

# Market analysis: ikea



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## Market Analysis

Market analysis is consisted by few important sub points which are; market size (current and future), market growth rate, the profitability of a market, industry cost structure, distribution channels, market trends, key success factors. Each one of them has a specific meaning and states specific things which can be used in order to improve or to choose between two different markets. The goal of this market analysis is to determine the attractiveness of a market and to understand or even predict the opportunities and threats which are related to the strengths and weakness of the company.

A short overview will be given about what is important for each point of the market analysis and then will be connected to the subject of this assignment.

For first point is given Market Size. The size of the market can be based on the present sales or on potential ones. The nominal GDP of United Arabic Emirates is estimated on \$228. 578 billion and that shows just high is the life standard in this county. The United Arabic Emirates (UAE) is rapidly, highly developed economy based on different socioeconomic indicators such as GDP per capita, energy consumption. Although the UAE is becoming less dependent on their natural resources as a main revenue source still an important role in this economy is played by the petroleum and natural gas exports. Recently, Dubai's Emirates started to look for another source of revenue and they looked into sectors like tourism. The region is trying to have pulled the eye of the people, especially to the rich ones. The rapidly developing economy of Dubai and UAE is making almost each big brand, firm, company to make offices in Dubai and even headquarters. The Market

Growth rate simply means to extrapolate historical into the future. The GDP per capita in UAE is one of the highest in the world and if you take this into consideration that shows only what enormous buy power this country has. Of course like every other country and economy, the UAE was hit by the economic crisis and in 2009 a decrease of 4.0% in the GDP growth was reported. An important inflection for this point is that sometimes the growth can be predicted by studying and analyzing if in the past were invented similar products like the one that IKEA wants to implement and spread within the country and be as much profitable as possible. Also the life cycle of the product must be taken into, because of this rapidly ever changing world a product could be on the top today, but the day after to be forgotten and new product can arise. The following point of the market analysis is called Market Profitability. And here while different firms can have different levels of profitability, to understand how much money you can make in a certain market the needed thing here is, the average profit potential of a market and that can be used as a guideline to understand the potential of this certain area. To do so here are used the 5 forces that Michael Porter created. Known as the Porter's five forces they identify the influence on the market profitability and they are Buyer and Supplier power, Barriers to entry, Threat of substitute products and Rivalry among firms in the industry. As already mentioned UAE economic, especially Dubai and Abu Dhabi (the capital of UAE) are highly and rapidly growing economy and they are a attractive destination for a lot of different brands and companies to place their offices, franchisees or branches. Another point that shows the opportunities that UAE can give is the growing population of this country. But from another point the gender imbalance males are as twice as the females and that could be taken

as a kind of threat for IKEA and the product they are trying to distribute.

Universally accepted fact all around the world is that a woman must take care of the house and as we are familiar with IKEA policy, they offer flat pack furniture, home accessories and kitchen items in their retail stores all over the world.

This aspect of the Market analysis will be explained more deeply below in a separate form.

IKEA: Journey towards a global cult status

### Introduction & Company Profile

IKEA is a Swedish global home furnishing company founded by Ingvar Kamprad in 1940s (IKEA, 1999) having operations in Europe, US, Asia, Australia and Middle East. Spanning more than six decades, IKEA has spread its wings into other major sectors like food and media. Sales figures for 1998 showed a humble €6.3bn which increased to an impressive €21.2bn in just a decade (IKEA, 2008). During this time, IKEA developed into a global icon through meticulous planning, effective resource utilisation and pricing strategies. In 2005, the company had 226 stores spread over 33 countries; sales being highest in Europe by 81% (BusinessWeek, 2005). In a press report released in November 2009, IKEA has reported growth in UK annual sales to £1.2bn and increase in market share by 0.7%. (IKEA, 2009). Considering the morbid economic climate prevailing in US and European markets, these statistical figures can be considered as a positive sign for continual growth of the company.

## Porter's Five Forces analysis

Porter (1980) has given certain strategies to evaluate the performance of companies in terms of competitive advantage, buyer-supplier control and threats posed by new entrants, defined as Porter's Five Forces.

### *Competition within the industry*

- IKEA has got high competition within the industry from Ashley Furniture, Galiform, Wal-Mart, John Lewis and Homebase. But the global brand name and trust in customers about product quality, cost effectiveness and immensely popular design has given IKEA a competitive edge.
- Growing markets made IKEA diversify its business empire into food and textile industry. UK food industry is already being ruled by supermarket giants Sainsbury's, Tesco and Asda. Gaining a place among these established companies is a big challenge.
- IKEA also forayed into the mobile industry by offering cheap and flexible non-contract mobile services for its customers (Lomas, 2008). Mobile sector is intensely competitive with top players Virgin, Vodafone and O2 offering unlimited free minutes over the contract period. While price slash and flexibility may give viability, it is immensely hard to stay on top as customers will be more inclined towards conservative brands.

### *Bargaining power of suppliers*

- Is low. Suppliers have not got any major bargain power as IKEA is a well established brand in the market. Suppliers tend to gain more by coming into a business relationship with such a high value retailer.

#### *Bargaining power of buyers*

- Buyers have a high power of bargaining. Most often, competition in retail market gives the buyer plenty of options to choose from based on price, services and design.
- Recession has forced retailers to become more competitive in pricing to attract people who are reluctant to spend more for home improvements.

#### *Threat of new entrants*

- The threat of new entrants is low for IKEA as it is well established as a global icon. Customer loyalty has helped in improving this competitive advantage in retail market. Moreover, any new entrant into the home retail business needs considerable time and effort to establish itself in the industry.
- IKEA has a huge market presence over Europe, US, Asia and Australia. It is virtually impossible for any new entrant to pose a threat to an already well connected business empire with geographic and product diversity.

#### *Threat of substitutes*

- Is medium. Though there are a number of substitutes in home furnishing industry, like B&Q, Wickes, John Lewis and Homebase, the

low-to-medium income customers tend to stick with IKEA due to the cost effectiveness.

- IKEA has been criticised for poor customer service, stock availability, product guarantee and lesser variety. John Lewis outperforms IKEA in all these areas and prompted many UK customers for a switch over.
- The all-in-one-shop concept in IKEA is not available in substitutes like B&Q, DFS and Wickes. Customers just have to go to the store, order the stock and get a completely innovative and state-of-the-art home.