

Company analysis of ikea



“ The IKEA vision is to create a better everyday life for the many people. We make this possible by offering a wide range of well-designed, functional home furnishing products at prices so low that as many people as possible will be able to afford them.”

IKEA is an international private chain retailer, best known for its home products like plane collection of furniture, lavatory and kitchen accessories throughout the world. IKEAS started its business in 1943 in short form. The name of the company is derived from the initials of its initiator Ingvar Kamprad, the farm where Owner grew up (Elmtaryd) and the home country of Ingvar (Agunnaryd, in Småland, South Sweden). However, IKEA is possessed by an organization that is registered in Dutch and possessed by the Kamprad family.

The parent company of the group companies is INGKA Holding B. V. It is fully possessed by Stitching INGKA Foundation. This foundation is registered in Leiden, Netherlands and it is a non-profit company. Brand name for all the IKEA stores throughout the world and IKEA concept belongs to the inter IKEA Systems B. V. in Delft, Netherlands. Majority of the IKEA stores are in Asia, Australia, Canada, Europe and USA. The group does have the existence in Middle East and Israel. Initially IKEA started its business with jewelry, nylon stocking, picture frames, pens, table runners, wallets and watches as its main products. In 1948 furniture was added as an IKEA product for the first time and then later in 1955 manufacturing of the IKEA furniture was started.

The all IKEA stores are based inside a large blue building and all of them have a specific format, they have lesser windows and they are share the

similar layout so that the customers can have a absolute look of the IKEA store. Few of the stores also got restaurants in them and they offer the Swedish food at low prices. Few stores got the play area as well for the children ageing between the 4-7 years. Småland is the name given to these free of charge play areas by IKEA.

SWOT Analysis

IKEA has got a business strategy that very much related to its goals of upholding and ecological design. IKEA has brought up its new upholding plan to take the organization up to 2015. This is a combination of the economic, environmental and social concerns.

The approach used by IKEA to achieve its objectives is the SWOT Analysis. This tool is used for the strategic planning by the companies. This tool let the organization keep their focus on the main issues. This is the very initial phase of planning for an organization in which the organization tries to find it Strengths and Weaknesses (from the internal environment) and Opportunities and Threats (from the external environment) which can play significant role in the success of a Project or the business.

Factors from the internal environment are Strengths and weaknesses. And organization can control them by themselves. Internal factors are mostly related to the finance, organization, marketing or manufacturing. Factors from the external environment are Opportunities and threats. And organization cannot control them by themselves. External factors are mostly related to the social changes, the economic situation, technological advances (for example internet) or environment.

If an organization can use its strengths in the effective way and handle its weaknesses, it can successfully create the new opportunities for itself and can counter threats as well. e. g. one of IKEA's strong points is its tactical plan to use no more material than essential for the production of every article. Furthermore, IKEA makes its plan in such a way so that use of squander or recycled materials can be increased to the maximum.

1. Strengths

An organization's marketing expertise and its location can be the main strengths. Strengths are the key qualities or main features of the organization's business that can add some more values to the organization's artifact/services. IKEA has the following strengths:

IKEA is delivering the same quality of the products throughout the world.

IKEA has the good brand name throughout the world and it draws the major end user groups.

IKEA's vision of making daily life better for various people.

IKEA's perception of offering a broad collection of well designed, efficient products at low prices is very strong.

IKEA has spotted the best equilibrium between the design, functionality, price and quality of its products for its customers and this known as IKEA's 'democratic design'. Where on the other side when they say 'Cost Consciousness', they are trying to make prices very low right from the planning phase of the products.

The strengths of the IKEA is the main force for retaining and attracting new customers of IKEA. The process IKEA is using to measure its strengths is known as Key Performance Indicators (KPI). IKEA can easily review the development of its vision and long-standing objectives by locating aims and checking development towards them with help of these KPIs. The example of KPIs used by IKEA is the proportion of contractors that are presently IWAY permitted. IKEA uses the IWAY to purchase the Home Furnishing Products. IKEA anticipates the following social and environmental requirements from its contractor. IKEA's manufacturing procedure has the following strengths right through it:

IKEA has improved the use of recycled stuff from 71% in 2007 to 75% in 2009.

IKEA has improved the 'Smarter' use of the used or cultivated squander products in energy creation in all stores from 84% in 2007 to 90% in 2009.

Volume commitments – To achieve volume commitments IKEA considers to create lasting affiliation with its contractors. The approach is simple when you are buying the larger volume of supplies for longer time span the price will be going down. In this way the contractors also feels more secured as they have the large orders for a longer span of time.

Economies of scale – For example this means you can buy your supplies in bulk for lesser cost per unit.

The other good thing is that IKEA has contracts with suppliers close to its supply chain so that the transport charges are kept to minimum.

The next considerable thing is that the products are directly carried to IKEA stores by providers; this has lessened the managing costs, decreased road miles and lesser the carbon marks.

2. Opportunities

A successful business always utilizes its strengths to make use of the opportunities that occur. IKEA considers that their environmentally focused business behaviors will consequence in superior profits even in a cost receptive market. As the business affirms:

‘ There is a factual business prospective for IKEA in providing resolutions that facilitate clients to live a more sustainable life at home. IKEA is mounting efficient resolutions for clients in order to bear them reprocessing or use again second-hand products, planning about no products finishing up at landfill and the second hand resources used in manufacturing new IKEA products.’

IKEA’s sustainability program gives it the benefit of using the following few key opportunities:

An increasing requirement of the greener products.

An increasing requirement of the economical products.

An increasing requirement of the lesser water consumption and lesser carbon footprints.

IKEA has a number of high attention areas which chains its work in different ways towards its sustainability model:

IKEA is now providing the online guidelines and thoughts for the appropriate life at home.

IKEA is trying to minimize the use of water and to keep the other waste near to zero.

Reduction in the carbon footprint is another major point. IKEA plans to decrease energy use, to increase the use of more renewable energy, reduction in the air transport and packaging. IKEA has taken the greener transport plan that also comprises the plan to lessen business flights by 20% in 2010 and 60% by 2015.

IKEA is also supporting the different aid organizations as its social duty to help save the children, the World Wildlife Fund and UNICEF.

IKEA always tries to stay in good communication with all its stakeholders.

IKEA is improving its image by staying in good communication with co-workers, customers, key opinion formers and the press.

3. Weaknesses

IKEA has to recognize its weaknesses in order to get better and handle them.

Y doing so they can set their objectives and they can develop new plans to advance in the market. Following are key weak points of IKEA:

The big scale and great geographical size of business can causes some concerns about the quality of the IKEA products and the standards being used during the development process of these products. Different countries have different roles and some of the countries they do not control the working conditions. This can caused the clients some concerns about the

IKEA's products and supply chain. So in these countries IWAY code is backed up with the help of training and supervisors visiting plants to make sure that contractors fulfill IKEA's requirements.

IKEA believes that there can be no compromise between quality products and their low prices. So, it believes that the balance between the low prices and good quality must be maintained properly. Keeping these two things together still IKEA is able to produce the products that are different from its main competitors.

IKEA has to say in fine communication with its customers and other stakeholders about its ecological actions. IKEA is a large scale of the business and it becomes really difficult for it to maintain all this. To handle this issue IKEA is using print media and electronic media in the form of internet (for example 'People and the Environment') and utilizing the major TV and radio campaigns to help spread its business message to the different type of the target audiences.

4. Threats

A company can only deal with its external threats if they have the in depth details of them. IKEA can handle these threats by using the different strengths to generate new ideas to deal these threats. IKEA can have the following threats:

Social inclination – such as the hold ups in first time purchasers entering the housing market. IKEA has made it as a core marketing section for its products.

Market forces – Household and Furnishing market is becoming a challenging place as new competitors are entering with the low prices products. If IKEA want to compete with them then it has to use its unique qualities to get into the competition and retain the major shares of the market.

Economic factors – Economic factors are also playing good role these days. Because of the recession spending power of the customer is badly affected. Customer has slowed down expenses and disposable income has reduced.

IKEA has tried to manage these issues in different ways. IKEA has managed the weaknesses and threats to produce an optimistic result.

Social trends: IKEA is now providing the online guidelines and thoughts for the appropriate life at home. IKEA can keep its focus on the home development in the measuring housing market. IKEA is focusing on the customers to make them think how they can reduce their impact on the environment by using the IKEA products. This approach is very effective in terms of saving money. IKEA has trained its staff on two sides; what IKEA is doing and how they can become sustainable.

Market forces: IKEA is a huge company and it can benefit from the economies of scale. This is helpful to reduce costs in the longer run, for instance, IKEA can use the technology in the better way and it can hire more specialized manager for different departments. The other big advantage that Economies of scale provides is the competitive edge over your competitors, if you can pass your saved cost to your customers in the form of lower prices. This will going to make really hard for the smaller companies to get into the market.

Economic factors: IKEA has created its product demands amongst its clients in the recession period as well by reducing the prices. As the retail section has been depressed by the recession throughout the world, it is important to keep the product prices as low as much possible. As a part of its policy, IKEA is targeting the clients with inadequate financial income. On the other hand IKEA's products are also attracting the higher budget customers because of the quality and design of the products. The organization has to make sure that it is always known for its lowest prices on the market in the future, and for this the communication with the clients plays the key role.

PESTLE Analysis

When we talk about the analysis of the macro-environment, it is important to identify the factors that might in turn affect a number of vital variables that are likely to influence the organization's supply and demand levels and its costs (Kotter and Schlesinger, 1991; Johnson and Scholes, 1993). The “radical and ongoing changes occurring in society create an uncertain environment and have an impact on the function of the whole organization” (Tsiakkios, 2002).

Political

If we consider the national and global development of the industry, IKEA is a really good example of the organizations those are flourishing in both local and international business. A furniture retailer from the Sweden has combined both the furniture of Scandinavian style with the furniture of “do-it-yourself” style (flat packaging style) to get the popularity throughout the world and to set a worldwide trendy brand.

Economic

Keeping in view the need of the customer's demands and brand loyalty, IKEA has been adopting special kind of plans, due to the cost-effective changes and developments. IKEA has transferred its ownership to the Stichting Ingka, and this has given it more strength in financial terms. This switch has forced the IKEA to take up other style of furniture as well, such as lightings, dinnerware and even rugs. Although, IKEA has taken all these steps but the recession has affected the IKEA badly and its progress has been slowed down due to the lacking in planning. If IKEA wants to make its performance high, it has to re think and re consider its business strategy accordingly.

Social

IKEA's contribution towards charity is worth noting and they are also contributing a lot about the environment friendly products. It has also been providing a lot of opportunities to the people and its employees are also entitled for various benefits such as cover and retirement funds.

Furthermore, IKEA is trying to produce the furniture that is a mixture of their typical style and new trends at a very low price.

Technological

The IKEA has been using their technology and other quality systems to encourage the shorter wait in line, appropriate arrangement, tracking and deal models and recruitment. IKEA's objective is to give preference to its employees and to become more productive. This system has enabled IKEA to manage the right number of staff in a proper place at the right time and to fulfill its unique trading models at each stores of IKEA. IKEA is trying to optimize the supply chain process and also to supervise the personnel in

order to generate an efficient and successful store atmosphere to keep customers pleased.

Legal

The legal conformity of IKEA is firmly applied with the appropriate and pertinent rules and regulations that relate to the atmosphere, community and working circumstances. The organization also planned the most challenging necessities to be precise in preserving the list of rules and regulations and according to the proper procedures.

Environmental

As far as the environmental factors (such as the air, noise, and water) are considered, assessments are put into operation to ensure the organization offers counteractive measures within the specific time frame. The environmental assessment is the part of the legal documents and ecological establishments as the industry functions are on-goings and preserves the competence.

Porter's Five Forces Analysis

Michael E. Porter has given the idea of the five forces that may be able to affect the decision making process of an organization strategically. This model has two levels vertical and horizontal. Suppliers and Customers are consider along the vertical model, and Competitors, new entrants (can also be vertical), and rivals are consider along the horizontal level.

IKEA initiated as a distributor, way back when a store-front was a newspaper-advert and phone-line. For saving money IKEA was working really closely together with the makers in Poland, even structuring and purchasing

machinery for them. At the end of the day they were able to achieve a standardized model that costs them very less and they can produce the products at a massive scale. It closes the gap between the store and the customer by using the fronts of the warehouses as store and it enabled customer to choose from a catalogue and then later on with the technology improvements customer can purchase through the website as well. The main competitors of IKEA were the local furniture stores, but these stores are keen to produce the furniture that is more expensive and focused on exceptionality (which points to small-scale manufacturing). They consider this as their strength and they were not much worried about the prices for their clients and the contractors. All of this can be easily demoralized with the economical factor and out of the box thinking (a combo which fits surprisingly well together).

Porter's Five Model

Power of the Buyers

This is categorized as a little power, since the open low-price choices. The alternatives for the furniture and other small items are available and customers have inadequate alternative options that give the individuality to the IKEA as compared its competitors. Besides this, the organization is responding to the buyer's need by keeping the product prices low.

Power of Supplier

IKEA has its thousands of contractors that set values in distributing the materials. Sometimes IKEA used to bid with different contractors for the same product to get the best possible product. Majority of the suppliers is

working with IKEA and their competitors have very little bargaining power. As IKEA is operating on the low pricing strategy, IKEA's profit margin is affecting the cost of raw material, but not the labor.

Rivalry

The competitors of the IKEA's furniture are offering diverse fashions and functionality. Cronin aims for the new lower cost in furniture line; Cartel & Barrel offering the furniture boxes in the higher price range; Ethan Allen targeting the extra expensive market; Wal-Mart is dealing with the general items mainly and don't have the style. IKEA has been proved as the most successful organization to deliver the full package of furniture as compared to its rivals.

Substitutes

To keep them in style, IKEA is keeping its pace higher to adjust with the latest. The other key advantage for IKEA is that they have got the leading technology and by using their best cutting, it has become relatively easy for IKEA to copy anything new from the market. And by using the one of the best transporting infra structure they can supply the product very quickly into their stores.

New Entrants

IKEA is covering the major cities; it is not covering the small towns and midsize cities properly. So if new entrants want to get into the business they need to focus on the small town and midsize cities with small store and having the lesser selection of the products. It is really difficult for them to

compete with IKEA in the big cities on the basis of the price, the methodology mostly used by the new entrants.

Conclusion

The IKEA group is one of the world's largest home furnishings companies. The company measured different standards in the amalgamation of their supply chain as part of their procedure in learning. IKEA has been working very closely with the contractors to make sure that they must supply the quality product in and to do this they also follow the strong environmental and social standards of products. The group also wants to create a strategic and systematic approach to responsible supply and resource management by developing internationally recognized working conditions. Still, the company is pushing to raise the profit margin, but IKEA maintains that it is better to make money on low prices and high volumes.

IKEA has a great passion to mix design, inexpensive resource usage, less prices, and accountability for citizens and the atmosphere. The products of the IKEA, development and systems all exhibit its ecological stance. For instance, smart use of packaging and design results in getting more objects can be put into a crate that will reduce the no of delivery journeys. This on the other hand reduces carbon footprint for IKEA.

IKEA has an objective of going ahead of the productivity and status. It has discovered that the doing good business and being a good business are two different things. IKEA is very much keen on flattering an important example in mounting a sustainable trade. This will going to make its clients everyday life a lot better. 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!