

- Signalling – Repetition makes signals important. For example, any initial intrusion into an important geographical market should be countered very firmly at once as a warning against further incursions, there or elsewhere.
- Deterrence – As well as active responses, the passive possession of a capability can act as deterrent. For example, it might be worth holding a minor position in a competitor's home market in order to have a credible capacity to retaliate against any aggressive move by counter-attacking in the competitor's own heartland.
- Commitment – Another form of signalling is to emphasise commitment. For example, should an international competitor attack in a particular geographical market, it might be worth increasing financial or psychological investment in that area in order to signal determination, perhaps by sending over senior managers, building new local capacity or expanding the local headquarters.

## Case Example

### *The IKEA approach*

Everyone has heard of IKEA – whether you love or hate their products. It remains one of the best modern examples of what the hybrid strategy actually means and why it is difficult to imitate. But it requires considerable management effort to sustain without which there is a constant danger of drifting into a 'stuck-in-the-middle' position – being 'out-flanked' by both low priced and differentiating competitors at the same time. This may particularly be the case in China.

The case study is concerned with specifically the issue of generic competitive strategies as discussed in Section 7.2. It is particularly useful in exploring what cost leadership requires (Section 7.2.1) and also the difference between a hybrid strategy and being 'stuck-in-the-middle' (Section 7.2.4).

#### **1. Identify where (in its value system) and how IKEA have achieved cost leadership.**

IKEA's low prices are under-pinned by cost management which is better than competitors:

- Extensive control of the value system and process orientation
  - Choice of materials and designs that are cheap to manufacture
  - Selection of manufacturers – and progressively extending backward integration into IKEA-owned manufacture
  - Global sourcing
  - Flat pack and self-assembly reduces transport costs and assembly costs.
- Scale of operation (many more stores)
  - An inherited culture of frugal behaviour (driven by the personal values of the founder Ingvar Kamprad).

## 2. Identify how IKEA have achieved differentiation from their competitors.

There is a combination of factors that helped IKEA differentiate itself from its competitors:

- Selling a lifestyle, not just products off a shelf. This is sustained consistently through many aspects of the customer experience:
  - Contemporary designed products with a connecting 'theme'
  - Corporate branding in store colours, etc.
  - Consistent store layout
- Range of products is extensive – unusual in low price stores
- Use of the catalogue
- Committed staff with better knowledge, providing better service
- Move towards process orientation ensuring delivery of promises.

## 3. Explain how IKEA tries to ensure that their 'hybrid' strategy remains sustainable and does not become 'stuck-in-the-middle'.

With both low costs and differentiation, IKEA effectively operates a hybrid strategy (Sections 7.2.4 and 7.2.5). Of course, Michael Porter doubts whether such strategies are sustainable, warning of the danger of being 'stuck-in-the-middle'. The keys to success with the hybrid strategy are: (a) customers that value the offering and (b) difficulty for competitors to imitate. Some useful points in discussion could be:

- Students should identify the fact that this hybrid strategy is really 'the IKEA approach' to doing business – in other words, it is ingrained in the organisational culture. It might also constitute the kind of 'managerial innovation' that Porter allows as a means of escaping the 'stuck-in-the-middle' trap (Section 7.2.4).
- Perhaps the most difficult aspect of a hybrid strategy is the need to be clear about the capabilities underpinning the basis of differentiation, and then to reduce the costs in areas that do not critically underpin this basis of differentiation. By doing so, it may be able to reduce costs below that of competitors without jeopardising its basis of differentiation. For example, IKEA worked hard on reducing overheads and distribution costs and bargaining hard with suppliers. But they still continued with the heavy cost of catalogues – a 'luxury' in the eyes of their 'low price only' competitors.
- Of course, the Chinese (and perhaps the Indian) market may expose the contradictory pressures between cost and differentiation, with much lower prices being demanded and less willingness to put up with self-assembly. A query that might be worth putting to any Chinese or Indian students in the class is whether Swedish minimalism is so attractive in the eyes of consumers in those markets as it has been proven in the west.

Avoiding being stuck in the middle involves several challenges for IKEA:

- A continuing danger is that the company fails to continue to be tough about the differentiating features and cost management. This, in turn, required higher margins to sustain profitability. This slowly undermines the driving down of prices and/or puts more pressure on other elements of cost. The hybrid advantage may be lost?
- There is a particular danger that the IKEA culture has been maintained by internal appointments to CEO (Dahlgren in 1999, Ohlsson in 2009, Agnefjäll in 2013 and Jesper Brodin in 2017). This runs the obvious danger of missing significant changes in their markets or learning from best practice elsewhere.
- Another danger is that the market moves away from this particular concept for the usual reasons of changing incomes, demographics and lifestyles. Or the concept fails to 'travel' as the company globalises – they have already made mistakes on that front. The key to these two factors is good market research and some flexibility around the core concept.
- They may also be outflanked by 'low price' operators improving their product features and/or other companies entering that space. In fact, the casualties in the recession tended to be these low-price operators (such as MFI in 2008).
- At the other end, differentiators may improve their cost management.

In summary, however, successful is a company or a concept, they cannot sit on their laurels. Business history is littered with those that did.

#### **4. How would you explain IKEA's business model in terms of value creation, configuration and capture?**

IKEA's business model was rather unique for many years and although other companies have imitated parts of it, but IKEA still does not have a fully fledged imitator that has managed to copy both their model and business strategy. The key business model elements are covered in Sections 7.4 and 7.4.1 and Figure 7.9 are particularly helpful for this question. Some issues to consider in delineating IKEA's business model are:

- That IKEA targets and creates value for a quite wide range of customers with its low cost designed furniture conveniently displayed in its own accessible big city outlets. The market segment is thus broad and includes a variety of families and businesses rather than a specific narrow market segment. Value is also created through delivery and assembly. In some markets, this is contracted out to external companies via IKEA to customers and they then thus create this value for customers.
- That IKEA's value configuration relies on a complex system of interlinked activities including design, own and partners furniture manufacturing of furniture and sales and marketing through their own outlets and websites. Their resources and activities have developed over many years and to a large degree rely on their organisational culture; both

factors which imply imitation difficulties for competitors. For kitchens and electronics IKEA cooperate with external partners. It should be noted that customers are part of the value configuration as they (most often) assemble the furniture themselves.

- That IKEA captures a margin through their sales of furniture based on a low-cost structure (primarily based on economies of scale) and to a minor extent service fees related to delivery and assembly and rent of transportation aids. To the extent that external actors are involved in delivery and assembly they too capture value.