

THE STRATEGY OF IKEA

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Executive summary

This report mainly talks about the strategy of IKEA. The writer analyzes external environment and internal environment. Under the guidance of Delta Models, some recommendations are put forward.

Introduction of IKEA

IKEA is a multinational group of Swedish companies headquartered in Delft, Netherlands, that designs and sells ready-to-assemble furniture, kitchen appliances and home accessories, among other useful goods and occasionally home services. According to IKEA's corporate website, the mission of IKEA is to create a better life for people. It is possible because IKEA offers a wide range of well-designed household supplies at low price.

Nowadays, IKEA has enjoyed a long period of profit growth. It connects with the success of vertically integrated business model. The structure can be divided into several parts. INGKA Foundation is the most important financial center. Stichting IKEA Foundation is an independent and charitable foundation. It focus on improving the standard of living of children in extreme poverty around the world. INGKA Holding B.V. is the parent company of IKEA Group of Companies. It is responsible for supporting the operational side of the business. In addition, The IKEA Group of Companies is operational centre. So it focus on managing retail, supply chain, and innovating products. As for industry, it involves products from raw material to furniture selling.

Main findings of strategic analysis

External environment

It is necessary for a company to connect with external environment. Traditionally, corporate social responsibility (CSR) is adopted to handle with problem in external environment. But, sometimes CSR teams hold narrow views of the relevant external stakeholders. As a result, they may lose touch with reality. What is more, CSR strategy tends to be short-lived. Because they pay more attention to senior executives rather than business activities. Michael Porter and Mark Kramer believe that a hodgepodge of uncoordinated CSR and philanthropic activities disconnected from the company's strategy that neither make any meaningful social impact nor strengthen the firm's long-term competitiveness."

A success of corporate is related to relationships with the external world, External engagement must be close with everyday business, including customers and staff, activists, and legislators.

Customers and staffs

It is known that PESTEL analysis emphasis on six environmental factors: political, economic, social, technological, ecological and legal. Under the guidance of PESTEL analysis, an organization should take market and non-market into consideration. The market environment can be described firstly. Effective marketing relies on the resources of consumers. It means that an organization should get to know what customers want, when customers want it, how much they are received. Taking IKEA in China for example, China embraces huge population. So the omission of IKEA is different from other countries. The main target group is female due to the fact that woman are always considered to take decisions at home. IKEA provides customers with more beautiful decoration, which meets the demand of Chinese customers. Schutte and Ciarlante hold the view that Many from IKEA's target group, are what in China are known as "the little emperors" and in literature they are also labelled "the me-generation" or "the lifestyle generation". In addition, IKEA customers in China are well-educated and live in the big cities in China. But they usually buys less when they visit the store. Under the guidance of ecological framework, IKEA's stores are often reset, which can meet the demand of customers and create a tidy environment. Taking Shanghai for example, IKEA's store in Shanghai rearranges room settings at least seven times a year.

As for staffs, IKEA should provide training for their employees. Companies can develop their external-engagement skills through formal training for employees. Training helps every employee to understand the importance of relationships with the external world and to know the company's policy on social issues.

Activists

Then talking for non-market environment. As for advertising, in China, the catalogue is only distributed in the store. Staffs at the entrance of the stores hand them out. The brochure is more smaller than other countries. In China, The message of the advertisement is "Small changes, a refreshing new life" suggests that life can be made better, easier and nicer with small improvements and at little cost.

Small changes are the key words in IKEA's in-store marketing. Another advertisement, which IKEA ran, had the theme of "do not be like your parents", a theme that seems to speak directly to IKEA's target group of young women 25-35 years old (Lewis, 2005). It can be argued that the websites of the different stores in China are important: the Internet is a common source of information for the target group, the younger middle-class. Also, this source is used as a way to educate customers about the IKEA concept and to prepare them for the shopping experience before coming to the IKEA stores. A good relationship with NGOs, citizens, and governments is not some vague objective that's nice to achieve if possible. It is a key determinant of competitiveness, and companies need to start treating it as one. That does not mean they have to initiate philosophical inquiries into social responsibility and business ethics.

Legislators

The risk in practice is common. When they meet the fierce competition in external environment, leaders are likely to care more about results. In China, the overall shopping experience is different. Chinese consumers not only use a shop to purchase needed products, but also they use it as a cozy place. For instance, Chinese people did not go to IKEA to shop but instead they went to socialize in a pleasant environment. People in the Shanghai store can be seen apparently sleeping in the beds and on the sofas and reading a book with their feet on the tables. To be honest, there is no forbidding sign on the wall for IKEA. It just hopes that products can be unbroken. So IKEA can enact some policies to forbid it.

Internal environment

The resource-based view (RBV) aspires to explain the internal sources of a firm's sustained competitive advantage (SCA). RBV focuses on the organization's key resources. It is known that the advantages of IKEA is low price, which can be seen their key resources. In addition, IKEA spares no effort to diversifying its product and service offerings. For example, wireless technologies have the potential to become significant revenue streams. The company has showed that it is prepared to make bold decisions in pursuit of growth and expand more markets.

According to Porter's Five Forces, new entrants to an industry bring new capacity and a desire to gain market share that puts pressure on prices, costs, and the rate of investment necessary to compete. The threat of entry in an industry depends on the height of entry barriers. If entry barriers are low and newcomers expect little retaliation from the entrenched competitors, the threat of entry is high and industry profitability is moderated. If IKEA wishes to diversify further in terms of geographic markets, South America provides strong growth prospects, most notably Brazil. Powerful suppliers capture more of the value for themselves by charging higher prices, limiting quality or services, or shifting costs to industry participants. If a company want to have a powerful suppliers, some actions should be taken. Firstly, it should be more concentrated. Secondly, the supplier group does not depend heavily on the industry for its revenues. Suppliers offer products that are differentiated. Pharmaceutical companies that offer patented drugs with distinctive medical benefits have more power over hospitals, health maintenance organizations, and other drug buyers, for example, than drug companies offering me-too or generic products. There is no substitute for what the supplier group provides. Pilots' unions, for example, exercise considerable supplier power over airlines partly because there is no good alternative to a well-trained pilot in the cockpit.

Under the guidance of five forces, a substitute performs the same function as an industry's product by a different means. For example, plastic is a substitute for aluminum. E-mail is a substitute for express mail. Sometimes, the threat of substitution is downstream or indirect. IKEA should aware that with more and more furniture companies, IKEA should keep its advantages.

In practice, industries strategies should be analyzed. For most industries, a three to-five-year horizon is appropriate. As much as possible, analysts should look at industry structure quantitatively, rather than be satisfied with lists of qualitative

factors. Industry structure defines the gap between revenues and costs. Good industry analysis is a systemic terms.

Future prospects

The delta model extends to the labeling of the business model. Best Product, Total Customer Solutions and System Lock-in can be analyzed.

In terms of Best Product is a classical form of competition. On the one hand, the customer usually is attracted by the low price. On the other hand, customers are likely to buy something unique. These are the two strategies proposed by Michael Porter many years ago. He claims that you have to select one or the other or you face the trap of being stuck in the middle. In fact, it is an inward-looking approach. Companies should improve the value chain to sell the best product. In fact, a customer in China needs to work more time to buy the same sets of goods. It is related to personal disposable income. For example, a Swiss consumer only has to work for 2 months to purchase the basket, whereas a Chinese consumer would have to work for 18 months. So in China, IKEA should reduce price and improve the ability of innovation.

As for Total Customer Solution, the company's attention switches from the product to the customer. Companies often create more value chain so that they want to improve their performance. Traditionally, companies sell goods and customers give money. It can be a not unique relationship. So companies should change this way and create now connection between them, which is hard to break. Total Customer Solution is not only a relevant measure of performance for the firm, but a most telling indication of customer's satisfaction, whose needs we are attempting to satisfy in as comprehensive a way as possible.

Talking for System Lock-in, outsourcing is a common ways. It refers to cooperate other companies to product goods so that it can reduce cost. Companies should aware that they can help customers in many different ways, because they are practised. An opportunity arises when the customer is unable to satisfy its requirements with its internal capabilities, and we have the qualifications to do so. The many channels of integration with our customers are a source of opportunities to respond effectively to the knowledge transfer challenge and to enhance our standing with them.

By considering all five forces, a strategist keeps overall structure in mind. In addition, the strategist's attention remains focused on structural conditions. The competitive forces reveal the drivers of industry competition. It is necessary for IKEA to think comprehensively about an industry's structure can uncover opportunities: differences in customers, suppliers, substitutes, potential entrants, and rivals. And understanding the forces that shape industry competition is the starting point for developing strategy. IKEA company should know what the average profitability of its industry is and how that has been changing over.

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