

Evaluation of IKEA's Competition and Growth Strategy

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Strategic Management and Sustainability

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1.0 Introduction

Strategic management of any organization explains organization on going planning, monitoring, analysis and the assessment of the existing necessities an organization needs to meet its objectives and goals. The changes in business environment requires that organizations and constantly assess their strategies for success. Tucci (2022) found that strategic management helps make an organization to understand strategies that needs to be taken for the purposes gaining a competitive advantage in the market.

IKEA Corporation was established in 1943 by Ingvar Kamprad in the forested town of Almhult in Sweden. The company has since become a lead global provider of home furnishing brand that brings in play affordable, design, and comfort to people all over the world. The mission of IKEA was to offer a wide range of well-designed, functional home designed products at favorable prices that can be easily afforded. Currently IKEA operates 460 stores in its 62 markets. Even though the first store opened in 1958 in Almhult in Sweden but it has since been established that the firm has got a lot of stores in the world. However, the biggest IKEA store is Pasay City in Philippines. Even though the effects of Covid-19 had great impacts the operation of IKEA stores across the world, the company has continued to progress successfully in the world market. Butler (2020) found that IKEA realized profits of about 2.2 billion euros despite declines in sales of about 12%. This indicates that the firm's operation can still be sustainable over the unspecified period in the future.

In this regard, this report will evaluate the competitive and development strategies in an organization. This will be done through evaluating strategic and economic models for the purposes of accessing the impacts of economic conditions and organizations

strategic approach. Also, the evaluation will be supported by analysis of major forces shaping up current business environments and their respective impacts (Vriens and Brazell, 2013). Finally, the report will support its findings by assessing market action based on micro and macro-economic market structures and their respective influence on strategy.

2.0 Competitive Strategies of IKEA in developing their Current Competitive Position

The leading competitors of IKEA across the world include unique brands such as Jysk, Kartek, and Williams-Sonoma. The competition in the market has always been subjected to various strategies needed in managing organizational ability (Lynch, 2015). IKEA operations and strategies are based on the management of the practices needed in measuring the framework needed in ascertaining the relationship between the strategies adopted and created for the purposes of achieving IKEA's current market positioning in the market. IKEA's pricing strategy targeting the middle class of consumers has since resulted to its largest customer base globally. Pratap (2020) explained the pricing strategy to have formed key part of managing to give the company's its competitive advantage currently. The source of this competitive advantage included lower prices, brand image, international market presence, and design and quality of the products.

2.1 Lower prices

IKEA's lower prices are the leading cause of its competitive advantage and current market position. The only firm that can be comparable to the firm's pricing strategy is Walmart. This cost efficiency strategies makes the business model of IKEA to become highly profitable. The company's great supply chain network has made the management

to adopt cost-cutting measures in production, sales, and other competitive advantage related ideas.

However, the advantage of lower prices in developing countries such as China and India is not very clearly highlighted and developed.

2.2 Brand image

IKEA has always maintained its customer-friendly brand image making this core to its current market position (Pratap, 2020). With its focus on innovation, IKEA's superior services has resulted in proper management of the firms competitive brands like Jysk, Kartek, and Williams-Sonoma in global markets. Maintaining firm's brand image has made this firm to become successful and maintain its market position.

Another aspect of IKEA's brand image depends on the company's achievements in social responsibility. The first is diversity, fairness and inclusion. IKEA has promoted diversity, fairness and inclusion in its organizational staff and supply chain materials. Second is community involvement. IKEA has implemented initiatives to support local communities, such as providing affordable housing and supporting educational programs. As a result of outstanding achievements in these two areas IKEA has established a good brand image in the world market. Finally, there are environmental initiatives. IKEA has set goals in line with world sustainability to reduce its carbon footprint and increase the use of renewable energy in its operations. It has also implemented initiatives to reduce waste and improve resource efficiency. The topic of IKEA's products in terms of environmentally friendly development of product materials is being hotly debated. But IKEA has certain social responsibility issues. First is the issue

of labor protection. IKEA has been criticized for labor practices in its supply chain, including low wages and poor working conditions. While the company has implemented initiatives to improve these practices, there is still room for improvement. The next issue is the promotion of over-consumption. IKEA's business model is based on encouraging consumers to buy new furniture and accessories, which can lead to overconsumption and waste. Overall, while IKEA has made progress in some areas, there are still significant challenges to be addressed in others.

2.3 International market presences

As identified earlier, IKEA currently have their operations in more than 62 regions with about 460 stores across the world. By 2025, IKEA is expecting to reach a minimum of 3 billion people for the purposes of maintained its current tip position in the market (Pratap, 2020). This continuous expansion of IKEA in its e-commerce and physical channels has made this brand to grow its customer base and loyalty. The scale effect of such product standardization is beyond the reach of most home furnishing companies. The international strategy has also formed bigger part of driving IKEA's continued profit and growth.

2.4 Design and quality of products

IKEA uses democratic design forms of combo, function, value, design, and sustainable prices that make it to perfectly operate in the market. According to Pratap (2020), IKEA is still continually growing their already 9500 product ranges. With available product quality range and quality, this range of products make the firm outdo any existing competition in the market. By offering quality products, any firm stands to benefit from the available customer loyalty in the market (Udell, 2015). IKEA's brand design and

quality made it succeed in the market against its close competitors. The existing differences are considered effective in managing organizational ability to produce quality and design of a given products. Despite the diversity of IKEA furniture products, there is a lack of research on technological home products, and the products lack technological innovation. In today's society where intelligent furniture is constantly developing, IKEA's competitiveness will gradually weaken.

3.0 Evaluation of IKEA Competitive Strategy that led to the Development in their Current Competitive Position

3.1 IKEA's differentiation competitive strategy

IKEA is the largest furniture retailer in the world with its products currently retailing in the most parts of the world. Stanley (2022) found that this is because of its strongest brand and brand identity and its ability to attract the customers. This has made it stand out from its competitors as a result of its successful in achieving a hybrid strategy. IKEA transnational strategy is responsible for its continued development in the international markets across the world. All these two strategies forms the bigger part of the firms differentiation strategy that has since made IKEA to succeed and develop in its current market position. Gaining a competitive advantage through differentiation strategy is through offering products perceived to be different from others competitors such as Amazon in the market. Even though there have existed many challenges in the market, the company has continued to successfully operate in the market and develop its competitive strategy (Stanley, 2022). Besides, as indicated in the mind map below, IKEA's differentiation strategy aimed at achieving and creating a compelling brand image by ensuring that it keeps nits focus on the quality of their designs (See Figure 1).

IKEA's product in the market helps in managing organizational ability to market its products in the market. This is helpful in managing organizational ability and also gets a strong focus on the organizational ability. Through differentiation strategy, a firm can operate without a fear of competition in the market. This is significant in managing organization success for the purposes of managing the organizational outcome and possibilities in the market.

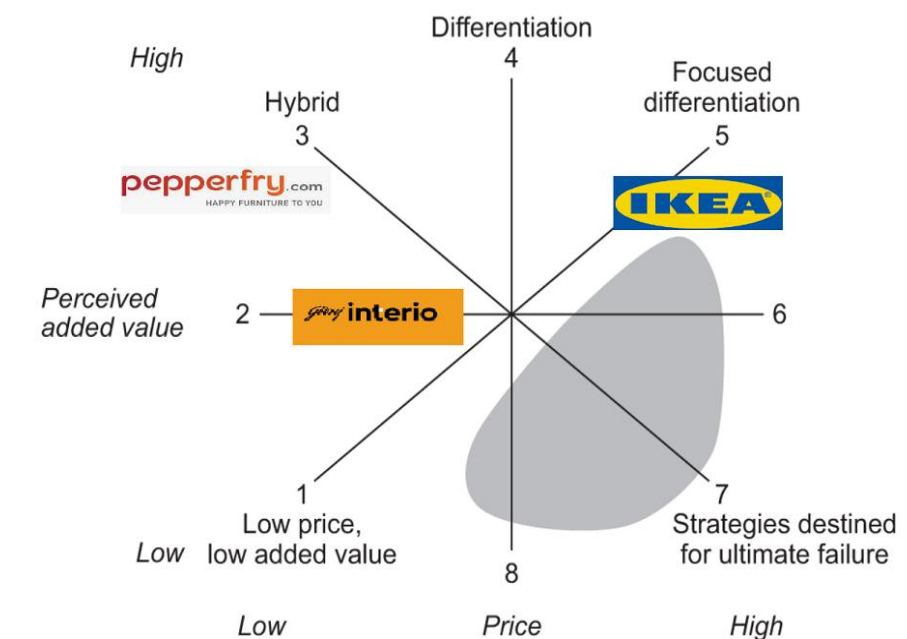


Figure 1: IKEA's differentiation strategy (Source; Stanley)

3.1.1 Advantage of differentiation competitive strategy

Differentiation competitive strategy allows firms to compete in the market through providing unique product brand features in the market (Ellis, 2016). For instance, IKEA's ability to adopt 9,500 product ranges makes it continue maintaining its competitive position in the firm.

Differentiation strategy plays a critical role in helping create products with no substitutes from its competitors. IKEA's products have increased to succeed in the market thanks to

its welcomed strategies in global markets. Fahy (2015) argued that providing substitute free products makes the firms to become successful and continue with their already competitive market.

Differentiation strategy has also allowed IKEA to capitalize on its product brand uniqueness for the purpose of gaining competitive advantage in the already saturated market. Offering low-cost substitutes for a product is realized by IKEA in its already highly innovative market,

3.1.2 Disadvantages of differentiation strategy

The main limitation of this differentiation competitive strategy to any given firm is its nature to strain organization resources. Pursuing differentiation strategy also result in wastage of time, energy, and resources that are spent while manufacturing the products in the market (Fahy, 2015). IKEA's differentiation strategy has shown the firms pass through among other things use of money in managing organization strategy. The limitations of IKEA operating environment makes the competitors in a way that makes it possible to manage organizational ability.

4.0 Situational Analysis of IKEA

Situation analysis often analyses major forces shaping up current IKEA business environments and their respective impacts to the operation effectiveness in the market. IKEA's operating environment is affected by micro and macro-environment analysis of the factors affecting these business operations.

4.1 Micro-environment analysis

Micro-environment factors are factors that affects for firm's immediate environment which affects the company's performance and decision-making. These factors include

firm's suppliers, marketing intermediaries, competitors, and customers. It also involves evaluation of the firm's SWOT analysis to determine the existing strengths, weaknesses, opportunities and Threats.

4.1.1 Customers

IKEA's main customers are single people who are not living at home. Newly married couples also form their target audience. This also includes families with youngest children who are below six years and even older married couples with dependent children (Arun, 2022). Customer satisfaction is another important aspect achieved through customer loyalty in the market. How the customers behave determines the competitive energy that the firm intends to adopt in the market. Therefore, managing the customer's expectation forms the main focus of promoting organizational success through managing the organization focus and success process.

4.1.2 SWOT analysis

The main goals of IKEA targets in the market are to assure sustainability in its operating environment. SWOT is used by firms including IKEA to help it reach its objectives. It is part of the strategic planning tools used in the market and help in managing the business to keep its focus on the key issues. Generally, SWOT analysis tool that forms the first of strategic planning. This is because while strengths and weaknesses are internal factors, opportunities and threats are external factors (Danciu, 2013). The summary in table 1 below gives clear presentation of the SWOT analysis framework for IKEA useful in analyzing the firm's strategic management plans.

Among the strengths of IKEA in the current market include its strong global brand image, sustainability of the products, and its wider quality range of products. These

weaknesses have since made the firm to continue operating successfully in the market despite the available competition. In terms of weaknesses, IKEA suffers from wrong customer perception about their costs and quality and also inaccessible location (Brown, 2019). Handling these strengths will help in managing the way organization operates in the market.

Table 1: SWOT Analysis for IKEA

IKEA's SWOT Analysis	
Strengths ✓ Global brand ✓ Strong brand image ✓ Sustainable ✓ High differentiation with competitors ✓ Wider product range (Brown, 2019).	Weaknesses ✓ Wrong consumer perception about cost and quality ✓ Inaccessible location (Brown, 2019)
Opportunities ✓ Increased demand for lower priced home furnishing products ✓ Increased demand for the sustainable products ✓ Availability of IKEA's online sales (Brown, 2019).	Threats ✓ Economic slowdown ✓ Barrier to entry and exit in some global profitable markets such as China (Brown, 2019).

4.2 Macro-environment analysis

Macro-environment factors are those external factors that affect how a business operates in a wider external environment (Shivakumar, 2014). Models used to evaluate macro environment include PESTEL analysis, Porter's five forces analysis, value chain analysis, and VRIO framework among others. All these factors play a greater role in managing organization external strategies for the purposes of achieving organizational goals.

4.2.1 PESTEL Analysis

PESTEL analysis evaluates the political, environmental, social, technological, and legal factors affecting business operating in a given environment (Fahy , 2015). IKEA will use PESTEL analysis framework to provide contextual information on the expected business direction strategy, brand positioning, risk evaluation including the pandemics, and growth targets in the market (Anderson, 2021). This framework also helps in determining the validity of the existing product and service provided and defines the new product development strategies. As demonstrated table 2, IKEA's PESTEL analysis to ensure that their strategy in the business becomes effective in implementing its required strategies.

Table 2: PESTEL analysis of IKEA Company

PESTEL Analysis of IKEA Company					
Political factors	Economic factors	Social factors	Technological factors	Ecological factors	Legal factors
✓ IKEA has always been mired in political controversies affecting it sales especially in Germany. ✓ Another issue caused by political instability was the Lufsig doll issue at Hong Kong which causes eruption in IKEA sales in Hong Kong in 2013 (Anderson, 2021).	✓ IKEA managed to maneuver 2009 economic crisis to its already cost leadership strategy. ✓ Its double manufacturer stores in UK indicate the firms operation in the market (Anderson , 2021).	✓ Following cultural norms in global markets (Anderson n, 2021). ✓ Addressing all grievances of the customers in different countries .	✓ IKEA has always strengthened its e-commerce operations. ✓ Expected increase in innovation and customer feedback in the market.	✓ Working towards renewing energy sector. IKEA has invested billions of dollars for the purposes developing renewable energy sector across their operation markets across the world (Anderson, 2021).	✓ IKEA is a good follower of existing market laws including license provision among other requirements.

4.2.2 Porters Five Forces Analysis

Porter's five forces analyses the overall behaviors of various players in organization's external environment. It evaluates competition among existing companies, the threats of new entrants, bargaining power of buyers, bargaining power of suppliers, and the threats of substitute products. Threat of new entrants. The threat of new entrants in the furniture industry is relatively low. The industry requires significant capital investment to establish manufacturing and distribution networks, as well as significant design and marketing expertise. IKEA's economies of scale also make it difficult for new entrants to compete on price. This is because new competitors do not have the ability to get in on the profit game because IKEA is large in markets where they are already established, such as Germany, India, and even the Philippines (McNamara, 2016). However, IKEA's success has also attracted imitators and copycats, especially in emerging markets, which could pose a threat in the future.

Bargaining power of suppliers. Imayá (2017) found that IKEA's customers have a strong influence on the company's prices due to the existing global competition. Bargaining power of suppliers in the furniture industry is generally low. The industry is characterized by a large number of suppliers, which makes it easy for furniture retailers like IKEA to switch between suppliers when necessary. However, some materials used in furniture production, such as wood and textiles, can be affected by supply chain disruptions, which can affect prices and availability.

Bargaining power of buyers. The bargaining power of buyers in the furniture industry is relatively high. Consumers have a wide range of choices when purchasing furniture and

brand loyalty in this industry is low. In response, IKEA has responded by offering a wide range of products at different price points and by focusing on sustainability and design. BBC News (2022) reports that technological advances and effective design are among the main reasons for IKEA's success compared to available alternatives.

The threat of alternative products or services. In the furniture industry, the threat of alternative products or services is moderate. Consumers have a range of options for furnishing their homes, including used and vintage furniture, as well as online retailers. However, IKEA's focus on affordable, modern design sets it apart from its competitors, and its reputation for quality and sustainability helps distinguish it from alternatives.

Competition among existing competitors. Competition among existing competitors in the furniture industry is intense. The industry is highly fragmented, with many companies competing for market share. IKEA's main competitors include other furniture retailers, such as Ashley Furniture and Rooms to Go, as well as online retailers such as Amazon and Wayfair. However, IKEA's global brand recognition and economies of scale give it an advantage against smaller competitors.

In summary, Porter's Five Forces model shows that IKEA operates in a highly competitive industry, but also benefits from its economies of scale, strong brand recognition, and focus on sustainability and design. While the threat of new entrants and substitute products is low, the bargaining power of suppliers and buyers is relatively low and high, respectively.

5.0 Conclusion

Based on the discussion in this report, it can be concluded that IKEA has got best strategies to help them sustain the highly competitive global markets. The rise of IKEA in the furniture sector is also as a result of innovation and continuously advancing technologies in the market. Even though there exists cultural differences across the globe, IKEA has grown to become one of the successful across the world. IKEA must conduct further market analysis and strongly consider smart furniture innovations to ensure it adopts a long-term strategy in the world furniture market. Even though there exists strong competition, adopting up to date strategies with long-lasting provisions plays a major role in managing organizational effectiveness. The current world market promotes strong market environment for strong brands in the market.

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