental companies include these as a package for their exclusive long term big customers.

IKEA has a strong brand presence across the world in order to retain their brand Image specially taking legal, labour and environment concerns as there is large number of customers that are emotional over these Issues and going on wrong side could bring down the Image, IKEA will have to keep going with their ethical and moral following which they have been following and insisting their partners as well as suppliers to follow on the same track that is on complying with legal , labour and environmental standards as laid by the government.

Reference :

Executive Summary

[http://www. ikea.](http://www.ikea.com/ms/en_US/pdf/yearly_summary/Welcome_inside_2010_update.pdf)

[com/ms/en_US/pdf/yearly_summary/Welcome_inside_2010_update. pdf](http://www.ikea.com/ms/en_US/pdf/yearly_summary/Welcome_inside_2010_update.pdf)

[http://franchisor. ikea. com/showContent. asp? swfld= store9](http://franchisor.ikea.com/showContent.asp?swfld=store9)

Recent Past.

[http://www. guardian. co. uk/business/2010/oct/01/ikea-profits-increase](http://www.guardian.co.uk/business/2010/oct/01/ikea-profits-increase)

[http://www. forexyard. com/en/news/IKEA-sets-growth-course-in-France-2010-09-28T093729Z-INTERVIEW-UPDATE-1](http://www.forexyard.com/en/news/IKEA-sets-growth-course-in-France-2010-09-28T093729Z-INTERVIEW-UPDATE-1)

[http://yourbusinessinrussia. blogspot. com/2010/10/ikea-publish-its-financial-reports. html](http://yourbusinessinrussia.blogspot.com/2010/10/ikea-publish-its-financial-reports.html)

[http://www. ft. com/cms/s/0/b5b6ce42-bb68-11df-a136-00144feab49a. html#axzz1GRTmr3OZ](http://www.ft.com/cms/s/0/b5b6ce42-bb68-11df-a136-00144feab49a.html#axzz1GRTmr3OZ)

[http://www. ikea. com/gb/en/store/croydon/environment](http://www.ikea.com/gb/en/store/croydon/environment)

[http://www. economist. com/node/6919139? story_id= 6919139](http://www.economist.com/node/6919139?story_id=6919139)

[http://www. ikea.](http://www.ikea.com/ms/en_US/pdf/yearly_summary/Welcome_inside_2010_update.pdf)

[com/ms/en_US/pdf/yearly_summary/Welcome_inside_2010_update. pdf](http://www.ikea.com/ms/en_US/pdf/yearly_summary/Welcome_inside_2010_update.pdf)

[http://franchisor. ikea. com/showContent. asp? swfld= store9](http://franchisor.ikea.com/showContent.asp?swfld=store9)

[http://www. guardian. co. uk/business/2010/oct/01/ikea-profits-increase](http://www.guardian.co.uk/business/2010/oct/01/ikea-profits-increase)

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

[http://www. forexyard. com/en/news/IKEA-sets-growth-course-in-France-2010-09-28T093729Z-INTERVIEW-UPDATE-1](http://www.forexyard.com/en/news/IKEA-sets-growth-course-in-France-2010-09-28T093729Z-INTERVIEW-UPDATE-1)

[http://yourbusinessinrussia. blogspot. com/2010/10/ikea-publish-its-financial-reports. html](http://yourbusinessinrussia.blogspot.com/2010/10/ikea-publish-its-financial-reports.html)

[http://www. ikea. com/gb/en/store/croydon/environment](http://www.ikea.com/gb/en/store/croydon/environment)

[http://www. economist. com/node/6919139? story_id= 6919139](http://www.economist.com/node/6919139?story_id=6919139)

Future growth

[http://www. ikea. com/ms/en_US/jobs/business_types/distribution_logistics/index. html](http://www.ikea.com/ms/en_US/jobs/business_types/distribution_logistics/index.html)

IKEA Lean Management.

[http://findarticles. com/p/articles/mi_m3156/is_13_106/ai_n25038763/](http://findarticles.com/p/articles/mi_m3156/is_13_106/ai_n25038763/)