

**BUS 478**  
**CASE SYNOPSIS:**  
**IKEA**



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## **FIRM HISTORY**

IKEA was founded in Sweden in 1943 by Ingvar Kamprand as a “makeshift mail order service” that sold pens, nylons, watches, and jewellery. In 1948, the business introduced what IKEA is known for today: a range of furniture, initially supplied by local manufacturers, with the objective of providing quality products at low prices. Due to intense competitive pressure for suppliers to boycott IKEA in the furniture industry IKEA introduced flat packs and ready to assemble furniture in 1956. The sale of their furnishings in flat packs and self assembly furniture have persisted to this day and are one of the main reasons IKEA can keep costs low and pass their cost savings onto their consumers.

Prior to the first IKEA retail store opening in Almhult, Sweden in 1958, IKEA products were marketed through the IKEA catalog which was launched in 1951 and through showrooms, the first opening in 1953, allowing the customers to feel and look at the quality of the furniture prior to making a purchase. In order to create a welcoming atmosphere and due to the large size of IKEA retail stores, they began incorporating in-store restaurants: the first opening in the Almhult store in 1960.

The 1980’s saw dramatic expansion for IKEA and their retail store concept with store openings in new markets in Europe, the United States, and Australia as well as the launch of their website [www.IKEA.com](http://www.IKEA.com). Along with continuous geographic expansion and penetration into new markets IKEA has continuously expanded and introduced new innovations into their product lines, most notably launching Children’s IKEA in the 1990’s. The 1990’s also saw a change in IKEA’s organizational structure and objectives with the formation of the IKEA Group and a focus on social and environmental responsibility providing the backbone for a successful business.

The 2000’s, saw IKEA’s continued expansion as a global home furnishing retailer with further penetration into existing markets as well as entry into new markets such as Russia and Japan. Online shopping was introduced through their country specific IKEA websites and their own food label to be sold in IKEA stores and restaurants was launched. Most importantly, IKEA introduced the IKEA Way

(IWAY) Standard: a detailed code of compliance for their suppliers listing the minimum requirements of environmental, social, and working conditions.

## ENVIRONMENT

### External Environment

**The general environment** can be broken-up as follows:

Demographically, more and more people are choosing to live by themselves in smaller, urban living spaces as opposed to residential houses. Baby Boomers provide a mass of disposable income and are increasingly downsizing their living spaces as their children are moving out on their own. Young and budget-conscious customers, with access to their parent's disposable income, are a growing market segment in the home furnishings industry as well as recent high school graduates that are going to live in dormitories in colleges and universities and new mothers. Almost 75% of mothers at least like to shop for infant furniture and find it a relaxing, feel good activity. Brazil, Russia, India, and China are all emerging markets for home furnishings as living standards, disposable incomes, and purchasing power are on the rise in these countries.

Politically, many countries, including the United States, impose additional taxes and duties on imports by foreign furniture manufacturers as well as quality standards on particular materials. In addition, green manufacturing and production practices are becoming more prevalent with some governments levying extra charges for environmental impacts such as dust control, and air and water treatment.

Economically, the home furnishings industry is sensitive to economic cycles, though IKEA believes since they target low cost consumers the economic cycle does not have much of a negative impact on their operations. The 2008 recession caused rising prices and especially impacted the purchasing power of new homeowners and middle-class consumers in the EU and United States with a restriction in disposable income due to low wage growth and government austerity measures. At the same time, fluctuating raw

material prices and increasing fuel costs pose a threat to IKEA's ability to keep costs from their worldwide product manufacturing and distribution low.

Socio-culturally, consumer's emphasis on environmental awareness and the impact of the products they purchase has been on the rise, more and more people choose to purchase environmentally and socially sustainable products over those that are not. The consumers' view of home furnishings has evolved from being based on functionality to being based on fashion, with more emphasis on consumers tailoring their home furnishings to their tastes: in fact 93% of consumers in the United States purchase based on a product's design and style. Furthermore, due to the decreasing size of residences and increase of urban living, consumers are demanding smaller furniture.

Innovations in technology and data security have increased the use of online shopping in the home furnishing industry. Furthermore, advances in alternative energy sources such as wind and solar energy provide companies with ways to cut costs in operating their facilities. Supply chain optimization and tracking technology also allows global operators to be more efficient and effective with regards to inventory distribution.

Global markets are increasing deregulating, and the formation of free trade agreements within regional blocks provides the opportunity for further expansion as well as cost savings on procuring supplies and distributing products. As average incomes increase worldwide, combined with the proliferation of the Internet into more households, retailers can gain access to more people without having to invest in establishing brick and mortar stores.

**Porter's Five Forces** impacts the industry as follows:

Threat of new entrants: In the home furnishings industry, the threat of new global competitors is low as it is saturated and requires high capital investment, the ability to distribute products efficiently, and brand, quality, and design recognition. Securing suitable mass distribution channels poses a substantial problem for potential new entrants, as products are often large and heavy.

Bargaining power of buyers: The bargaining power of customers is strong, as the competition is intense and customers have a wide choice of alternative options. If they are not pleased with your products or prices they can easily look elsewhere to fulfill their needs. Additionally, the recession has forced retailers to become more competitive in pricing to attract people who are reluctant to spend disposable income on home furnishings.

Bargaining power of suppliers: IKEA suppliers do not possess substantial bargaining power as they are a large purchaser and have over 2,000 suppliers in over 50 countries worldwide. Furthermore, they are forced to comply with IKEA's IWAY Standards.

Threat of substitutes: There are a lack of substitutes for basic products in the home furnishings industry, but many substitutes in home accessories

Rivalry among competitors: IKEA operates in a highly competitive industry. On one hand, IKEA has to compete with a few large retailers such as Nova, Euromarket Designs Inc., and Courts. On the other hand, they have to compete with smaller, local businesses.

## **Internal Environment**

**Tangible Resources** include the following:

Financial: IKEA has a strong balance sheet and cash flow putting them in a financially flexible position to fund aggressive business growth. Sales increased by almost 6.9% to reach EUR 24.7 billion in fiscal 2011.

Organizational: IKEA purchases in large volumes from their suppliers allowing them to establish long-term contractual relationships and compliance with their IWAY standards.

Physical: IKEA has established 28 distribution centers and 11 customer distribution centers in 16 countries allowing them to efficiently and effectively distribute their inventory to key markets and stores. IKEA has also selected its locations carefully and located its stores near railways and highways in order to reduce transportation costs. All IKEA stores are custom built and strategically designed for efficiency and sales potential.

Technological: IKEA has patents over all of their product designs preventing their competitors from creating similar products that could be substitutes.

**Intangible Resources** include the following:

**Reputational:** IKEA's brand stands for a wide range of well designed, environmentally friendly, functional, stylish, low-cost furniture products allowing them to target budget, style, and environmentally conscious consumers.

**Human:** A diverse workforce and integral design team allow IKEA to produce innovative and trend conscious products for their consumers. They also make sure to have a group of co-workers at each location that can execute the strategies set out by top management, but also allows them to delegate decision making and get rid of unnecessary staff overhead costs at the headquarters.

**Innovation:** IKEA initiates campaigns and activities, with organizations such as UNICEF and Save the Children, to encourage customers to promote social and environmental development. They also pioneer the Do-It-Yourself approach which allows IKEA to reduce costs and transfer their savings to the consumer. In order to cut down manufacturing costs, IKEA's design team always creates products by starting at the price the product will be sold for.

**Capabilities** include the following:

**Supply Chain:** IKEA's integrated supply chain is comprised of Swedwood, Swedspan and IKEA Industry Investment and Development. Direct involvement in the entire supply chain process allows IKEA to monitor materials that are being sourced and manufactured.

**Manufacturing:** Most of IKEA's products are manufactured in developing countries like China in order to reduce costs while product design is centralized in Sweden. Their trading offices allow IKEA to closely monitor manufacturing performance to ensure material quality. IKEA also makes sure that designers work in their factories and the factories of their suppliers to allowing them to maximize production efficiency.

**Marketing:** IKEA created websites for different countries and initiated a diversity of activities like the Soft Toys campaign to increase sales volumes.

**Distribution:** IKEA uses flat packs to ship more items at a time to reduce transportation costs. As well, they transport goods by rail and sea as much as possible in order to reduce pollution.

## THE CURRENT SITUATION

Today, IKEA still sticks to the IKEA concept to offer low-cost, high quality, pleasantly designed, and functional home furnishings. This concept guides the design, manufacturing, transportation, sale, and assembly process of all IKEA products. The IKEA trademark represents the leading home furnishings brand in the world with more than 330 stores in 40 countries and close to 154,000 workers, as well as over 500 million store visits offering a large portion of their entire range of product offerings online for consumers to purchase.

IKEA Group operates the retail section of the business through franchise agreements with Inter IKEA Systems B.V., which is part of the Inter IKEA Group that holds the rights to and protects the IKEA concept. The IKEA Group itself is owned by the Stichting INGKA Foundation.

IKEA's current vision is to "create a better everyday life for the many people". Their vision operates in tandem with their business idea which is to offer "a wide range of well-designed, functional home furnishing products at prices so low that as many people as possible will be able to afford them". IKEA's current goals and objectives include the following:

- 1) Being an environmentally sustainable company by taking into account the environmental impact of their operations;
- 2) Continue retail store expansion, specifically focussing on the market in the United States;
- 3) Further streamline supply chain activities while focussing on reducing costs.

Although IKEA has a strong global supply network and strong supplier relationships, they also institute a supplier development program in order to help them uphold IKEA's standards of production, they have to continuously look for ways to streamline their processes in order to maintain their low cost leadership strategy.

### **Performance**

According to the 2011 IKEA Yearly Summary, IKEA's business strategy with clear focus on sustainability turned into significant financial performance. Net sales increased in almost all countries, especially Russia, China, and Poland, and aggregate sales rose 6.9% along with a 4% rise in revenue.

## STRATEGIC CHALLENGES

IKEA is facing several strategic challenges at the moment including:

- 1) Global sourcing: Finding suppliers that can keep up with IKEA's rapid growth and expansion that comply with their IWAY Standards, but also offer low costs. They also need suppliers with the ability to use direct-to-store delivery systems.
- 2) IKEA operates on a global scale, with global suppliers, but they need to tailor their products to local markets, especially markets in Asia
- 3) IKEA's pricing in the Asian, especially Chinese, market is not low enough to compete with local furnishing competitors and the self assembly concept is not well accepted there.
- 4) IKEA's main regional market is continuing to battle with the recession. The European market makes up 79% of IKEA's sales, and the region continues to battle currency and government debt problems.