

Ikea swot, porter's 5 and pestel analysis



**ASSIGN
BUSTER**

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INTRODUCTION

IKEA has created its own brand name in the world of furnishing at an affordable price. IKEA strives to make a better life for many by offering wide variety of well-designed, practical home furnishing items at affordable prices.

History

IKEA was found in 1943 by Ingvar Kamprad in small village Agunnaryd , Sweden. Originally company sold the basic household goods at discount prices later kamprad start to sell the home furnishing and 10 year later IKEA opened its first showroom, clearly demonstrates the function and quality of its low-price products. In 1955 IKEA introduce its own Designing furniture and in 1956 flat packs and self-assembly were launch (which reduced production and transport costs) and in later year IKEA has opened 301 stores all over Europe and Asia which shows the success of company.

Present

In 2002, IKEA Group was world's top furniture retailers. The total number of stores 301 operated by IKEA in 37 countries/territories. The IKEA Group itself owns 267 stores in 25 countries with 123, 000 co-workers and generating annual sales of more than 21. 5 billion euro (these facts are taken from IKEA website). There are wide range of products in IKEA stores from plants and living room furnishings to toys and whole kitchens. At IKEA their vision is to create a better everyday life for the many people what make IKEA as world's top furniture retailers, matchless approaches of IKEA attract the customer

whether it's affordable price, portable furniture or the unique design in store, Swedish café in the stores, child care facility in the stores

SWOT Analysis of IKEA

Strengths

One of the strongest strengths of IKEA is their strong brand name:

- IKEA is widely known brand in Europe and some Asian countries.
- In 2002 IKEA was the world's most famous furniture retailer. [[1]]
- Unique selling point of IKEA is low prices and flat pack furniture which is economical for customer and easy to transport
- Exclusive furniture design catch the attention of the customer
- Cheap Prices of IKEA furniture offers value to Customer
- Exclusive furniture design catch the attention of the customer
- As published in Business Times "Ikea catalogue is the third most printed book in the world after Bible and Harry Potter" [2]
- Furniture are easy to assemble and easy to ship
- IKEA has Strong potential of Global sourcing

Powerful advertising campaign

- IKEA has built its own brand name and consistently strives to maintain it
- In mid- 1990's IKEA had launched a high profile advertising campaign in USA intending to raise awareness of the IKEA brand
- UK wide advertising campaign in September 2007 titled ' Home is the Most Important Place in the World' using estate agent signs with the term ' Not for Sale' written on them as part of the wider campaign

- Wallets for Oyster cards and tube map are sponsored by IKEA

IKEA consciously runs advertising campaign to create brand awareness.

IKEA maintain Long-term Relationship with suppliers

- IKEA has preserved long-term relationship with its suppliers.
- IKEA purchases products in high volume from suppliers which allows IKEA to keep their product prices low
- It has about 45 trading service offices in 31 countries. This enables them to develop close relationships with more than 1, 350 suppliers in 50 countries

Product improvement

- IKEA is actively taking initiatives in environment changes, they strongly cares about forest and support the suppliers to minimize the total impact on the climates by contributing in forest projects.

Weakness

Supplier dependencies

- One of the main weakness of the IKEA is that it is dependent on the supplier for its manufacturing their products
- By totally dependencies on suppliers IKEA convert its strength to
- IKEA does not manufacture anything itself and is heavily dependent on the supplier.
- By limiting the manufacturing facilities means more dependencies on the suppliers.

- Ikea furniture's need to assemble yourself may be its is unattractive to certain groups of consumers
- Store design can be confusing for those customer who need particular item
- Swedish design may not so appealing to other regions of world

Major Reliability on European Markets

- 90% of IKEA stores are based in European regions and rest in America, Middle East and Asia , Ikea is limiting themselves to enter into the
- Competition can take benefit of IKEA's non existences in the other fast growing retails markets like America, Middle East and Asia by expanding their businesses.

Quality and standard's

- It's difficult to maintain high Quality and standard's globally due to the size and scale of products
- People generally associate the low prices with bad quality of products and non durability
- Ikea furniture's not manufacture for lifetime

Opportunities

Expansion in untouched retails market

- IKEA should extent their business or stores from international to global market , by developing in other regions like Asia and Eastern Europe
- By expanding in fast growing retails markets IKEA can capture additional share in Asia and Eastern Europe

- Only 10% percentages of stores were in underdeveloped markets. Its an excellent opportunity for IKEA to expand and grow their businesses in the untouched markets

Development in Ecommerce

- IKEA should enlarge their internet present in markets
- Fast growing virtual markets in the Internet revolution era gives an excellent opportunity to IKEA to enlarge their place in the online business all over the world like ebay , Amazon. com, Inc
- IKEA can expand their business by collaboration of local companies and suppliers.
- By developing E-commerce site and local company alliances gives an opportunity to achieve growth in existing business and can gain new acquisition
- In additional it will help to increase customer service satisfaction and customer feedback
- Also it can reduce the work pressure from store to certain level

Design various type of Store

- It will be good opportunities for IKEA to try new outlay of store to easily find the particular products which will increase the growth sales and customer satisfaction

Minimizing waste (IKEA and the new EU legislation on chemicals)

- IKEA avoids use of chemicals and materials that can be of any harm to people and the environment. All IKEA products for all markets,

everywhere in the world will adhere to the chemical restrictions in the REACH legislation.

Efficient use of materials

- IKEA strives to use fewest resources to make the best possible products, without having any negative effect on the functionality or the design or the look of the products. The main material used in the manufacturing of the products is wood, cotton, metal, plastic, glass and rattan and we work towards using as many renewable and recyclable materials as possible.

Threats

Impact of European economy

- As IKEA is predominantly present in European region, any adverse effects in this region will impact the business of IKEA.
- Major sale's and purchasing are done in European markets.
- In order to avoid such situation, it needs to secure place in other retail market and increase awareness of the IKEA brand and products worldwide

Competition

- Indirect threat of competition
- One of the fastest growing competitive retail market in Europe and other businesses regions of IKEA
- Difficult to preserve good quality and design at cheap prices when competition is increasing rapidly growing e. g. In USA Wal-Mart , room to go , kmart , In Japan Nitori Co and MUJI

- Even average retailers are producing low cost values flat packed furniture, which can put tremendous impact on the IKEA.

Advantages of competition

- Competition is aggressively offer similar product
- Most of retailers promising to serve on high quality of and service
- Educating customer on quality of woods, construction techniques and so on
- Competition's are offering free delivery of assembled furniture whereas IKEA is not giving any options to customer on the transportation

Summary of IKEA – SWOT ANALYSIS

SWOT analysis describes IKEA's strengths and weakness, as well as encountering the threats with opportunities which will secure IKEA's place in the retail market

Strength of IKEA group in the world of retail markets is their Vision IKEA strives to make a better life for many by offering wide variety of well-designed, practical home furnishing items at affordable prices which display their clear business idea.[3]

IKEA buy massive from the suppliers and gain advantage of low cost product which is one of strongest strength of IKEA , as they can sale the finished goods in cheaper than competitors

IKEA is good long term business relationship with the suppliers and weakness is the total dependencies on the supplier which can be the threat in their future business.

Business Strategy of IKEA gives the Excellent opportunities to expand their services to the world widely and but by limiting their expansion only to the European and selected Asian countries can be biggest threats and can be advantage to the competitors due to the non-existences of IKEA

Porter's 5 forces analysis of IKEA

Competition from Substitutes: HIGH

The furniture retails market is on developing stage. Competition from Substitute it is high in the modern time people consider better products if it is costly. The switching costs are high and Substitute will be other brands supplier at high prices. Other options might be cheap furniture from local supplier. But IKEA can competitive advantage from low prices, unique design and flat pack furniture

Bargaining power of buyers: LOW

IKEA focuses on large segments and target individual customer's young people aged around 20 to 40 years as in the modern world people prefers compact and foldable furniture so it is easy use and transport.

IKEA products are affordable for everyone because of the low prices. There is high customer loyalty therefore low bargaining power of customers. One more reason of low bargaining power can the brand name of IKEA, consumer can buy the same furniture's from capitation but because of the IKEA trademark they prefer to buy.

Furniture's Industry is growing tremendously, there is very high switching cost for the buyers and with the product differentiation is prime factors.

Therefore Because of the brand and large collection of product the customer loyal and preference is IKEA

Threat of New Entrants : LOW

The Home Furnishings & House wares Retail industry is developed markets and IKEA has its own reputation and experiences players in retail markets. It is very difficult to compete against with big players in the industry as to build to own status brand lots of resources such as unique design, technology, low cost products, infrastructure and human resources. IKEA having a very long experience in its field and it has established itself differently from competitors. IKEA stores and distinguished itself as a functional home products . In Retail industry, low cost and use new technology is very essential and IKEA spent years to establish this reputation . However for a new entrant it is difficult to get.

Bargaining power of supplier: LOW

IKEA deals with suppliers for Wood cotton, metal, plastic, glass and rattan.

IKEA have more 1, 300 direct suppliers and about 10, 000 sub-suppliers in 60 countries and 28 distribution centres and 11 customer distribution centres in 16 countries.

IKEA had set up its own code and conducts for the suppliers. Being a Multinational brand there is a competition among supplier for selling to IKEA. They purchase in huge volume of material from the suppliers at low cost

IKEA buy massively from these suppliers to deliver in the European market

The Bargaining power of suppliers is low as they can lose their one of biggest clients

Rivalry among existing firms: HIGH

IKEA competitors are mainly in the Home Furnishings & House wares Retail industry and competition from Substitutes too high in the industry. Some competitors for IKEA such as Wal-Mart's, TGT, kmart in Japan Nitori Co. Many manufacturers provide furniture with same functions and design. As published in Business Times we can take " Example of TGT has recruited top designer Thomas O'Brien to develop a range of low-priced furnishings and In Japan Nitori Co. has a lock on low-cost furniture." [4] Competition is putting a lot of resources to manufacture the same type of products

Strategic Position of IKEA

IKEA PESTLE analysis

Political Factors

- Governments have put various taxes, duties and vat on IKEA products their constitutions in different countries.
- Changes in the government and trading policies can threat to IKEA
- For example Russian government has kept on hold all new investment and delaying unpredictability of the administrative processes for Mega-Samara mall sports in Russia because of the delay IKEA have to postponed the 30 new stores in the country [5]
- Awareness of political situation of every country where company is operating Important

- Many countries offer's incentive to attract the foreign investment like Malaysia , china and Thailand

IKEA has grown from a small company to largest home furniture retailer in the world, Political factors has direct impact and is interrelated on other aspect. Political factors can control the process of business and greatly impact on the operating industry. As IKEA's major business is on the European regions, it has to adopt the guidelines and policy formed by the EU.

Economical Factors

- Interest rates and exchange rates have a direct impact on company. Some time foreign currency exchange fluctuation may be beneficial or un beneficial for IKEA
- Due to recession demand for home furniture declined as people don't have money to buy expensive products and customers go for cheap alternatives.
- Fluctuation in cost of raw material can be threat for the IKEA , as they don't produce on its own , but buy from whole seller
- Recession has impacted on all kind of industry more or less it has effected on IKEA
- In today's time global warming is important concern to every business should consider to reducing elements effect the environment

Social Factors

- IKEA takes initiatives and founded a committed to invest in the social programmes on a global level which can give IKEA a recognized globally
- IKEA is proactively trying to fight against Child labour and give better life to children
- Everyone is trying to save and reduce the causes of global warming does IKEA is The IKEA contributed much in the society as they provide recyclable products and try to minimize the waste

Technological Factors

- IKEA products are eco-friendly
- IKEA should consider natural resources like using solar power renewal energy usage and energy efficiencies
- One of Important aspect which should be take into account as a need of new trends in changing business styles and enhance the competitive advantage which development of E-commerce and entre the world of Online business (virtual markets)

Legal Factors

- Governments may put a negative as well as positive impact on IKEA as it is operating all over the globe hence it may vary according to different countries.
- In 2004 Irish Government had implement law of restricting the maximum size of a retail outlet to 6, 000 (units?) to save the small

business but retails giant of home furnishing wants IKEA's plan to build stores in Dublin and usual size of IKEA stores is four time bigger caused the law be put up for debate. In Jan 2005 The Government has agreed to change the planning laws clearing the way for furniture stores such as Ikea to open in Ireland

- IKEA and the new EU legislation on chemicals
- IKEA avoids use of chemicals and materials that can be of any harm to people and the environment. All IKEA products for all markets, everywhere in the world will adhere to the chemical restrictions in the REACH legislation.

Environmental Factors

- **Product Development**

IKEA is proactively taking initiatives in climate change projects. As 50% of the raw material is from the forest, it strongly cares about forest. The effort is to leave minimum impact on environment. It contributes to many forestry projects and honour certification by the Forest Stewardship Council

- **Erase the Waste**

IKEA believes in using Waste by-products generated due to manufacturing where possible. In 2006, IKEA implemented the EU directive on Waste Electrical and Electronic Equipment (WEEE) and IKEA stores now accept and recycle IKEA electrical produce and electronic devices. Customers can also return certain types of waste such as discarded packaging, spent batteries and low-energy bulbs for proper recycling and disposal. In 2006, IKEA stores and distribution centres handled 281, 734 tons of waste, of which 81% was sorted for recycling reuse or energy recover. In the pursuit of recycling, as of

October 1, 2008, IKEA USA no longer sells 'throwaway' bags. IKEA products are recyclable and make minimum usage of polythene.

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- **Climate changing**

IKEA ensures that the products and resources are customized to reduce any negative impact on the environment.

IKEA Group and WWF co-operate in projects at intended to reducing carbon dioxide emissions generated by IKEA operations.[6]

Conclusion

IKEA is well recognized brand for flat pack furniture and Swedish design in the world of furnishings, also they are leading retailers in globally. IKEA should explore their new opportunities into asian market as there is no major competition in flat pack furnishing and also due to over population in some asian countries flat pack can be eye catching for new customer as IKEA captured 90% of European . IKEA should seek to introduce new technologies to reduce use of wood.