Ikea strategies issues solutions

IKEA (Ingvar Kamprad Elmtaryd Agunnaryd) is a privately held, worldwide home products company that offer flat pack furniture, bathroom items, kitchen items, and home accessories in their retail outlets worldwide. The corporation leading flat-pack design furniture at reasonable prices, has make it became global biggest furniture seller.[1]

The corporation which formed in Småland, a Sweden country, distributes its goods in IKEA store. In May 2010, the corporation operating 313 stores over 37 countries, in countries like Asia, North America, Australia and majority in Europe. IKEA owns about 276 stores across 25 countries and this does not include 37 retail outlets that run by franchisees in 16 countries/territories outside the IKEA Group[2]. In year 2006, IKEA open up another 16 new stores. Also, they planned to open or relocations for at least 15 stores in 2010[3].

IKEA's core business strategy is: sustainability and environmental design. IKEA launched a new sustainability plan which consists of social, economic and environmental issue and company believe this plan will make through to 2015.

Sustainability Issue

4IKEA have few of areas of focal point to deal with sustainability issue, which is including of 5 solutions:

Sustainable issue for life at home – IKEA provide ideas in their website and tips online.

Sustainable issue for the use of resources – IKEA objectives is to reduce its usage of water by using wastewater treatment plan and aim to bring down to landfill waste to 0.

Sustainable issue for carbon footprint – IKEA aims to reduce carbon footprint by strategize on using more renewable energy, introducing of flat pack packaging to lower usage of air transport. Company aim to reduce business flight by 60% by year 2015 with the help of green transport initiative.

Building social responsibility – IKEA's is actively involves in charities such as the UNICEF, Save the Children, and World Wildlife Fund.

Being open with all its stakeholders – This can be done by good communication with consumers to build rapport or trust between company staff and media.

Solutions – SWOT Analysis

5IKEA uses SWOT analysis to assist them to overcome many issues and to meet their goals. This consider as IKEA strategic planning instrument. It assists the company to concentrate on main problem. SWOT is the first stage of development and reflects to Opportunities, Strengths, Threats, and Weaknesses that caught up in an assignment or business.

Weaknesses and strengths are inner subject. Meaning to say they are still able to handle by the business itself. Often refer to subject of manufacturing, finance, marketing, and organisation. Opportunities and threats are outer subject. Often refer to economic situation, social changes, and environment or technological advances which usually out of control by businesses.

Nevertheless, IKEA is handling its major weakness with its key opportunity, which is penetration into Asia and Eastern Europe which known as emerging markets. The growth of quality lines, whether it is inside existing retail outlet or in new high street complementing the out-of-town outlet, and raise of sales by the growth of electronic commerce sites in each country, are both enhancing customer service, and bring down the number demand on existing retail outlet. Sadly, these extra developments are bringing the chances of a possible excess saturation of the market; other competitors may copy this idea by selling comparable item ranges at cheap prices. This is compounded by the unenthusiastic effect on marketing of continued stress on economic situation in its major European market and also the adverse impact of further weaken dollar to bring bad effect for sales in the US, and the economic unsteadiness and political of the Russian and Chinese markets, whereby the corporation aims to put in heavily in the shortterm to midterm, also reflect a potential threat. (By Johnson, Whittington and Scholes, 2005)

IKEA Weaknesses and Threats

Weaknesses

IKEA need to admit its weaknesses so that they can control and overcome them. This can play a very important role in assists IKEA to set goals and expand new idea. IKEA’s weaknesses may include:

6The volume and level of its worldwide business. This could make it difficult to manage standards and superiority. A number of countries where IKEA products are made do not apply the legislation to manage operational environment. This could symbolize a fragile connection in IKEA’s supply

chain, upsetting customer view of IKEA's items. For that reason IWAY code is use by inspectors that going to factories to reassure that their suppliers comply to IKEA its standards.

The demand for cheaper cost items. This required an equal between low price and good quality. IKEA need to make an effort to make sure their products standout among competitors. IKEA trust that no compromise between being able to offer superior products and cheaper prices.

Threats

If a corporation is alert of potential outer threats, it can make preparation to work against them. By processing new thoughts, IKEA can use a exacting strength to guard against threats in the market. Threats to IKEA arise from:

Social trends – such as the delay in new buyers in housing market. This main market segment for IKEA.

Market forces – more company is establishing to sell furnishing and household product and this grab away market share. IKEA needs to strengthen its special qualities in order to compete.

Economic factors -the recession often reduce consumer spending behavior and extra income for spending is lower.

IKEA Solutions for Weakness & Threats

IKEA counter these issues in numerous ways. It control threats and weaknesses to produce a optimistic result.

Social trends

IKEA is making available of online assistants to direct customers to better sustainable life. Focus on home development in the stagnant housing market. It provides consumers with guidelines and suggestion on IKEA website to decrease their impact in environment. Employees are taught on sustainability, information like what IKEA is undergoing and how they can also play a part by being responsible in become sustainable for themselves.

Market forces

7IKEA is big and sufficient enough to take advantage of economies of scale. This helps them to reduce costs in the long run, this include technology advancement and by hiring more skillful managers.

Economic factors

IKEA's low prices are able to cater for its customers especially during economy down times. It is important to maintain selling prices as low as possible when they are a recession or when the retail sector is miserable. IKEA's pricing policy not only aiming for customers with lower financial ability, for higher budged consumer can always go for better design and quality item inside IKEA store which cost more. IKEA must make sure that for now and in future it will carry a symbol of having the cheapest prices on the market.

Challenges

8IKEA has been facing less committed employees to the original idea of IKEA, which was to manage with small means and the enthusiasm of the community, mentioned by Kamprad. There also seems to be problems and

divergent ideas: there is a feeling of selling your soul to IKEA: One executive reacts “ negatively to the stingy mentality that sometimes shows trough cost conscientiousness” Some executives believe that Ingvar Kamprad is obsessed with his ideals and believes that self fulfillment is only possible through their jobs. Other challenges that might show up on Ikea’s map is their big differences with the international market where i. e.: Ikea has only 3% of purchasing in north America where as in Europe they have almost 70% of their purchases. Asia has 30%. Ikea tries to make the customer shop in a simple environment where he can get luxurious house goods to a certain extent for a reasonable price. Ikea over the past 12 months have opened 15 new stores and renovated 3. Most of those stores are based in Europe. The challenges that they could face in the future is that if someone else creates a company like Ikea in the near future in Europe, at least they could have some sort of dominance in the North American continent, where today it’s weaker than the Ikea group in Europe.

IKEA has been considered as low cost furniture with young and fresh design. The company may want to focus on specific aspects in certain countries such as the example of the bookshelves in Europe and the higher demand in the USA for shelve space for TV sets. It is important to keep a main focus for IKEA which is low cost and well designed furniture but adapted to the country where the sales is taking place. For example, when continental Europe has specific standard mattress and bed size a different size is not practical for customers who buy some furniture in other places. The potential of having a specific standard on the other hand can make the customers more loyal to

the brand because they stay within IKEA standards. It is also on Ikea's plans to improve on kitchen purchases of a customer.

Kitchen are usually harder to sell than a lamp because they are much more expensive, therefore Ikea is concentrating on their kitchen sets sales by probably decreasing the prices of kitchen sets. This is important because there are several cultural differences regarding kitchens. For example, the American kitchen is completely different than the European one in size and standards. In fact what they could do is due to that there is usually a lot more room in an American kitchen than an European or middle eastern.

Charitable giving

The INGKA Foundation is officially dedicated to promoting " innovations in architecture and interior design."[9]With an estimated net worth of $36 billion, the foundation is unofficially the world's largest charitable organization, beating out the much better known Bill and Melinda Gates Foundation, which has a net worth of approximately $33 billion.[10]

Despite its enormous wealth, the Ingka Foundation does very little charitable giving. Detailed information about its grant making is unavailable, as foundations in the Netherlands are not required to publish their records. But IKEA has reported that in 2004-2005, the Ingka Foundation's donations were concentrated on the Lund Institute of Technology in Sweden, and the Lund Institute reported the receipt of $1. 7 million grants from the foundation during both of those years. By way of comparison, the Gates Foundation made gifts of more than $1. 5 billion in 2005.[11]

Notwithstanding the Ingka Foundation's lack of concerted philanthropic activity, IKEA is involved in several international charitable causes, particularly in partnership with UNICEF. These include:

In the wake of the 2004 Boxing Day Tsunami, IKEA Australia agreed to match dollar for dollar co-workers donations and donated all sales of the IKEA Blue Bag to the cause.

After the Pakistan earthquake of 2006, IKEA gave 500, 000 blankets to the relief effort in the region.[12]

IKEA has provided furniture for over 100 " bridge schools" in Liberia.[13]

In the 2008 Sichuan earthquake in China, IKEA Beijing sold an alligator toy for 40 yuan (US$5. 83, €3. 70) with all income going to the children in the earthquake struck area

IKEA also supports American Forests to restore forests and reduce pollution. [14]

Links with Education In 2008 IKEA was a supporter of the Design Wales Ffres Awards, providing a creative brief for undergraduate design competition.

IKEA Social Initiative

In September 2005 IKEA Social Initiative was formed to manage the company's social involvements on a global level. IKEA Social Initiative is headed by Marianne Barner.

The main partners to IKEA Social Initiative are UNICEF[15]and Save the Children.[16]

On the 23rd of February 2009 at the ECOSOC event in New York, UNICEF announced that IKEA Social Initiative has become the agency's largest corporate partner, with total commitments of more than 180 million USD.[17]

Examples of involvements:

IKEA through IKEA Social Initiative contribute €1 to UNICEF and Save the Children from each soft toy sold during the holiday seasons, raising a total of €16. 7 million so far.[18]

IKEA Social Initiative provided soft toys to children in cyclone affected Myanmar.[19]

Starting in June 2009, for every Sunnan solar-powered lamp sold in IKEA stores worldwide, IKEA Social Initiative will donate one Sunnan with the help of UNICEF.[20]

Environmental performance

After initial environmental issues like the highly publicized formaldehyde scandals in the early 1980s and 1992, IKEA took a proactive stance on environmental issues and tried to prevent future incidents through a variety of measures.[21]In 1990, IKEA invited Karl-Henrik Robèrt, founder of The Natural Step, to address its board of directors. Robert's system conditions for sustainability provided a strategic approach to improving the company's

environmental performance. This led to the development of an Environmental Action Plan, which was adopted in 1992. The plan focused on structural change, allowing IKEA to “ maximize the impact of resources invested and reduce the energy necessary to address isolated issues.”[22]The environmental measures taken include the following:

Replacing polyvinylchloride (PVC) in wallpapers, home textiles, shower curtains, lampshades, and furniture-PVC has been eliminated from packaging and is being phased out in electric cables;

Minimizing the use of formaldehyde in its products, including textiles;

Eliminating acid-curing lacquers;

Producing a model of chair (OGLA) made from 100% post-consumer plastic waste;

Introducing a series of air-inflatable furniture products into the product line. Such products reduce the use of raw materials for framing and stuffing and reduce transportation weight and volume to about 15% of that of conventional furniture;

Reducing the use of chromium for metal surface treatment;

Limiting the use of substances such as cadmium, lead, PCB, PCP, and AZO pigments;

Using wood from responsibly-managed forests that replant and maintain biological diversity;

Using only recyclable materials for flat packaging and “ pure” (non-mixed) materials for packaging to assist in recycling.[23]

Introducing rental bicycles with trailers for customers in Denmark.[24]

More recently, IKEA has stopped providing plastic bags to customers, but offers reusable bags for sale. The IKEA restaurants also only offer reusable plates, knives, forks, spoons, etc. Toilets in some IKEA restrooms have been outfitted with dual-function flushers. IKEA has recycling bins for compact fluorescent lamps (CFLs), energy saving bulbs, and batteries. In 2001 IKEA was one of the first companies to operate its own cross-border freight trains through several countries in Europe.[25]

In August 2008, IKEA also announced that it had created IKEA GreenTech, a €50 million venture capital fund. Located in Lund (a college town in Sweden), it will invest in 8-10 companies in the coming five years with focus on solar panels, alternative light sources, product materials, energy efficiency, and water saving and purification. The aim is to commercialise green technologies for sale in IKEA stores within 3-4 years.[26]

Community impact

IKEA’s goals of sustainability and environmental design in their merchandise have sometimes been at odds with the impact a new IKEA store can have on a community.

In September 2004, when IKEA offered a limited number of free $150 vouchers at the opening of a new store in Jeddah, Saudi Arabia, three people were crushed to death in a stampede that followed the store’s opening.

[27]IKEA has demolished historic buildings[28]in at least one case for a parking area.[29](At the College Park, Maryland, USA, store there is an interactive digital display which tells the history of a tavern which used to exist where the store is currently located.)

IKEA was refused planning permission for a future store in the United Kingdom in 2004 (to be based in Stockport, Greater Manchester) by the Office of the Deputy Prime Minister. It applied for judicial review but lost in 2005.[30]However, they later received permission to build a store within Greater Manchester a few miles from the originally planned site in Ashton-Under-Lyne.[54] An estimated £10, 000 was spent on traffic policing, and even more on rerouting traffic from the M60 motorway around Ashton.

After viewing the 100-foot tall sign of an IKEA under construction near Portland International Airport, Randy Leonard, the city commissioner in charge of sign permits in Portland, Oregon, placed a moratorium on all pending and future sign permits in the area.[31]

Conclusion

IKEA is a well-known global brand with hundreds of stores across the world. In order to improve performance, it must assess its external and competitive environment. This will reveal the key opportunities it can take advantage of and the threats it must deal with. IKEA responds to both internal and external issues in a proactive and dynamic manner by using its strengths and reducing its weaknesses. Through this, IKEA is able to generate the strong growth it needs to retain a strong identity in the market. IKEA’s passion combines design, low prices, economical use of resources, and

responsibility for people and the environment. The company's products, processes and systems all demonstrate its environmental stance. For example, clever use of packaging and design means more items can fit into a crate, which means fewer delivery journeys. This in turn reduces IKEA's carbon footprint.

IKEA believes that there is no compromise between doing good business and being a good business. It aims to go beyond profitability and reputation. IKEA is intent on becoming a leading example in developing a sustainable business. This will create a better everyday life for its customers. IKEA has discovered a business truth – being sustainable and responsible is not just good for customers and the planet, it is also good for business!