The business strategy of the swedish retailer ikea

Ingkar Kamprad, owner and founder of the world most successful Swedish furniture retailer, started his business in late 1943. IKEA was an innovative name taken from this initial (I and K) and his farm where he grew (E and A), Elmtaryd. IKEA grew and expended from selling garden seed and fish to stationeries which include later to watch and wallet. To match with his competitors, furniture was added in his line of product. His distribution cycles were by ordering from mail order and local van and train to deliver the product to his customer. In 1953, Kamprad opened his first showroom to enable customers to have visual impact on furniture. (Figure 1. 1, Background of IKEA)

At present, IKEA Group is under INGKA Foundation which based in Netherlands. INGKA Holding B. V is the parent company of INGKA Group and its operation has divided into 2 segments – operation and franchising. INGKA holding are responsible for operation, including management of store, design and manufacturing of product, distribution and other functional activities. IKEA owns 380 stores which 247 store belong to IKEA and the remaining are under franchise. IKEA trademark is under operation of Inter IKEA System. IKEA store has to contribute 3% of annual revenue to inter IKEA system. All franchise agreement is under Inter IKEA Systems. (Figure 1. 2, corporate structure)

IKEA grew and expended successfully with their simple and clear mission from the founder “ a wide range of home furnishing items of good design and function, at price so low that the majority of people can afford to buy them”. The mission statement follows by IKEA vision statement “ Our company vision is to create a better everyday life for many people”.

2. 2 Product and services

IKEA provide the whole range of home furnishing solution to customer from kitchen cabinets to utensil and toys. Also include restaurant, children's playroom, large parking area and Swedish food market.

2. 3. Corporate Level and Business Strategy

IKEA has a very clear direction on what business they are – furniture retailer that offer Scandinavian design product at low price. According to Wesesaputri, to success in product quality, combination of innovative operational strategy (self service delivery and assemble) and tight control on operation and product design. Also a well planned and control distribution process and long term relationship with supplier, to ensure on efficient and geographically spread products.

IKEA expansion to international market was well planned, slow and gradually. They built competencies and brand well in local market before expending internationally. The recent expansion of IKEA is to China and Asia. (Figure 1. 3, store and location)

IKEA business model are based on focused cost leadership. Hill and Jones(2008 pg 158) explains on Porter business model that " focused cost leadership concentrate on a narrow market segment, which defined geographically, by type of customer or by segment of product line". Ireland, Haskisson and Hitts (2007) also concurred that IKEA is using focus cost leadership model and quote that IKEA focus on " young buyer who, according to IKEA's research aren't wealthy, work for a living and want to shop beyond those typically furniture market".

According to Pride, Hughes and Kapoor(2010 pg 361), to be success in cost leadership, IKEA has always driven cost down in manufacturing, marketing, warehouse and material and saving of cost will be pass to stakeholders. Every year average 2 to 3 percent is save on buying in bulk, efficiently in manufacturing and simplified in production and contemporary style. IKEA strategy to low cost concept is outsourcing at develop countries which material are cheaper, well managed distribution concept, customer are prosumers (customer select and pick up the products themselves, transport them home and then assemble).

2. 4 Financial Performance

According to Bloomberg, news (2010) IKEA Group, net income for fiscal year 2010 increase by 6. 1 percent to 2. 69 billion Euros ($3. 6 billion) compare to year 2009. Also the sales including rental income for the year 2010 rose to 23. 5 billion Euros from 21. 8 billion Euros in fiscal year 2009, as the company opened 12 stores.

Further, Bloomberg news (2010) state that “ The growth came both from existing stores, which grew by 2. 4 percent, and new stores,” Also statement from IKEA Group Chief Financial Officer Soren Hansen reported in Bloomberg news that “ Sales grew in almost all countries, with China, Russia and Portugal showing the strongest increase.” (Figure 1. 5, key financial Figure)

2. 5 Current Strengths and Advantage

1. Significant Market Presence

According to Datamonitor(2010 pg5) IKEA sells more that 9, 500 furnishing product and has 301 store in more than 36 countries. As IKEA grew strong, it gives the group more bargaining power and an advantage on supplier.

IKEA low cost concept gives strength in market. Products are design and manufacture with efficiently using raw material, waste management, production equipment and applying technical innovations.

2. Strong in customer satisfaction

Further data from Datamonitor(2010, pg6), IKEA ranked 9th in Consumer Satisfaction Index (CSI). The index is derived from 6, 000 consumer surveys and based on retail position on range, convenience, price, service, facilities, ambience, quality and layout. IKEA has defeated all his other competitors such as Debenhams and Next and this indicate customer has strong satisfaction in IKEA.

3. Focus on sustainability

IKEA focus on sustainability to global manufacturing standards by creating goodwill and strengthen its brand value. Not complete yet

3. 0 Current Strategy

3. 1 Distinctive Competency

Outsourcing

IKEA had more than 1, 380 suppliers in 54 countries and among the countries are China, Poland, Italy, Sweden and Germany. According to

Ungson and Wong (2008 pg 227) recent largest supplier is Vietnam with total purchase value close to $110 Million. Suppliers are evaluated from their retail experience, knowledge on local market, corporate culture and value, financial stability and ability to produce large scale production. About 90 percent of IKEA products are being outsource since it can bring down the cost production. Bensoussan and Fleisher (2008) explain that, IKEA design team will study and analysed two to three years ahead on product life to determine the supplier. Once identified, IKEA will provide supplier with technical assistance, leased equipment and other support. Suppliers are offer with stable and long term contract with high volume of production. As return, the supplier has to provide product or material at low cost.

Low cost

IKEA has a well managed distribution value chain (figure 1. 4, IKEA value chain model). Bensoussan and Fleisher (2008) further explain that IKEA operate 31 distribution centres in 16 countries. These centre supply goods to IKEA store and ensure that the route from supplier to customer is as direct, cost effective and environment friendly as possible.

Store Lay-out

Gawor, halasova and Polzin (2009 pg 8) state that “ IKEA stores are designed as very large blue building with yellow accents and innovative layout inside”. The design is like a showroom setting. It give idea to it is customer which are young buyer who not well verse in design concept. Stores are located outside city centre with large parking space. It also offer customer play area for children free of charge, and restaurant are located in the middle of store with free flow of coffee or soft drinks. Also food market selling Swedish-made groceries.

Competitor analysis

P-

E- Iway std

S- CSR

T-innovative

D-

3. 2 Current Organisation Gap

3. 3 Current Strategies in USA

3. 4 Current Strategies in China

3. 5 Current Strategies in Japan

4. 0 Recommendation on current strategy in Diversification

3. 3

In 1980s, IKEA made a decision on expending to North America. In contract to its experience in Europe, the expansion did not turn to be profitable. IKEA learn that there is no single formula that would sell universal product and there is no universal solution in retail market.

IKEA was expecting the same trend that they have learn in Europe to bring to North America. IKEA did not take in consideration that America is naturally bigger in physically and varied in culture from Europe. Furniture are designed in Scandinavian style which is relatively small and do not cater American taste. For example, chest drawer is small and not deeper to fit American cloth, beds are mention in centimetre rather than inches. Kitchen cupboard were too narrow for big plate, glasses in IKEA were too small for American taste as they like to fill the drink with lots of ice.

Also, Ikea export all the furniture from Europe, this has increase the cost of the price on the shipping cost and storage cost. Apart of the cost increase is also on the adverse on exchange rate. In 1985, the exchange rate was $1 per 8. 6 Swedish kroner. Duplis (1999 pg42) mention that " American hate queing, IKEA has to install new cash register that speed throughout 20% and has altered store layout.

Purchasing culture in America are more in using credit card rather than in Europe to be cash. To adopt this adverse culture in America, CIO (1992) mention that IKEA has to adapt the culture and modified the store to cater more payment on credit card.

Location

Services

APPENDIX