

Will we still love ikea marketing essay



**ASSIGN
BUSTER**

The case study discusses about IKEA, being a retail industry established in different countries and how do they compete in terms of its competitive advantages, as well to sustain through a global recession. Therefore, IKEA's movement can be analysed or determined through the use of Michael Porter's PESTEL analysis, its Five Forces, SWOT analysis, and Michael Porter's Generic Strategies.

In relations to the above, Michael Porter's PESTEL analysis has made effort to acknowledge analytically its political, economic, social, technological, environment, and legal factor in the retailing industry. In political factor, there are different tax regulations and rates for different countries which were imposed to employees into income tax, and so on. This is because employees in IKEA will have to adhere with the tax rate regulated by the government and they would prefer to work in places with lower tax rates.

2. 2 Economic Factor

Next in economic factor, IKEA also faces global recession which was dragged on till today. Therefore, this resulted in a higher unemployment rate whereby IKEA also slashed about 5, 000 jobs in order to save costs.

2. 3 Social Factor

In relations to social factor, the people have become the main consideration whereby IKEA has produced catalogues into 27 different languages whereby people from different backgrounds or ethnicity were able to read and understand. Thus, IKEA is able to capture a larger market through globalisation whereby the needs of the people are met when they have references or catalogues. Besides that, IKEA also expects customers to have

an ownership of motor vehicles, such as cars. This is because IKEA were strategically located at certain geographical location where there is no accessible public transport and are expecting people to drive instead due to the fact that customers are to bring back their own flat-pack furniture.

2. 4 Technological Factor

In technological factor, one of most widely approach used to improve sales by technological means are e-commerce and online sales. Thereby, customers are able to place orders online and some retailers were able to provide delivering service to their door step. Thus, through the use of e-commerce, they are able to do businesses online where it able to save costs as well.

2. 5 Environmental Factor

Next in environment factor, corporate social responsibility has played a major role to take cognizance of the people as well of the environment. However based on the case, nature concern has raised due to the fact that the increasing number of catalogues produced was implicating that it deteriorate the nature or trees. This could further explained whereby the furniture is also an implication to the use of natural resources whereby people or the society has concerns over trees.

2. 6 Legal Factor

Lastly in legal factor, there are Acts which were taken into consideration such as the Employment Act and the Environment Act. In different countries, these Acts may be enforced differently but however, Employment Act is important to protect the rights of the employees whereby IKEA have slashed

about 5, 000 jobs. Thereby, employees may face an unfair dismissal and looking for remedy. In the other hand, the Environment Act is to protect the nature from being misused whereby IKEA may be the main reasons for affecting the nature or environment.

3. 0 Michael Porter's Five Forces

3. 1 Buyers

Moving on to Michael Porter's Five Forces, it comprises of its buyer, suppliers, intensity of rivalry, threats of substitutes as well as new entrants in the retailing industry. In buyer, they may have a high bargaining power whereby buyers have different alternatives to switch to the competitor's products whereby IKEA has many competitors in the industry. However, the bargaining power of the buyers may be low as well because not all competitors has the flat-pack design where IKEA has and this design is unique and able to save space at home. On top of that, the low-price products of IKEA also made buyers' bargaining power low when customers are able to save costs as well.

3. 2 Suppliers

Next in suppliers, they have a low bargaining power due to the fact that IKEA has a strong brand name in the retail industry. These suppliers comprised of small and big ones when IKEA also took on the established cartels by buying direct from small producers in which also discovered its flat-pack designs, whilst Poland and China has become the biggest suppliers. The reason for having these small suppliers is because IKEA may have different alternatives in terms of its operations when a particular supplier closes down. Thereby,

these suppliers have a low bargaining power also due to the huge number of suppliers available particularly in China and some other countries.

3.3 Intensity of Rivalry

On the intensity of rivalry, there is a high intensity in relations to the U. S. companies such as Bed, Bath & Beyond Inc. that has accounted high revenue in competition with IKEA. On top of that, there are also multinational furniture retailers as well as companies who are specialised in this industry.

3.4 Threats of Substitutes

Next on the threats of substitutes, the threat is high due to the fact that customers have many different alternatives for furniture such as tables and chairs. However, IKEA may use its competitive advantage to reduce the threat of substitute through differentiation and its unique compared to other substitutes available in the market. Furthermore, the threat of substitute may differ in different countries as well as the quality and materials to produce them.

3.5 Threats of New Entrants

Lastly on the threats of new entrants, the barriers of entry is high due to the fact that big firms have higher competitive advantage in terms of its size, cash flow, the variety available throughout the stores, as well able to achieve economies of scale. On top of that, the market structure of IKEA is being a monopolistic competition whereby they do not compete in price, but compete in terms of quality, branding, and able to produce a larger quantity at a lower price. Therefore, this would impose a problem for new entrants to compete with bigger firms.

4. 0 SWOT analysis

4. 1 Strengths

Moving on to SWOT analysis, it comprises of its strengths, weaknesses, opportunities, and threats of IKEA in the retailing industry. In strengths, IKEA has a strong brand image whereby it's known worldwide for its furniture in the retailing industry whereby it has a wide range of product and styles available. On top of that, these products are affordable due to the low-cost or cost saving strategy as mentioned to align to the needs of the customers and have a strong global sourcing capability in the market. Furthermore, IKEA also has an informal structure whereby they are able to empower its employees to guide and navigate customers throughout the stores for instance. Thus, this non-hierarchical structure would lead to wide range of decision-making amongst the lower levels.

4. 2 Weaknesses

Next in weaknesses, the store layout of IKEA may be a hassle for customers who are looking for a particular product only and they may have to go through high and lows in IKEA. However, this could be an advantage for IKEA's viewpoint whereby customers are more likely to buy something if they were to go through IKEA's store and may referred to as a ' trap'. On top of that, IKEAs are based on relatively few locations and other states in Malaysia for instance, may have trouble travelling all the way to IKEA. Also, the Swedish design may not appeal to all market as well due to the fact that different cultures on different customers may have different preferences based on their household needs, such as in Japan.

4.3 Opportunities

In opportunities, IKEA may be able to expand globally into different markets rather than remaining in the existing markets. This is because some countries may have adapted with the western cultures or modern lifestyle and this may be an opportunity for IKEA to expand into these countries. On top of that, IKEA has brought in various designers to design its products and furniture, and may be used to design specifically based on customers' special needs which may result in higher market sales. Also, the online design and home delivery would create convenience for customers to reduce the hassle travelling all the way to IKEA especially for the ones who reside in another state.

4.4 Threats

Next in threats, the global recession also affects IKEA in the retailing industry which also resulted in IKEA to slash about 5,000 jobs and this would definitely affect its operational matters and the production line as well. On top of that, the intensity amongst the competitors in terms of its competition also would be a threat because buyers would have a higher bargaining power and easily switch to other competitors. The reasons for switching may comprise into various aspects and marketing mix such as price, its products, promotions, and place.

5.0 Michael Porter's Generic Strategies

5.1 Cost Leadership Strategy

Moving on to Michael Porter's Generic Strategies, it comprises of its cost leadership, differentiation, as well as the focus strategy. These strategies here have two different scopes as in broad or narrow and it relates to its <https://assignbuster.com/will-we-still-love-ikea-marketing-essay/>

competitive advantages that refer to a lower or higher costs. Thus, IKEA can be a hybrid between cost leadership and differentiation and not on its mere focus strategy with focuses extensively on just cost leadership and differentiation. In cost leadership strategy, it means it has an advantage over the cost and by technological means. Thereby, IKEA has a low cost of supply through a big volume of sales which driven the costs and prices down. On top of that, IKEA also slashed away 5, 000 jobs during global recessions in order to save costs. Furthermore, the flat-pack furniture designs were produced in IKEA and they are able to have an efficient logistic movement that would reduce storage capacity, and able to deliver more than usual as in one-size-fits-all. The flat-pack design also forms a part of innovation, for instance customers are able to have a larger space at home whereby IKEA is also able to achieve economies of scale by producing a larger quantity with a lower cost.

5. 2 Differentiation Strategy

Next in the differentiation strategy, IKEA comes out with a flat-pack design as mentioned and it may be different than any other furniture retailers in the industry. On top of that, IKEA also brought in a Danish designer to design furniture to differentiate itself from other competitors whereby its catalogue comes with 27 different languages to match the needs of different market segmentations. However, IKEA may be enhanced more through cost leadership strategy rather than being a hybrid with differentiation, because the flat-pack furniture designs may not match and fit with the various cultures in different countries. For instance, these designs might not match with the Japanese in Japan due to the fact that their household furniture such

as table is used to be much smaller in size than usual. Furthermore, if IKEA were to design the flat-pack furniture specifically for the Japanese, it would be costly and it affects its operations whereby IKEA also would not have enough stores as well to capture the market in Japan. This matter would differ if IKEA were to design the flat-pack furniture specifically for the Americans in America whereby IKEA is able to capture a larger market by establishing more stores through America. Thus, it can be seen that the differentiation strategy may not be appropriate for all countries especially in the Japan, and some others.

5. 3 Focus Strategy

In the focus strategy, IKEA were not merely focusing on both cost leadership and differentiation strategy because IKEA has its market niches against customers which are widely ranged from 20-50 years of age. Therefore, IKEA has a broader scope in achieving competitive advantage in the retail industry against its competitors.

6. 0 Conclusion

In conclusion, it can be seen that IKEA has focused into low-cost strategy to capture a larger market in different countries by also providing customers with unique designs through the use of modern technology. Thereby, this concept is to meet the needs of customers when IKEA knows that many of our customers have less money to spend due to global recession and by other means. Lastly, IKEA also benefited by matching these products with national characteristics and cultures, which is what people love and to retain sustainability in the retailing industry.