Pensacola Christian College

**IKEA**

Team Case

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By

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**IKEA **

**Company Overview/Statement of Problem**

IKEA was founded in 1943 by Ingvar Kamprad in Sweden. The company was originally privately held, but in 1982 Kamprad transferred 100% of IKEA’s equity to INGKA Foundation in Leiden, Netherlands. The reason for this was to protect the company against a takeover or from being sold by Kamprad’s family. The company originally produced smaller items such as pens, wallets, and picture frames. In 1948 Kamprad introduced furniture that was made by local craftsmen[[1]](#footnote-1). In 1953 the first showroom was opened to give the customer a feel for what the furniture would look like in their home, this began the model for how future IKEA stores would operate.

An IKEA employee stumbled upon the flat pack and self-assemble model by doing it to a piece of furniture he was trying to take home. With this discovery and the ability to keep their prices low, due to less packaging, this leads to a core competency. The development of restaurants inside the store solidified the company's layout for the future and helped IKEA begin to grow internationally. IKEA first moved to Norway in 1963, Denmark in 1969, and Switzerland in 1973; during a period of 35 years, IKEA expanded beyond Europe to many other countries across the world.

Each time IKEA moved to another country, their company model remained the same. That model included a large store that had a one-way counter-clockwise design that leads the customer through all the stores' merchandise, the warehouse, the food courts and finally to the cash register. IKEA has made their flat pack self-assemble packaging iconic with the name. However, with the recent move to India IKEA has encountered many problems, first with the government which has now been resolved, with their business model.

The challenge IKEA faces in India is that the people are not accustomed to putting their furniture together after they buy it. They want it done for them and transported to their house and assembled at no additional charge. The reason they expect this kind of service is because their local small business furniture makers do not disassemble their products and expect their customers to put them together. Another challenge IKEA face is the amount of land their current store layout needs. The land is very expensive and theirs is not much of it for sale. IKEA has thought of building in the more suburban areas but then the people would have to travel farther to reach them. This would be a potential weakness a competitor might take advantage of. The highly fragmented Indian furniture industry has ensured that no furniture manufacturer has the Indian market cornered.

**Environmental Scanning/Stakeholder Analysis**

* **The Demographic Segment**

As usual, IKEA has set its aim squarely on middle-class families; this time in India. There are just over 1.3 billion people in India; 267 million of those people are classified as middle class. Furthermore, the middle-class population is expected to double within the next decade. India's middle class is not like the middle class that exists in more developed, western cultures. Both the upper-middle and lower-middle income people have an average of only $2-$10 per day. To live on an average like this in the U.S. and still be considered middle class would be impossible.

The culture is predominantly Hindi which favors many ornate, colorful housewares. This is a style that IKEA is not used to but is willing to cater to. The biggest problem IKEA will face in the style of their goods will be the tendency of the Indian consumer to favor products that have very unique character and ornamentation.[[2]](#footnote-2)

* **The Economic Segment**

The potential earnings in the Indian market are very attractive for IKEA to swoop in and take over. Over the past six years, the home-furnishings market in India has grown by over 90%. It is now estimated to be worth nearly $35 Billion (over 2.5 trillion rupees). IKEA is hoping to use this enormous untapped market to boost its sagging global sales from the past six years. The amount of potential revenue in the Indian market dwarfs the $1.5 billion investment that IKEA is currently making to enter the Indian market.[[3]](#footnote-3)

* **The Political/Legal Segment**

IKEA fought a very determined, uphill battle to make an entrance into the Indian market. The most difficult hurdle the retailer had to climb over this journey was the whole of the Indian FDI (Foreign Direct Investment) regulations. These regulations, aimed at protecting India from the evils of retailers categorized as multi-brand retailers, halted IKEA almost completely for over a decade. The Indian government was not going to allow IKEA to open a store until they agreed to source at least 30% of their goods from what is called the MSMEs (Micro, Small, and Medium Enterprises). However, India finally loosened the regulations from the 30% being a "mandatory", to it being "preferred". However, in order to be allowed to take advantage to this loosened rule, they would be required to open a manufacturing facility in India to meet the required 30% sourcing instead of sourcing from the MSMEs.[[4]](#footnote-4)

* **The Sociocultural Segment**

The primary problem for IKEA in India is that Indian families traditionally have their furniture hand-made at small shops and passed down through generations. This is a major problem for a manufacturer of modern-style home furnishings. However, as India is becoming much more industrialized and exploited by global business, tradition is beginning to step aside. Therefore, younger, middle-class families are hungry for a western lifestyle. Having such a lifestyle, and modern furniture signals success and wealth. This is allowing IKEA to have a place in the very untapped Indian furniture market. The new Indian middle-class is growing into one of the most high-potential business markets in the world and IKEA moving in to take advantage of this opportunity.[[5]](#footnote-5)

* **The Technological Segment**

Over the decades of IKEA’s existence, the Swedish home goods manufacturer has always had the ability to bring new technology and their Swedish heritage together in a perfect fusion. The company’s entrance into India has been no exception. For the past 15 years, IKEA has been researching the Indian culture and how to interact with it on a tech level. This was even before the company was allowed to open a store there. The method they’ve devised most recently has been their use of the IKEA Place app. This app allows the customer to virtually place furniture into their home or office without having to go to a physical store. The app uses Augmented Reality (AR) which allows the user to place products in their space with 98% accuracy. The customer can then either order the product online or go to a store to complete the pickup. IKEA is using this revolutionary technology to give the competitors a run for their money, but also give their customers the best experience with both Swedish design and ingenuity.[[6]](#footnote-6)

* **The Global Segment**

As previously mentioned, India was adamant about not letting IKEA enter into the country before it agreed to source at least 30% of the goods they sell there from the local economy. This was a necessary item that had to be met in the Indian market. Although other countries are not requiring the same stringent guidelines, it’s starting to become the norm in the global market as well.[[7]](#footnote-7) The practice of sourcing from the economy in which the stores are located is a hot topic because if they start to only source from the local economies, the following effects will occur:[[8]](#footnote-8), [[9]](#footnote-9)

* The economies in which the stores are located will experience a boom, however,
* The economies that don’t have stores located in them that are still major suppliers to IKEA will suffer from lost sales to IKEA, and
* IKEA will see price effects from the requirement to source locally and not globally
* **The Physical Segment**

Reputation is one of the most important assets to a global corporation such as IKEA. The manner in which they source, manufacture, distribute, and dispose of waste (not to mention the amount of waste) is all under high censorship by governing bodies and its stakeholders. Relative to other corporations of its size in the European Union, IKEA has a earned a "Strong" reputation (71.4%) for the following four points: "esteem", "feeling", "admire", and "trust". By the same measure in India, IKEA has an "Average" reputation. They are working toward and on the cusp of a "Strong" reputation in India as well but are currently missing the mark by fractions of a percent (69.5%).[[10]](#footnote-10), [[11]](#footnote-11), [[12]](#footnote-12)

* **Stakeholder Analysis**

IKEA has a unique capital structure in that it is not a publicly traded corporation. All shares are held by the company itself, and the stock price is governed internally. In India particularly, when the company started its entrance in 2013/2014, they increased the number of authorized shares they had from only 70 to 875; an increase of 805. Each share was worth Rs.10 (rubles) at the time. This was an effort to fund their new operations in India. Because of this private structure, the company does not have to take external, public shareholders into consideration.[[13]](#footnote-13)

Unions are one of the stakeholders that IKEA possesses. Although, most of them are in the manufacturing areas of the business, and unionizing at the individual store level is not as widespread. Recently, IKEA faced allegations of "overlooking workers' rights" in several different markets that had unionized. This caused a relatively quickly resolved scandal as the facilities were mostly manufacturing of nature and not very open to the public.[[14]](#footnote-14)

The customer stakeholders are loyal in nature and enjoy the high level of quality that IKEA provides. The most important attribute of the company that the customers enjoy is the industry-leading cost savings. IKEA helps to drive this loyalty by offering a program called IKEA Family. This allows customers to enjoy many benefits such as discounts on select products and food, free coffee or tea when they visit a location, and a 90-day return plan on all items.[[15]](#footnote-15)

The number of retail employees that IKEA employed in 2017 amounted to approximately 149,000 people. This includes the usual retail positions that other employers in the industry offer such as stocking, cooks, cashiers, etc.[[16]](#footnote-16) The inclusion policy at IKEA is very pronounced. They focus very heavily on their adherence to the U.N. guidelines for gender equality as well as protection for LGBT employees.[[17]](#footnote-17)

**Industry analysis**

* **Industry Definition**

IKEA is classified in the United States NAICS industry code 337121. This code is defined as a firm that manufactures upholstered household furniture. This furniture may be made stock or custom for the customer.

* **Industry Competitive Structure**

The furniture industry is monopolistic competition industry. This is because this industry has many firms that sell differentiated products and face a downward sloping demand curve. Not only does IKEA compete with other brick and mortar furniture stores, but they also compete with large e-commerce companies. In 2010, 10% of all furniture sales were online. This number is expected to reach 33% by 2020.[[18]](#footnote-18) Ikea is also in many different countries and economic markets which means it takes more strategy to compete with the different competitors of the company. IKEA has been able to successfully gain market share in every new market they enter. IKEA has a 4% market share in the U.S., a 23% market share in Germany, as well as 16.3% in France.[[19]](#footnote-19)

* **Industry Life Cycle**

The retail furniture industry is a standard-cycle market. Furniture companies must constantly update and innovate their products to appeal to changing trends of consumers. One of the largest groups of people that retailers must appeal to is the millennial demographic. Millennials make up 37% of all household furniture buying, they spent $27 billion on home furniture in 2014 alone.[[20]](#footnote-20) The furniture trends of millennials are very different from past generations. These trends include functionality, ability to work with their technology, and being able to fit in small apartments. Although furniture must adapt because the furniture industry has lingered cycle buyer they have the time to adapt.

One advantage that IKEA will have their attempt to enter the Indian market is the fact that they are a mature company. One of the ways that IKEA is a mature company is their worldwide expansion. Since the company’s beginning in 1958, IKEA has expanded into 46 other countries as of 2014. Another evidence of IKEA being a mature business is its customer brand recognition. In 2014, IKEA was listed on Forbes Top 50 World’s Most Valuable Brands.[[21]](#footnote-21) Although IKEA is a mature company it still has plans of expanding further into more markets.

**Porter’s Competitive Forces Model**

* **Threat of New Entrants – Low** 
  + **Economies of Scale**

IKEA benefits from economies of scale in many different ways. One of the ways is through production economies of scale.[[22]](#footnote-22) Because Ikea is such a large company it can produce a large number of its products and therefore is able to lower the per-unit costs by. Another the way Ikea uses economies of scale is through research and development economies of scale.[[23]](#footnote-23) Ikea invests in researching and developing new ways that the company does operations. Although in the short term this will increase costs, in the long run, it will reduce costs. The last way that IKEA benefits from economies of scale is through its suppliers.[[24]](#footnote-24) Because IKEA is a large company it can buy its raw materials in bulk from suppliers and have contracts with suppliers that will lower costs. India has been supplying IKEA with raw materials since the 1980s, so the economies of scale benefits will be present if IKEA enters India. If a new company wanted to enter this industry they would not be big enough to benefit from economies scale

* + **Product Differentiation**

Product differentiation does not only refer to the products themselves but also how they are manufactured, delivered and marketed to consumers. Although IKEA implements a cost leadership strategy, they also implement a focused differentiation strategy. They do this by not only providing different products from their competitors but they also provide different products depending on where the IKEA store is located. The ability for IKEA to adapt its products to the store location will be important when they enter the Indian market because although India is one country it is a very diverse country.

Because adapting to the Indian consumer behavior and culture is important to having success in this new market, IKEA has reached India. One of the things that was researched was what kind of furniture items the Indian culture demanded. IKEA representatives have visited more than one thousand houses to try to understand exactly what Indian consumers want.[[25]](#footnote-25) One new item that Ikea will offer is a kitchen appliance for making traditional rice cakes.[[26]](#footnote-26) “IKEA will also have 500 products below Rs. 100 ($2) and 1000 products below Rest. 200 ($4) from the start.”[[27]](#footnote-27)

One culture difference that will need to be addressed when entering India, is the concept of "Do It Yourself." IKEA has made popular the idea of having furniture delivered to customers requiring assembling, this is a foreign concept to Indians. Because labor is very cheap in India most of the people there have their furniture made for them. Indians may be opposed to assembling their own furniture which results in the Indian people not purchasing furniture from IKEA. Because of this IKEA has partnered with UrbanClap, an online platform that helps connect handymen with consumers.[[28]](#footnote-28)

* + **Capital Requirements**

Although a new firm would not have a large number of capital requirements to enter the household retail furniture industry, a new company would require a great amount of capital to compete with large companies like IKEA. IKEA is known around the world for their large retail stores. The average IKEA store is approximately 300,000 square feet while the largest store is 600,000 square feet.[[29]](#footnote-29) These large stores cost up to 100 million USD to build not including costs to stock this store with furniture and hire employees. New entrants would also have to pay for manufacturing facilities. IKEA has five large manufacturing facilities as well contracts with other outsourced companies around the world that make over 10,000 different products. Because IKEA is a very populated country with limited space for retail stores, IKEA is considering having a small number of small stores across India instead of one large store.

* + **Switching Costs**

With the number of furniture retailers that all sell similar products at a low cost that appeal to the largest amount consumers there is little to no monetary switching costs in the retail furniture industry. One way that household furniture retailers may create a switching cost is by incentivizing consumers to buy a complete furniture set. Because customers want their furniture to match if on the store is the only store that offers matching furniture customers may have an emotional switching cost of having unmatching furniture if they switch brands. Another emotional switching cost that a customer might face when purchasing furniture is settling for a piece furniture that was not their original choice. If a customer wants a specific piece of furniture that only one company sells there will be an emotional switching cost if they switch brands and cannot get that specific piece of furniture.

* + **Cost Disadvantages Independent of Scale**

One of the first cost advantages that IKEA has over potential new entrants in the industry is the company's suppliers and distribution channels. One way that IKEA cut costs within the supply chain is by participating in vertical integration. In 2015, Ikea purchased over ten thousand acres in the Baltics.[[30]](#footnote-30) This Purchase allows them to control and cut their raw materials costs. The company also cut costs through its distribution channels. Because IKEA has suppliers, that manufacture their products, all over the world and strategically located distribution centers, they are able to get products to their retail stores faster and save on shipping costs.[[31]](#footnote-31) IKEA also save costs because their retail stores are set up in a warehouse style, which means the company doesn’t have a separate inventory warehouse for each retail store. Because of these strategically located distribution centers and supplier IKEA will be able to maintain these cost savings as they enter India.

A second cost advantage that IKEA has over potential new entrants is their many furniture patents. IKEA has over 85 utility and design patents.[[32]](#footnote-32) One of these patents allows the customer to assemble their IKEA piece of furniture quicker and without the need for tools. This innovation allows customers their furniture in 50% to 80% faster than before.[[33]](#footnote-33) This allows IKEA to increase sales and gain market share.

* + **Government Policy**

IKEA had to overcome many political and government regulation obstacles in order the Indian market. When the company initially was trying to enter the Indian market, they were denied due to FDI local sourcing regulations. After persistent requests and lobbying in the Indian governments and committees, India allowed 100% FDI single-brand retail in 2012. This allowance, however, came with a condition that required IKE to use local small business suppliers as 30% of the company’s total suppliers. Although IKEA already had suppliers in India this condition would force the company to have to use many different small suppliers which would increase costs.

Another regulation that would force IKEA to alter their global strategy in India is the decrease in product categories that IKEA could sell. Although the company main source of revenue comes from its furniture sales, the IKEA also sells food, beverages, electronics, toys, and many other products. Because the Indian government didn't want one store to sell such a variety of products, they limited IKEA's 30 product categories to 18 product categories.

Despite these limitations and regulations, IKEA was willing to adapt because of the great market size and demand in India. IKEA is also expecting a loosening of the country’s regulations on FDI, which will lead to increased sales and profit margins as well as lower costs.

* **Bargaining Power of Buyers – Low**

IKEA has a low bargaining power over is customers because of the low switching costs. Because of the many different retail stores, online retailers, and local small shops, consumers have little to no switching costs in switching between brands. IKEA also has large stores that are spread out which means some consumers might not want to travel to their store even if they are the cost leader.

* **Bargaining Power of Suppliers – High**

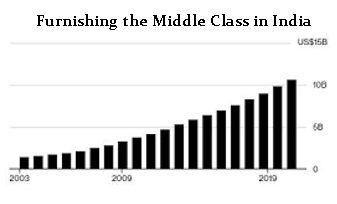
IKEA has a high power of over its suppliers. One of the reasons for this is because they are such a large company with many suppliers. The company has over 1800 suppliers that are from 50 different countries.[[34]](#footnote-34) Because they have so many suppliers, they are able to diversify risk because no one supplier is responsible for a large percent of the company production. IKEA is a large buyer and suppliers desire their business, this allows the company to negotiate prices. IKEA has 70 suppliers and 1,450 sub-suppliers are already in India which will make the market entry easier.[[35]](#footnote-35)

Another reason that exemplifies IKEA's high bargaining power over its supplier is its relationship with its suppliers. Because IKEA gives a lot of business to suppliers, they are able to work with their supplier to ensure their products are being made efficiently and correctly. IKEA also signs long-term contracts with suppliers to achieve sustainable low costs.[[36]](#footnote-36) IKEA has so much power over its suppliers that it is able to require manufacturers and suppliers to have certain environmental and labor regulations.[[37]](#footnote-37)

* **Threat of Substitute Products – Low**

A substitute product is defined as “Different goods that, at least partly, satisfy the same needs of the consumers and, therefore, can be used to replace one another.”[[38]](#footnote-38) There are no substitutes to furniture present in today’s market. Although furniture should keep up with changing trends and can manufacture different types of furniture, there are substitutes to furniture.

* **Intensity of Rivalry of Among Competitors – High**

One of the reasons that IKEA is very passionate and determined to enter India is because of their large population and the market growth that would come with entering this country. Not only is India’s population large but the company’s target market of middle-class families is growing. This chart shows the consistent demand for indoor household furniture is growing. It is estimated that the indoor household furniture market in India will reach $10.7 billion USD by 2022.[[39]](#footnote-39)

This demand has not only interested and incentivized IKEA, but also foreign and domestic furniture retail stores. Because of this IKEA will face numerous competitors as it enters India’s market. The biggest domestic competitors are Godrej Interio, Usha Lexus, and Zuari.[[40]](#footnote-40) With the increase in online shopping IKEA will also have to compete with online retailers. Two of the biggest online retailers that will be competing with IKEA in India is Amazon and Flipkart. FlipKart is a large Indian online retailer that sell a wide variety of household furniture items.[[41]](#footnote-41) Perhaps IKEA's biggest competition in India will be local small shops and handymen. Before foreign and domestic retailers became popular in India, furniture was made by a handyman. These handymen would go to costumers' homes and build custom furniture that meets their needs and homes dimensions. Because labor costs are very low in India this still a very popular way that Indians purchase because not only is it relatively inexpensive, but it also requires no assembly by the customer.

Although IKEA is tailoring its products to the Indian culture its need for efficiency requires the company to implement a global strategy. This strategic move to enter the Indian will require a large amount of risk as well as fixed costs. Because of limited retail space, IKEA has decided to build 25 smaller stores throughout India, instead of one or two very large stores.[[42]](#footnote-42) This market entry will require a $1.9 billion USD initial investment.[[43]](#footnote-43) With these large fixed costs, there is a large risk and incentive for IKEA to gain market share and revenue to gain above average returns from this investment. IKEA must also maintain a good relationship with the Indian government and retail committees in order to gain more opportunities to grow their business in India.

One of the ways that IKEA is going to gain market share in this competitive market is through differentiation. One way that IKEA is different is their warehouse-style shopping experience. This style of the store set up will allow customers to have access to a wider range of products in each store. Another way that IKEA is differentiating themselves from the competition is by the way their products are packaged. IKEA’s flat boxing and assembly required furniture will allow for easier transporting for the customer. Although the Indian people are not accustomed to assembling their own furniture, this design allows for cheaper market prices for the consumer. With the growing demand for furniture and the large scale that IKEA is entering the market, IKEA could potentially change the way that the people of India buy furniture.

**Company Analysis**

**Vision**

“To create a better everyday life for the many people, this is the IKEA vision.”[[44]](#endnote-1)

**Mission**

“Our business idea 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.”[[45]](#endnote-2)

**Strategic Intent**

IKEA intends to provide well-designed home furnishing products at low prices that are affordable to the majority of people to sustain its long-term growth.

**Current Objectives**

"To offer a wide range of home furnishing items of good design and function, excellent quality and durability, at prices so low that the majority of people can afford to buy them.”[[46]](#endnote-3)

IKEA is trying to reduce the price as much as possible while maintaining the quality of products. Its objectives give its employees a sense of direction. And it indirectly guides the way IKEA design, manufacture, assemble and distribute products.

**Strategies**

IKEA implemented a focused cost leadership strategy. IKEA worked hard to achieve "quality at affordable prices for its customers by optimizing its entire value chain, by building long-term supplier relationships, investing in highly automated production, and producing large volumes."[[47]](#endnote-4)

* Operational and transportation costs were reduced by implementing self-assembly features
* Concentrated on selective marketing rather than mass marketing[[48]](#endnote-5)
  + Standardized retailer selection[[49]](#endnote-6)

**Value Base**

IKEA believes that "every individual has something valuable to offer and they strive to have the same values in the way they work." [[50]](#endnote-7)

* **Leadership by Example**

IKEA’s “managers act according to IKEA’s values, create an atmosphere of well-being and expect the same from co-workers.” [[51]](#endnote-8)

* **Constant Desire for Renewal**

IKEA know that “adapting to customer needs with innovative solutions contributes to a better everyday life at home.” [[52]](#endnote-9)

* **Togetherness and Enthusiasm**

“Together, we have the power to solve seemingly unsolvable problems. We do it all the time.” [[53]](#endnote-10)

* **Cost-Consciousness**

“Low prices are impossible without low costs, so IKEA proudly achieve good results with small resources.” [[54]](#endnote-11)

* **Striving to Meet Reality**

“IKEA stay true to practical solutions to develop, improve and make decisions based on reality.” [[55]](#endnote-12)

* **Humbleness and Willpower**

“We respect each other, our customers and our suppliers. Using our willpower means we get things done.” [[56]](#endnote-13)

* **Daring to Be Different**

“IKEA question old solutions and, if we have a better idea, we are willing to change.” [[57]](#endnote-14)

* **Accept and Delegate Responsibility**

“IKEA promote co-workers with potential and stimulate them to surpass their expectations.” [[58]](#endnote-15)

* **Simplicity**

“IKEA take an easy-going, straightforward approach when solving problems, dealing with people or facing challenges.” [[59]](#endnote-16)

* **Constantly being “on the Way”**

"IKEA reviews what's done today and ask what can be done better tomorrow, so we can find new ideas and inspiration."[[60]](#endnote-17)

**Competitive Advantages**

* IKEA has a strong global brand image and is famous for its "quality, stylish furniture at a low price.
* IKEA has consumer intelligence program which aligns them with what consumers need.
* IKEA has a network of supplier across the world which helps them to obtain competitive price.
* IKEA’s business model enables them to have low costs (no assembling costs, no shipment costs, low advertising costs, low manufacturing costs).

IKEA implemented a cost leadership strategy and it focused on the core competency of sustaining profitability through a low-cost business model. The company's website stated, "We design the price tag first and then develop the product to suit that price."[[61]](#endnote-18) IKEA’s business model allows them to find the real cost of designing, sourcing, and operating, and enhances its ability to sustain its competitive advantages.

"To generate low-cost savings IKEA uses a flat packing process that allows more merchandise to be shipped and stored between distribution centers."[[62]](#endnote-19) "When they sell flat packs, there are no assembling costs, no shipment costs and most products are sold on catalogs, which helps them reduce operational costs and lower prices. Those flat packs also work well with young consumers whose budgets are normally tight."[[63]](#endnote-20)

According to Thorell, "Product developers and designers also work directly with suppliers to ensure that creating low prices starts on the factory floor."[[64]](#endnote-21)

Also, IKEA sustained itself through the competency of consumer intelligence. “IKEA conducts hundreds of home visits every year. These home visits are integral to IKEA and how they try to truly understand current and potential customers’ lives, dreams, and challenges in the hope of creating better solutions. In 2017, 22,000 people in 22 countries were involved in these visits.”[[65]](#endnote-22)

IKEA’s home visits program helped IKEA to align itself with what customers want.

“IKEA also created a destination that included playgrounds, restaurant with good food, showroom effects, and a relaxed environment for shoppers. IKEA ensured sustainability through continuing to build a brand and positioning itself.” [[66]](#endnote-23)

Furthermore, IKEA put emphasis on consumer satisfaction, and it helps IKEA to establish another core competency.

* **Situational Analysis (SWOT)**

|  |  |
| --- | --- |
| **Strengths**   * IKEA is the largest furniture retailer in the world with stores in 44 different countries. * IKEA’s earned a revenue of 10.4 billion euros in 2001, by 2012 the revenue of the company increased to 27.6 billion euros. * By August 31, 2012, IKEA had operations in 44 countries, 30 service trading offices in 25 countries, 33 distribution centers, and 11 customer distribution centers. With 139,000 people employed at 298 stores throughout 26 different countries. * Plans to double their revenues by opening 20-25 new stores by 2015. * IKEA’s products were well known for their modern architecture and eco-friendly designs. * Cost control, operational details, and continuous product development helped IKEA keep their prices low on all products. * Furniture is designed to be self-assembled for low packaging costs. * IKEA’s website has around 12,000 products which represent the company’s entire range of products. * The corporate structure of IKEA is structured to prevent any type of takeover and protect the Kamprad family from taxes. * The INGKA foundation held 100% of IKEA’s equity which protected the company from being sold or destroyed by Kamprad’s family. The purpose of the foundation is to hold shares, reinvest earnings into the IKEA group, and fund different charities. * Showrooms were first introduced in 1953 at the Almhult, Sweden location to give customers an idea of how the furniture would look after it was set up. By using the showroom, customers are able to get the best value for their money. * IKEA opened its first store in 1958 in Almhult, Smaland, Sweden. The first store had a 6,700 square meter showroom to show all of their home furnishings. This was the largest furniture display in the Scandinavian region at the time. * The biggest markets for IKEA are Germany with 44 stores and the U.S. with 37 stores. * The largest IKEA store in the southern hemisphere is located in Tempe, Australia with an area of 39,000 square meters. * Parents can drop off their children in the Smaland, the in-store daycare, so they can shop without having to keep track of their children. * IKEA is involved with many charitable organizations that have helped victims of tsunamis in Indonesia, Sri Lanka, and India. And earthquake victims in Pakistan and China. * IKEA was recognized by *Working Mothers magazine* to be one of the 100 best companies for working mothers. * India has been a source of low-cost sourcing since the 1980’s. * Millions of dollars have been spent by IKEA to create a sustainable audit and transparency network in India. * On January 22, 2013, FIPB authorized IKEA's business proposal to sell non-furniture items and run cafes in the India stores. * IKEA’s planned investment into India was the largest of any retailer. * IKEA has a growing target market in the Indian middle class, who aspire to have an international lifestyle. | **Weaknesses**   * The corporate structure of IKEA was a complicated array of not-for-profit and for-profit organizations. It had two main components-operations and franchising. * 3% of all IKEA revenue, both franchised and those run by INGKA holdings, was paid to Inter IKEA Systems as a franchise fee. * The in-store restaurants were a main source of the Kamprad family revenue and not the company’s. * With the expansion of IKEA in countries like U.S., Canada, Germany, UK, Italy, France, Spain, Belgium, Japan, Australia, and Switzerland there was very little expansion and presence in developing countries. * In January 2012 India allowed 100% single-brand retail with the condition that the retailer should mandatorily source 30% of their goods from India’s micro, small, and medium enterprises. * IKEA has been trying to get into the Indian market since 2009, but with FDI restrictions and the local resourcing conditions during that time it stalled IKEA’s entry into India. * IKEA made it clear to the Indian government that they would only enter the market when there was 100% approval by the FDI. * The government’s requirement that 30% of the company’s sourcing had to come from local micro and the medium-sized establishment was in the way of IKEA’s path into India. The reason that this was an issue was that the smaller establishments were not going to be able to keep up with the sourcing needs that IKEA had. Since IKEA had to have 30% of its sourcing come from these establishments that would mean missing out on potential profits. * The different tastes of the Indian people would mean that IKEA would have to adapt its business model to fit the retail industry in India; something the company had never done before. * Land availability meant a definite change to IKEA’s business model. * The FIPB did eventually permit the sale of food in the store’s cafes, but they kept the restriction of selling food off the shelf in the store. * The FIPB also said that IKEA could not use its global procurement of products to satisfy the Indian demand of mandatory sourcing from the country. * IKEA had just five years to launch and fully comply with these different requirements. * After IKEA gained access to the Indian market, it was going to take them four to five years to make their iconic flat-pack furniture available. * The amount of land that each IKEA store needs to operate is difficult to obtain in the suburban areas, where they are normally located, due to high real estate prices. * Acquiring the necessary large land amounts through public auction by the government or through the sale by individual owners might turn out to be IKEA’s greatest challenge in India. * Due to the IKEA stores being located in suburban areas, customers had to travel long distances to reach the stores. * The Indian people are accustomed to readymade furniture. * Also, the Indian people expect to be guided around the store. |

|  |  |
| --- | --- |
| **Opportunities**   * An opportunity for customers to see the furniture in the IKEA showroom before they decide to buy was first introduced in 1953. * IKEA discovered the flat-pack system through one of the workers disassembling the furniture to fit into his car. This discovery led to the self-assembly idea that IKEA has been able to use to keep the cost of its products low. * The first in-store restaurants were added in 1960. IKEA quickly made this an integral part of every store layout. * With restaurants in its stores, IKEA had been able to differentiate itself and soon decided to look at different markets outside of Sweden. * By 2013 IKEA planned to open its first warehouse in Croatia and then open its first store in Vilnius, Lithuania, this would be the biggest furniture-selling mall in the Baltic States. * IKEA encouraged its customers to go throughout the whole store by making a one-way layout. This would ensure that customers spent more time in the store and that they would at least walk past all of the products. * The furniture industry as a whole has experienced a boom and is developing more markets at a faster rate since the turn of the millennium. * Developing countries like Mexico, China, the Philippines, Indonesia, Malaysia, Singapore, Thailand, Korea, Taiwan, India, and Poland were showing great potential for the furniture industry. * Asia, with its steady improvement in economy and standard of living, is showing great long-term growth potential for the global furniture market. * The Indian customer’s preferences had changed with the passing of time and the furniture industry has changed to better suit the customer’s needs. * In the Indian furniture, market home furniture was by far the largest segment at 65%, with the office furniture at 20%, and the contract segment at 15%. * IKON marketing research found that within the Indian economy, real estate and housing activity, Information Technology and Services and the Indian middle class aspiring for a better lifestyle, there would be another boom in the Indian furniture industry and that the demand would be coming from the metropolitan cities. * The retailing industry accounted for 14% of India's GDP. With the opportunity for growth. * The government difficulties IKEA experienced with its entrance into the Indian market, the estimated size of the market alone which was Rs. 925 billion with only 7% belonging to organized retail, was worth IKEA’s efforts. * In January 2012 India finally approved reforms that allowed 100% FDI in single-brand retail, just what IKEA was waiting for. * In September 2012 the Indian government tweaked the mandatory 30% sourcing rule so that if the company would set up manufacturing facilities in India then they could avoid the 30% sourcing from the micro and small businesses. * IKEA was entering a market where there were virtually no big brands. * The furniture market in India was expected to grow from US $10 billion in 2009 to US $15 billion by 2014. | **Threats**   * IKEA's initial attempt to enter the Indian market was met with very stringent policies by India's Foreign Direct Investment regulations. * IKEA needs to develop a strategy to win at the highly-fragmented, prices sensitive Indian market, especially since the Indian people prefer to have their furniture made and not have to put it together themselves. * IKEA had managed to impress the Indian government but impressing the Indian people would be completely different. * In developed countries, long-established production capacity, advances in science and technology, greater availability of funds, and management experiences, the traditional furniture making countries in the West held 70% of the global market. * India was already home to skilled furniture makers that made traditional handcraft pieces of furniture. These craftsmen were known around the world for their quality, designs, and elegant trends. * Handcrafted production accounted for 85%-90% of all furniture produced in India. * Furniture imports are growing at a considerable rate, catering to the need of the urban middle class in compact apartments. * These imports are coming from countries like Germany, Japan, Italy, Korea, and China. * With this growing market, international brands like Arrdeo Classic, B.T.C International, and Bizzari are trying to enter the Indian market. * Top domestic companies such as Godrej, BP Ergo, Featherlite, Hanworth, and Style Spa have a presence in the Indian furniture industry. * After liberalization in the 1990’s many companies had set their sights on the Indian market. * FDI regulations and local sourcing conditions prevented IKEA from entering the Indian market in 2009. * IKEA had to battle rumors of a partnership with Indian firms. * With the different sourcing regulations in place, IKEA could not enter the market, because the [small and midsize enterprises] would be difficult to live up to. However, the Indian market was too valuable to walk away from. * The issue with the sourcing regulations and inconsistencies with small vendors would create supply chain inconsistencies. * On November 20, 2012, the Foreign Investment Promotion Board approved IKEA's proposal to start operations in India under the following conditions: that no food or beverage outlets were to be operated in any of the stores and IKEA could not sell 18 different categories of items, and they could not sell any items they did not brand. * There was an increase in competition between large box retailers that had little differentiation between each other. * A major challenge for IKEA was the availability of retail space and the cost. * The unpredictability of the receptiveness of IKEA's products among the next generation. |

**Porter’s Value Chain**

* **Human Resources**

IKEA has received several awards for creating a good workplace environment for their employees. Two years in a row they were on the Best Companies for Working Mothers list, published by *Working Mothers*. Fortunes added IKEA to their list of 100 Best Companies to Work For in 2006. MediaCorp Canada Inc named them on their list of Canada’ Top 100 Employers.

They partnered with the United Nations Development Program and UNICEF to make programs that empowered woman and minority workers, protect children, and create a safe environment for their employees. They implemented programs for better healthcare, sanitation, and education. These programs were important for IKEA to keep moving forward and gaining trust with the international markets it wanted to move into.

* **Finance**

\*Consolidate Income Statement in millions

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | 2012 | 2011 | 2010 | 2009 | 2008 |
| Revenue | 27,628 | 25,173 | 23,539 | 21,846 | 21,534 |
| Costs of Sales | 15,723 | 13,773 | 12,454 | 11,878 | 11,802 |
| Gross Profit | 11,905 | 11,400 | 11,085 | 9,968 | 9,732 |
| Operating Cost | 8,423 | 7,808 | 7,888 | 7,198 | 7,078 |
| Operating Income | 3,482 | 3,592 | 3,197 | 2,770 | 2,645 |
| Total Financial Income and Expenses | 427 | 165 | 76 | 143 | 177 |
| Income Before Minority Interest and Tax | 3,909 | 3,757 | 3,273 | 2,913 | 2,831 |
| Tax | 695 | 781 | 577 | 384 | 546 |
| Minority Interests | 12 | 10 | 8 | - | - |
| Net Income | 3,203 | 2,966 | 2,688 | 2,538 | 2,280 |

IKEA has seen steady revenue growth going all the way back to 2001.

The years 2008 and 2009 show very little growth. During that time the United States was experiencing a deep recession. Often when the U.S. dollar is deflated, and the economy is unstable, it affects many other countries. It’s possible that recession hindered some growth for those years.

The new IKEA stores are being built with more natural light, cutting down on energy costs.

* **Information Technology Systems**

IKEA began to use Product Information Assistance (PIA) in 1998. This database keeps product descriptions, pictures, and specifications that are helpful to suppliers and to the retail locations.[[67]](#footnote-44)

* **Supply Chain Management**

IKEA uses 70 suppliers and 1,450 sub-suppliers in India to source their raw materials. When IKEA knew they were going to be able to begin opening retail stores in India, they communicated with the suppliers they already had in place.

* **Operations**
  + Focus on cost-cutting by selling self-assemble furniture.
  + The floorplan of their stores is laid out so that customers have to walk all the way through – seeing all the showrooms and products along the way.
* **Distributions**

IKEA has thirty-three distributions centers, eleven customer distribution centers in forty-four countries.

They sell self-assemble furniture sold in flat packs to make distribution more cost-effective.

* **Marketing + Sales**
  + They offer 12,000 designs online. IKEA is now using sites such as Amazon and Alibaba to sell their products They are also introducing some virtual reality shopping experiences.[[68]](#footnote-45)
  + IKEA is in 44 countries; Germany and the U.S. have the most IKEA locations.
  + Create modern and sleek designs.
  + Known for being eco-friendly which is very appealing to millennial shoppers
  + They use showrooms to give customers the opportunity to see how certain items look in a completed room and examine all the functions of the furniture before purchasing.
  + The stores are laid out so that customers have to walked it in its’ entirety. This idea has added to IKEA’s success. Often customers will see and buy something on their walk through the store that they were not planning to purchase. This also lessens the need for sales associates around the store because most of their merchandise is in one central location toward the end of the store, ready to be picked up by the customer.
  + They offer child care, Smaland, that allows parents to drop their kids off and pick them up at the end of their shopping trip. Shopping without kids lets the parents take their time and focus on what they are doing.
  + IKEA has signature blue and yellow colors that help customers identify with the brand
  + Their food courts serve local and traditional Swedish food – some customers go to IKEA locations just to eat at their restaurants.
  + **Follow-up Services**
    - After a customer makes an online purchase, they are able to track their order on the IKEA website.
    - They have a program called "IKEA Family," a loyalty program for frequent shoppers. The program is free to join, and members receive exclusive offers and discounts, such as a free hot drink at the IKEA food court. Customers can sign up with an email address. This program is good for IKEA because it helps build brand loyalty and is also an easy way to track customer preferences.

**Strategic Analysis**

* **Corporate-level**

IKEA’s Social Initiative partnered with UNICEF and Save the Children in 2005. Their Social Initiative oversees global involvement in political, human rights, and environmental issues.

IKEA partnered with the United Nations and their development plans to ensure a good work environment for their employees – specifically, women and children.

IKEA tries to use local resources when they can. In the India market, they source goods from 70 suppliers and 1450 sub-suppliers. They also set up a trading division in India for raw materials, which was very cost effective. This outsourcing not only created jobs in the India market but also paved the way for IKEA's retail entrance in India.

* **Business-level**

Focused Cost Leadership – IKEA products are made to be sold at a low price. They look to cut cost as much as possible, mainly with their flat-packs and self-assembly, while keeping the quality. They also focus on narrow market segments. They target families with children, providing a place for their children to play while they shop for furniture. The IKEA brand also appeals to a young target market that is looking for wallet-friendly but stylish options for their homes. They would also appeal to an eco-friendly market because of their naturally sourced products.

* **Cultural Assessment**

IKEA’s culture is unique. For an internationally recognizable brand, there is a strong sense of community when you enter one of their stores. IKEA’s vision is “to create a better everyday life for the many people.”[[69]](#footnote-46) There focus is on regular, middle-class people. Their brand is recognizable, and the stores feel down-to-earth.

* **Organizational Structure**

The founder, Kamprad, did not own IKEA. He gave 100% of IKEA to a non-profit organization that he set up, Stichting INGKA Foundation. The foundation has a five-person board that oversees, board members include, Kamprad, his wife, and their attorney. IKEA operations are controlled and owned by INGKA Holding BV, a Dutch, for-profit, private business. The franchising of IKEA stores is controlled and operated by Inter IKEA Systems, a separate, Dutch organization. Inter IKEA Systems is owned by IKEA Holding of Luxembourg which is owned by Interogo Foundation in Liechtenstein which is owned by the Kamprad family. The purpose of this structure is to protect the founder's family from takeovers, taxes, and liabilities – while keeping a lot of control over operations and major strategic decisions. IKEA has a multi-divisional structure, with the main headquarters, a top CEO, and then several sub-units.

* **Firm Leadership**

IKEA has a main CEO, Jesper Brodin, who is a member of the Management Board. Then they have several top-level managers and CEOs over different areas of the organization, such as finance, culture, communication, digital, investments, strategy, and retail operations.[[70]](#footnote-47) Their headquarters is in the Netherlands.

* **Functional**-**level**

**Superior Innovation**

The picture on the next page showed IKEA’s secret innovation lab, Space 10.

图片包含 建筑物, 户外, 道路, 天空



自动生成的说明

Space10 is “a research hub and exhibition space that explores and designs innovative and responsible business models for the future that enables a more meaningful and sustainable life for the many people.” [[71]](#endnote-24)

Space 10 enables IKEA to “explore food security, the pace of urbanization, health and wellness, and other macro-trends in a fearless way. It located in the heart of Copenhagen’s meatpacking district among design start-ups.” [[72]](#endnote-25)

Space10 "invites people from the worlds of art, design, and technology on different research projects that result in a range of prototypes, exhibitions, events, and workshops." [[73]](#endnote-26)

Since Space 10’s launch in 2015, the lab has generated a surprising number of new ideas, such as Energy Harvesting Furniture and Air-Improving Windows.



**Energy Harvesting Furniture**

The picture on the left showed the Space10 prototype that “uses thermoelectric pads built into surfaces to capture heat that would otherwise be wasted from the pot of coffee and convert it into electricity that can recharge your phone or keep your laptop humming along.”[[74]](#endnote-27)

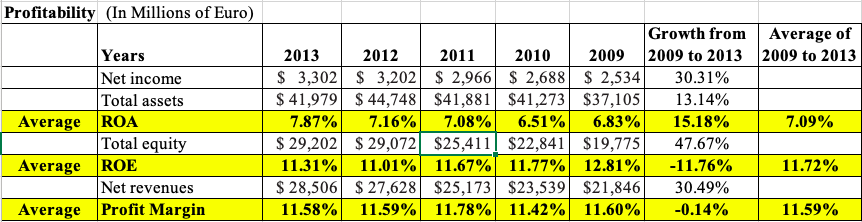
**Air-Improving Windows**

The picture on the right is the “Vayü, a modular device which uses CO2 sensors to measure both indoor and outdoor air quality, Vayü automatically nudges windows open when the air inside the home is stale and shuts them when outdoor pollution levels rise too high.”[[75]](#endnote-28)

**Strategy Formulation/Recommendations**

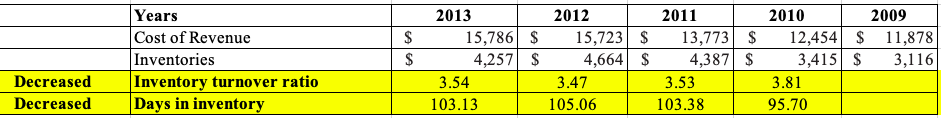
1. Transportation of purchased goods in India is not as feasible as other countries due to a higher percentage of compact cars, low levels of car ownership, and the rough road network. The Indian people are not accustomed to transporting furniture to vehicles themselves. IKEA could overcome these issues by offering delivery services with purchases of larger size furniture products and large quantity furniture purchases. Or IKEA can also introduce a reward program that customers can earn points to redeem for free deliveries.
2. IKEA can also add an assembly service segment to its stores in India to help people assemble their furniture. Or IKEA can cooperate with local craftsmen by contracting with them to install furniture for IKEA’s customers. This will help people that don’t have the ability to assemble their own furniture. And It will also attract customers that wish to buy IKEA but not want to assemble their own furniture. This service might increase the revenue of IKEA as well as provide jobs to the economy of India.
3. IKEA should switch all of their furniture to composite materials instead of wood and other ecologically negative materials. The high use of wood in the manufacturing of their furniture has done little for the company’s image rating in the European Union. Composites are much more cost effective and arguably more durable as well. It would serve them well to switch completely to composite materials that are more sustainable and have less on a negative impact on their image.
4. To better reach the Indian people, IKEA can design more unique furniture products that mimic the Indian culture. Indians are used to hand-crafted, traditional furniture. IKEA can use local, Indian designers to create these products or they could partner with some of India's domestic brands, such as Godrej or Hanworth.
5. IKEA can focus more on India’s growing number of middle-class people. According to NCAER, India's middle-class population was 267 million in 2016. The number of middle-class households in India is likely to double to 547 million people.[[76]](#endnote-29)
6. IKEA can also accelerate its expansion into developing countries like Mexico, China, the Philippines, Indonesia, Malaysia, Singapore, Thailand, Korea, Taiwan, India, and Poland. They were showing “great potential for the furniture industry.”[[77]](#endnote-30) Also, “Asia, with its steady improvement in economy and standard of living, is showing great long-term growth potential for the global furniture market.” [[78]](#endnote-31)
7. As the case pointed out that “Land availability in India meant a definite change to IKEA’s business model.” IKEA can also consider finding a good location that is closer to customers’ homes like what it did in China.
8. In India, IKEA can also design smaller size furniture to accustom to India’s small size apartments. It might also reduce the cost of furniture since the size is smaller.
9. IKEA can also try to acquire local furniture companies in India to occupy more market share and to speed up its expansion because IKEA has sufficient capital.

**Case Analytical Insights**

**Profitability**

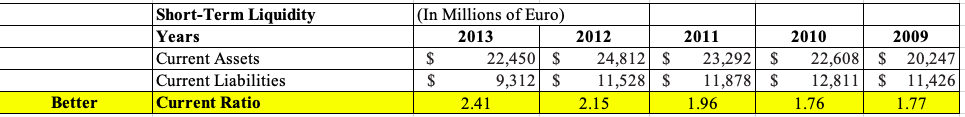
The table above showed IKEA's ROA has increased by 15.18% from 2009 to 2013. The increase in ROA in 2013 was mainly because of IKEA's decrease in its total assets in 2013. And IKEA's ROE and profit margin were decreased by -11.76% and -0.14% respectively from 2009 to 2013.  Overall, IKEA's net income, total assets, total equity, and net revenues all have increased from 2009 to 2013 (30.31%, 13.14%, 47.67%, and 30.49% respectively).

**Short-Term Liquidity**



IKEA's inventory turnover ratio decreased from 3.81 in 2010 to 3.54 in 2013. This means that IKEA covered more than 3.54 times of its inventory in 2013. The days in inventory increased from 95.70 days in 2010 to 103.13 days in 2013. The days in inventory of 2013 also implied that it would take IKEA 103.13 days to sell its entire inventory or complete one turn.

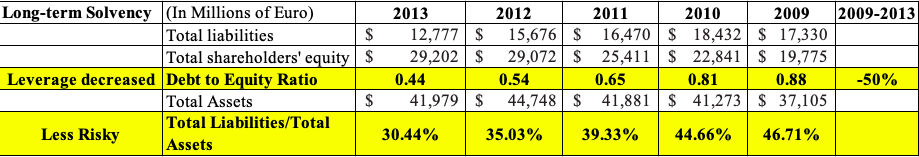
Although IKEA's days in inventory has increased by 7.43 days from 2010 to 2013, IKEA's days in inventory in 2013 has improved when compared to its days in inventory of 105.06 in 2012 and 103.38 in 2011. In other words, IKEA still has good inventory control (improving).

The speed of selling inventory is an important measure of IKEA’s performance.

According to Debitoor Dictionary, a current ratio above 1 is considered a high ratio.[[79]](#endnote-32) IKEA's current ratio were all above 1.7 from 2012 to 2017.

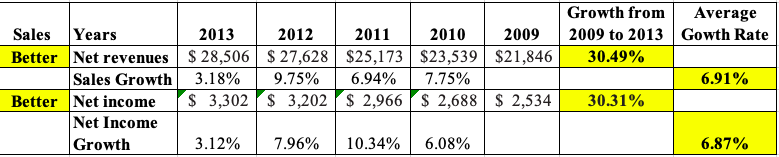
It showed that IKEA was more than capable of paying off their current liabilities (debt and accounts payable) with current assets (cash, marketable securities, inventory, account receivable). IKEA has a good short-term liquidity.

**Long-Term Solvency**

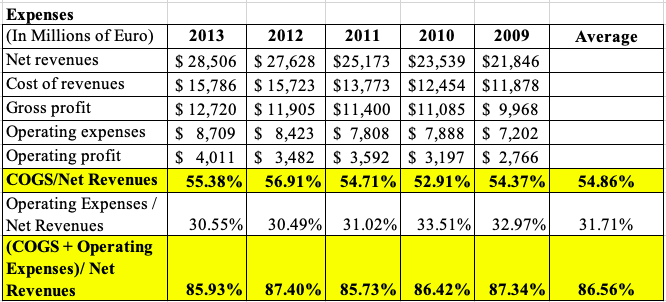


The debt to equity ratio has decreased by 50% from 0.88 in 2009 to 0.44 in 2013. Its total liabilities to total assets ratio also decreased from 46.71% in 2009 to 30.44% in 2013. IKEA has been paying off its debt.

Low level of leverage usually implies a low level of risk.

**Sales**

IKEA's net revenues have increased at an average growth rate of 6.91% from 2009 to 2013. And its net income also has increased at an average growth rate of 6.87% from 2009 to 2013.

**Expenses**

On average, IKEA's cost of goods sold amounted to more than 54.86% of its net revenues from 2009 to 2013. And IKEA's average of total expenses (COGS + Operating expenses) over net revenues ratio was 86.56% from 2009 to 2013.

IKEA is an acronym for: I = Ingvar- first name of our founder, K = Kamprad, his last name, E = Elmataryd the name of the farm Ingvar was raised on in Sweden, A = Agunnaryd the Village he grew up in.[[80]](#endnote-33) IKEA doesn't depend on banks and investors, so it does not need to show quick results to investors.[[81]](#endnote-34)

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