ENVIRONMENTAL ANALYSIS

COMPONENTS OF A BUSINESS ENVIRONMENT

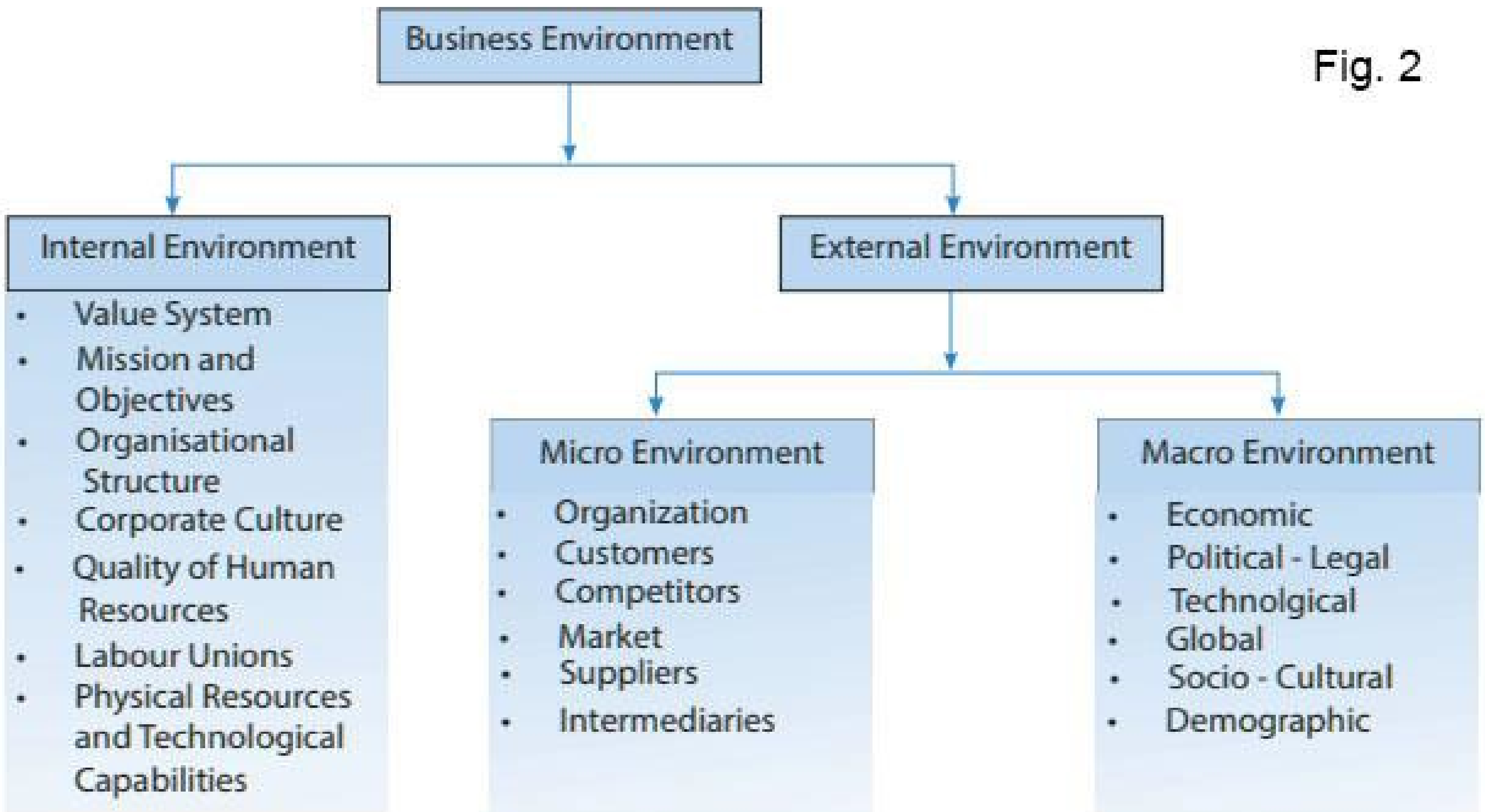


Fig. 2

ENVIRONMENTAL ANALYSIS

- Environmental analysis is a strategic tool.
- It is a process to identify all the external and internal elements, which can affect the organization's performance.
- The analysis entails assessing the level of threat or opportunity the factors might present.
- These evaluations are later translated into the decision-making process.
- The analysis helps align strategies with the firm's environment.
- Businesses are greatly influenced by their environment, so they must constantly analyze the trade environment and the market.

PESTEL FRAMEWORK

- There are many strategic analysis tools that a firm can use, but some are more common.
- The most used detailed analysis of the environment is the PESTEL analysis.
- This is a bird's eye view of the business conduct.
- Managers and strategy builders use this analysis to find where their market currently.
- It also helps foresee where the organization will be in the future.
- PESTEL analysis consists of various factors that affect the business environment.
- These factors can affect every industry directly or indirectly.

- **P** Is for "Political.
- **E** Is for "Economic".
- **S** Is for "Social".
- **T** Is for "Technological".
- **E** Is for "Environmental".
- **L** Is for "Legal".

Political Factors

- The political factors take the country's current political situation.
- It also reads the global political condition's effect on the country and business.
- Some of the factors considered for analysis are:
  - Government policies
  - Taxes laws and tariff
  - Stability of government
  - Entry mode regulations

Economic Factors

- Economic factors involve all the determinants of the economy and its state.
- These are factors that can conclude the direction in which the economy might move.
- So, businesses analyze this factor based on the environment.
- It helps to set up strategies in line with changes.

Economic Factors

- Some of the determinants considered for analysis are:
  - The inflation rate
  - The interest rate
  - Disposable income of buyers
  - Credit accessibility
  - Unemployment rates
  - The monetary or fiscal policies
  - The foreign exchange rate

Social Factors

- Countries vary from each other.
- Every country has a distinctive mindset.
- These attitudes have an impact on the businesses.
- The social factors might ultimately affect the sales of products and services.

SOCIAL FACTORS

- Some of the social factors analysed:
  - The cultural implications
  - The gender and connected demographics
  - The social lifestyles
  - The domestic structures
  - Educational levels
  - Distribution of Wealth

Technological Factors

- Technology is advancing continuously.
- The advancement is greatly influencing businesses.
- Performing environmental analysis on these factors will help you stay up to date with the changes.
- Technological factors will help you know how the consumers react to various trends.
- Social media has become a vital part of any business now-a-days.

Technological Factors

- Companies will have to perform this analysis for their benefit. It helps them:
  - New discoveries
  - Rate of technological obsolescence
  - Rate of technological advances
  - Innovative technological platforms

Environment Factors

- The location influences business trades.
- Climatic changes can affect the trade of businesses.
- The consumer reactions to particular offering can also be an issue.
- This most often affects agri-businesses.
- Some environmental factors to be noticed are:
  - Geographical location
  - The climate and weather
  - Waste disposal laws
  - Energy consumption regulation
  - People's attitude towards the environment

Legal Factors

- Legislative changes take place from time to time.
- Many of these changes affect the business environment.
- If a regulatory body sets up a regulation for industries, for example, that law would impact industries and business in that economy.
- So, businesses should also analyze the legal developments in respective environments.
- Some of the legal factors to be aware of:
  - Product regulations
  - Employment regulations
  - Competitive regulations
  - Patent infringements
  - Health and safety regulations

IMPORTANCE OF ENVIRONMENT ANALYSIS

- There are many external factors other than the ones discussed.
- None of these factors are independent.
- They rely on each other.
- It is true that industry factors have an impact on the company performance.
- Environmental analysis is essential to determine what role certain factors play in your business.
- PEST or PESTEL analysis allows businesses to take a look at the external factors.
- Many organizations use these tools to project the growth of their company effectively.
- The analyses provide a good look at factors like revenue, profitability, and corporate success.

STEPS TO CONDUCT ENVIRONMENT ANALYSIS

- Understand all the environmental factors before moving to the next step.
- Collect all the relevant information.
- Identify the opportunities for the organization.
- Recognize the threats the company faces.
- The final step is to take action.

PESTEL ANALYSIS OF FOOD INDUSTRY IN INDIA

- **Political Factors:**
  - FDI & growth
  - Wide regulations
  - EXIM Policy
  - Harmonised System for tariff rates
- **Economic Factors:**
  - Growing Disposable Incomes
  - Increasing Labor Costs
  - GDP
  - Inflation
  - Fiscal Policy

- Social Factors:
  - Health consciousness
  - Dietary Regulations
- Technological Factors:
  - Growth of e-commerce & digital economy
  - Automation
- Environmental Factors:
  - Organic farming
- Legal Factors:
  - Food Safety & Standards Authority of India (FSSAI)
  - Bureau of Indian Standards (BIS) & Indian Standards Institute (ISI)
  - Custom Clearance Procedure
  - International Organisation for Standardisation (ISO)
  - Agmark
  - Food Safety & Standards (Packing & labelling) Regulation

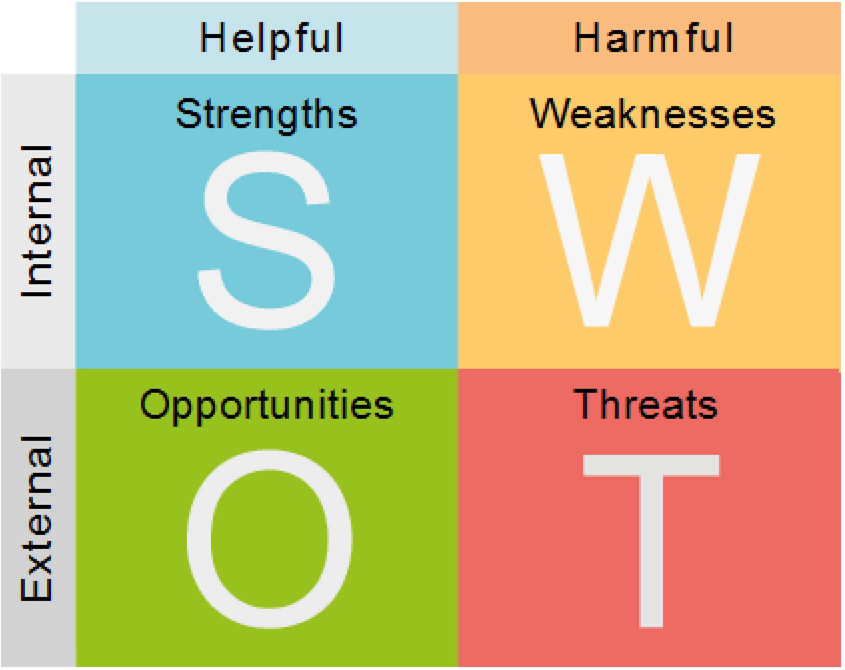
SWOT Analysis

- **Swot analysis** – an analysis of an organization's strengths and weaknesses alongside the opportunities and threats present in the external environment."
- "**Swot analysis** involves the collection and portrayal of information about internal and external factors which have, or may have, an impact on business."

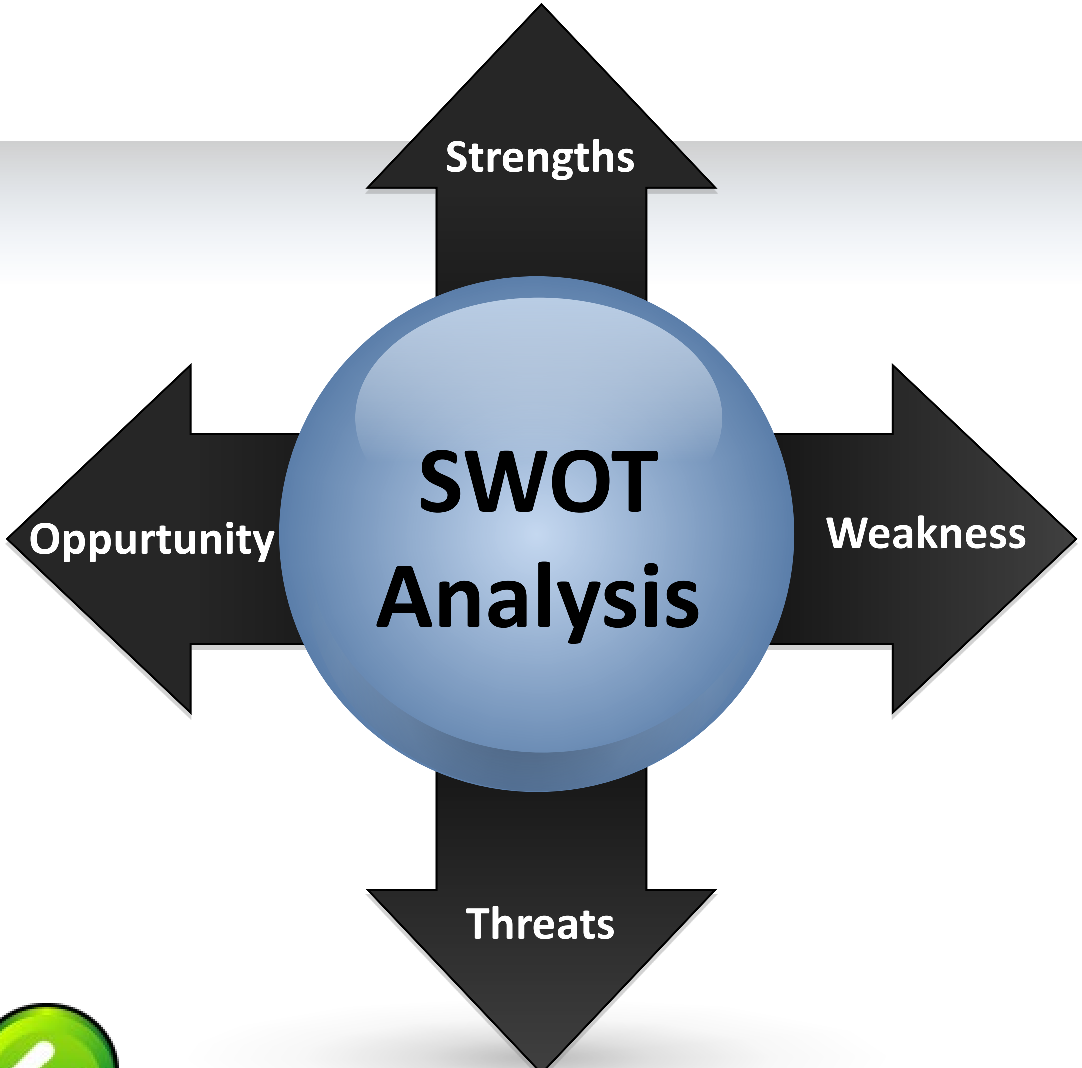
SWOT Analysis

- **Strengths:** factors that give an edge for the company over its competitors.
- **Weaknesses:** factors that can be harmful if used against the firm by its competitors.
- **Opportunities:** favorable situations which can bring a competitive advantage.
- **Threats:** unfavorable situations which can negatively affect the business.

SWOT MATRIX


Helpful
Harmful
Internal
External
Strengths
S
Weaknesses
W
Opportunities
O
Threats
T

What is SWOT Analysis?



- Acronym for **Strengths**, **Weaknesses**, **Opportunities**, and **Threats**.
- Technique is credited to Stanford University in the 1960s and 1970s.
- **Planning tool** used to understand Strengths, Weaknesses, Opportunities, & Threats involved in a project / business.
- Used as **framework for organizing** and using data and information gained from **situation analysis** of internal and external environment.
- Technique that enables a group / individual to move from everyday problems / traditional strategies to a **fresh perspective**.

What is SWOT Analysis?

STRENGTHS

- Characteristics of the business or a team that give it an advantage over others in the industry.
- Positive tangible and intangible attributes, internal to an organization.
- Beneficial aspects of the organization or the capabilities of an organization, which includes human competencies, process capabilities, financial resources, products and services, customer goodwill and brand loyalty.
- **Examples** - Abundant financial resources, Well-known brand name, Economies of scale, Lower costs [raw materials or processes], Superior management talent, Better marketing skills, Good distribution skills, Committed employees.

What is SWOT Analysis?

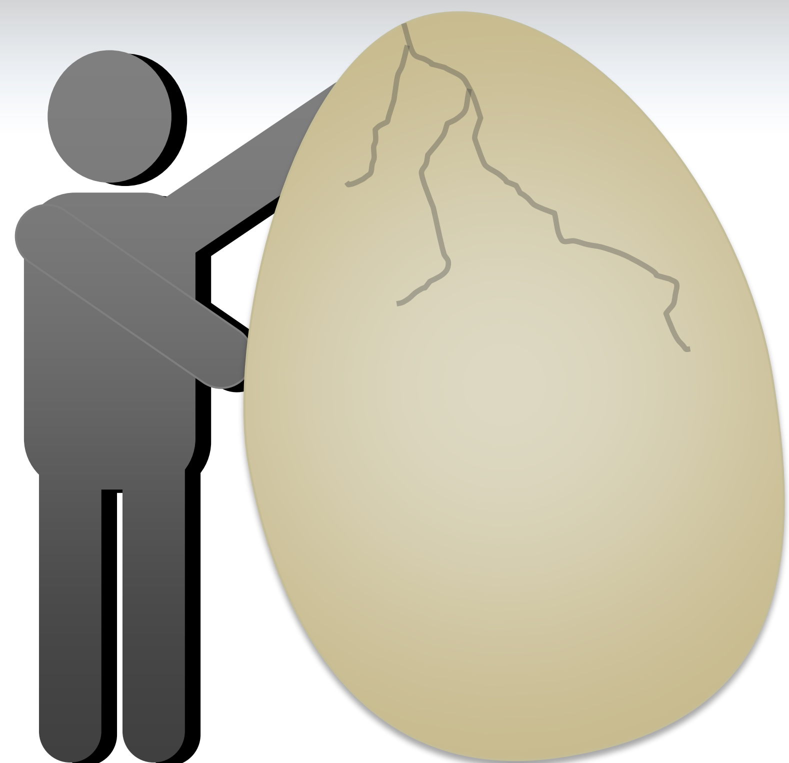
OPPORTUNITIES

- Chances to make greater profits in the environment - External attractive factors that represent the reason for an organization to exist & develop.
- Arise when an organization can take benefit of conditions in its environment to plan and execute strategies that enable it to become more profitable.
- Organization should be careful and recognize the opportunities and grasp them whenever they arise. Opportunities may arise from market, competition, industry/government and technology.
- **Examples** - Rapid market growth, Rival firms are complacent, Changing customer needs/tastes, New uses for product discovered, Economic boom, Government deregulation, Sales decline for a substitute product .

What is SWOT Analysis?

WEAKNESSES

- Characteristics that place the firm at a disadvantage relative to others.
- Detract the organization from its ability to attain the core goal and influence its growth.
- Weaknesses are the factors which do not meet the standards we feel they should meet. However, weaknesses are controllable. They must be minimized and eliminated.
- **Examples** - Limited financial resources, Weak spending on R & D, Very narrow product line, Limited distribution, Higher costs, Out-of-date products / technology, Weak market image, Poor marketing skills, Limited management skills, Under-trained employees.

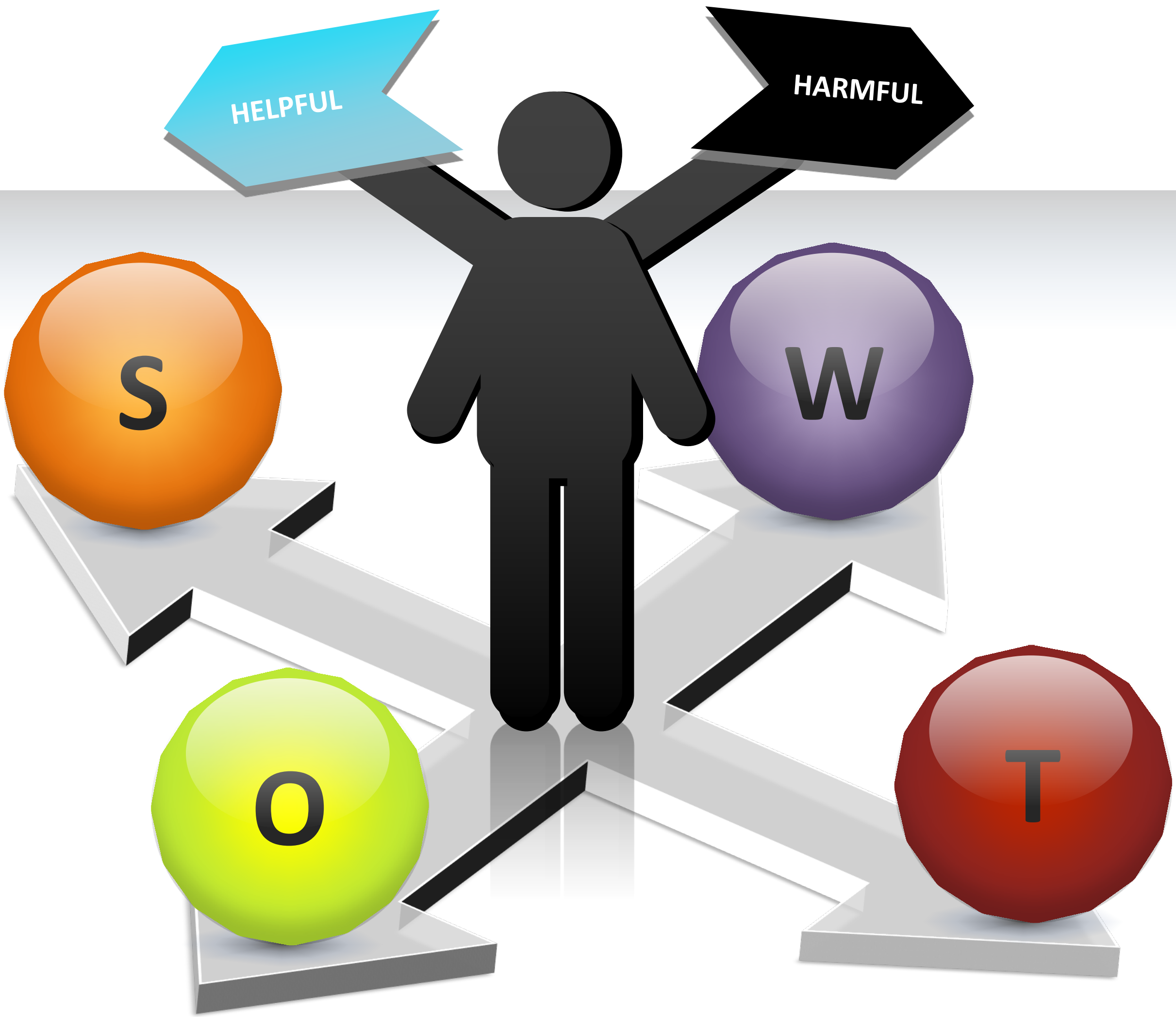


What is SWOT Analysis?

THREATS

- External elements in the environment that could cause trouble for the business - External factors, beyond an organization's control, which could place the organization's mission or operation at risk.
- Arise when conditions in external environment jeopardize the reliability and profitability of the organization's business.
- Compound the vulnerability when they relate to the weaknesses. Threats are uncontrollable. When a threat comes, the stability and survival can be at stake.
- **Examples** - Entry of foreign competitors, Introduction of new substitute products, Product life cycle in decline, Changing customer needs/tastes, Rival firms adopt new strategies, Increased government regulation, Economic downturn.

Aim of SWOT Analysis?



- To help decision makers share and compare ideas.
- To bring a clearer common purpose and understanding of factors for success.
- To organize the important factors linked to success and failure in the business world.
- To analyze issues that have led to failure in the past.
- To provide linearity to the decision making process allowing complex ideas to be presented systematically.

Porters 5 Forces Analysis

1 Introduction

The model of the Five Competitive Forces was developed by Michael E. Porter in his book „Competitive Strategy: Techniques for Analyzing Industries and Competitors“ in 1980. Since that time it has become an important tool for analyzing an organizations industry structure in strategic processes.

Porters model is based on the insight that a corporate strategy should meet the opportunities and threats in the organizations external environment. Especially, competitive strategy should base on and understanding of industry structures and the way they change.
Porter has identified five competitive forces that shape every industry and every market. These forces determine the intensity of competition and hence the profitability and attractiveness of an industry. The objective of corporate strategy should be to modify these competitive forces in a way that improves the position of the organization.
Porters model supports analysis of the driving forces in an industry. Based on the information derived from the Five Forces Analysis, management can decide how to influence or to exploit particular characteristics of their industry.

2 The Five Competitive Forces

The Five Competitive Forces are typically described as follows:

2.1 Bargaining Power of Suppliers

The term 'suppliers' comprises all sources for inputs that are needed in order to provide goods or services.
Supplier bargaining power is likely to be high when:

- The market is dominated by a few large suppliers rather than a fragmented source of supply,
- There are no substitutes for the particular input,
- The suppliers customers are fragmented, so their bargaining power is low,
- The switching costs from one supplier to another are high,
- There is the possibility of the supplier integrating forwards in order to obtain higher prices and margins. This threat is especially high when
  - The buying industry has a higher profitability than the supplying industry,
  - Forward integration provides economies of scale for the supplier,
  - The buying industry hinders the supplying industry in their development (e.g. reluctance to accept new releases of products),
  - The buying industry has low barriers to entry.

In such situations, the buying industry often faces a high pressure on margins from their suppliers. The relationship to powerful suppliers can potentially reduce strategic options for the organization.

2.2 Bargaining Power of Customers

Similarly, the bargaining power of customers determines how much customers can impose pressure on margins and volumes.
Customers bargaining power is likely to be high when

- They buy large volumes, there is a concentration of buyers,
- The supplying industry comprises a large number of small operators
- The supplying industry operates with high fixed costs,
- The product is undifferentiated and can be replaces by substitutes,
- Switching to an alternative product is relatively simple and is not related to high costs,
- Customers have low margins and are price-sensitive,
- Customers could produce the product themselves,
- The product is not of strategical importance for the customer,
- The customer knows about the production costs of the product
- There is the possibility for the customer integrating backwards.

2.3 Threat of New Entrants

The competition in an industry will be the higher, the easier it is for other companies to enter this industry. In such a situation, new entrants could change major determinants of the market environment (e.g. market shares, prices, customer loyalty) at any time. There is always a latent pressure for reaction and adjustment for existing players in this industry.
The threat of new entries will depend on the extent to which there are barriers to entry. These are typically

- Economies of scale (minimum size requirements for profitable operations),
- High initial investments and fixed costs,
- Cost advantages of existing players due to experience curve effects of operation with fully depreciated assets,
- Brand loyalty of customers
- Protected intellectual property like patents, licenses etc,
- Scarcity of important resources, e.g. qualified expert staff
- Access to raw materials is controlled by existing players,
- Distribution channels are controlled by existing players,
- Existing players have close customer relations, e.g. from long-term service contracts,
- High switching costs for customers
- Legislation and government action

2.4 Threat of Substitutes

A threat from substitutes exists if there are alternative products with lower prices of better performance parameters for the same purpose. They could potentially attract a significant proportion of market volume and hence reduce the potential sales volume for existing players. This category also relates to complementary products.
Similarly to the threat of new entrants, the treat of substitutes is determined by factors like

- Brand loyalty of customers,
- Close customer relationships,
- Switching costs for customers,
- The relative price for performance of substitutes,
- Current trends.

2.5 Competitive Rivalry between Existing Players

This force describes the intensity of competition between existing players (companies) in an industry. High competitive pressure results in pressure on prices, margins, and hence, on profitability for every single company in the industry.
Competition between existing players is likely to be high when

- There are many players of about the same size,
- Players have similar strategies
- There is not much differentiation between players and their products, hence, there is much price competition
- Low market growth rates (growth of a particular company is possible only at the expense of a competitor),
- Barriers for exit are high (e.g. expensive and highly specialized equipment).

3 Use of the Information form Five Forces Analysis

Five Forces Analysis can provide valuable information for three aspects of corporate planning:

Statical Analysis:
The Five Forces Analysis allows determining the attractiveness of an industry. It provides insights on profitability. Thus, it supports decisions about entry to or exit from and industry or a market segment. Moreover, the model can be used to compare the impact of competitive forces on the own organization with their impact on competitors. Competitors may have different options to react to changes in competitive forces from their different resources and competences. This may influence the structure of the whole industry.

Dynamical Analysis:
In combination with a PEST-Analysis, which reveals drivers for change in an industry, Five Forces Analysis can reveal insights about the potential future attractiveness of the industry. Expected political, economical, socio-demographical and technological changes can influence the five competitive forces and thus have impact on industry structures.
Useful tools to determine potential changes of competitive forces are scenarios.

Analysis of Options:
With the knowledge about intensity and power of competitive forces, organizations can develop options to influence them in a way that improves their own competitive position. The result could be a new strategic direction, e.g. a new positioning, differentiation for competitive products of strategic partnerships (see section 4).

Thus, Porters model of Five Competitive Forces allows a systematic and structured analysis of market structure and competitive situation. The model can be applied to particular companies, market segments, industries or regions. Therefore, it is necessary to determine the scope of the market to be analyzed in a first step. Following, all relevant forces for this market are identified and analyzed. Hence, it is not necessary to analyze all elements of all competitive forces with the same depth.

The Five Forces Model is based on microeconomics. It takes into account supply and demand, complementary products and substitutes, the relationship between volume of production and cost of production, and market structures like monopoly, oligopoly or perfect competition.

4 Influencing the Power of Five Forces

After the analysis of current and potential future state of the five competitive forces, managers can search for options to influence these forces in their organization's interest. Although industry-specific business models will limit options, the own strategy can change the impact of competitive forces on the organization. The objective is to reduce the power of competitive forces.

The following figure provides some examples. They are of general nature. Hence, they have to be adjusted to each organization's specific situation. The options of an organization are determined not only by the external market environment, but also by its own internal resources, competences and objectives.

4.1 Reducing the Bargaining Power of Suppliers	4.2 Reducing the Bargaining Power of Customers
• Partnering • Supply chain management • Supply chain training • Increase dependency • Build knowledge of supplier costs and methods • Take over a supplier	• Partnering • Supply chain management • Increase loyalty • Increase incentives and value added • Move purchase decision away from price • Cut put powerful intermediaries (go directly to customer)
4.3 Reducing the Treat of New Entrants	4.4 Reducing the Threat of Substitutes

• Increase minimum efficient scales of operations • Create a marketing / brand image (loyalty as a barrier) • Patents, protection of intellectual property • Alliances with linked products / services • Tie up with suppliers • Tie up with distributors • Retaliation tactics	• Legal actions • Increase switching costs • Alliances • Customer surveys to learn about their preferences • Enter substitute market and influence from within • Accentuate differences (real or perceived)
4.5 Reducing the Competitive Rivalry between Existing Players	
• Avoid price competition • Differentiate your product • Buy out competition • Reduce industry over-capacity • Focus on different segments • Communicate with competitors	

5 Critique

Porter's model of Five Competitive Forces has been subject of much critique. Its main weakness results from the historical context in which it was developed. In the early eighties, cyclical growth characterized the global economy. Thus, primary corporate objectives consisted of profitability and survival. A major prerequisite for achieving these objectives has been optimization of strategy in relation to the external environment. At that time, development in most industries has been fairly stable and predictable, compared with today's dynamics.
In general, the meaningfulness of this model is reduced by the following factors:

- In the economic sense, the model assumes a classic perfect market. The more an industry is regulated, the less meaningful insights the model can deliver.
- The model is best applicable for analysis of simple market structures. A comprehensive description and analysis of all five forces gets very difficult in complex industries with multiple interrelations, product groups, by-products and segments. A too narrow focus on particular segments of such industries, however, bears the risk of missing important elements.
- The model assumes relatively static market structures. This is hardly the case in today's dynamic markets. Technological breakthroughs and dynamic market entrants from start-ups or other industries may completely change business models, entry barriers and relationships along the supply chain within short times. The Five Forces model may have some use for later analysis of the new situation; but it will hardly provide much meaningful advice for preventive actions.
- The model is based on the idea of competition. It assumes that companies try to achieve competitive advantages over other players in the markets as well as over suppliers or customers. With this focus, it dos not really take into consideration strategies like strategic alliances, electronic linking of information systems of all companies along a value chain, virtual enterprise-networks or others.

Overall, Porters Five Forces Model has some major limitations in today's market environment. It is not able to take into account new business models and the dynamics of markets. The value of Porters model is more that it enables managers to think about the current situation of their industry in a structured, easy-to-understand way – as a starting point for further analysis.

Porter’s Value Chain

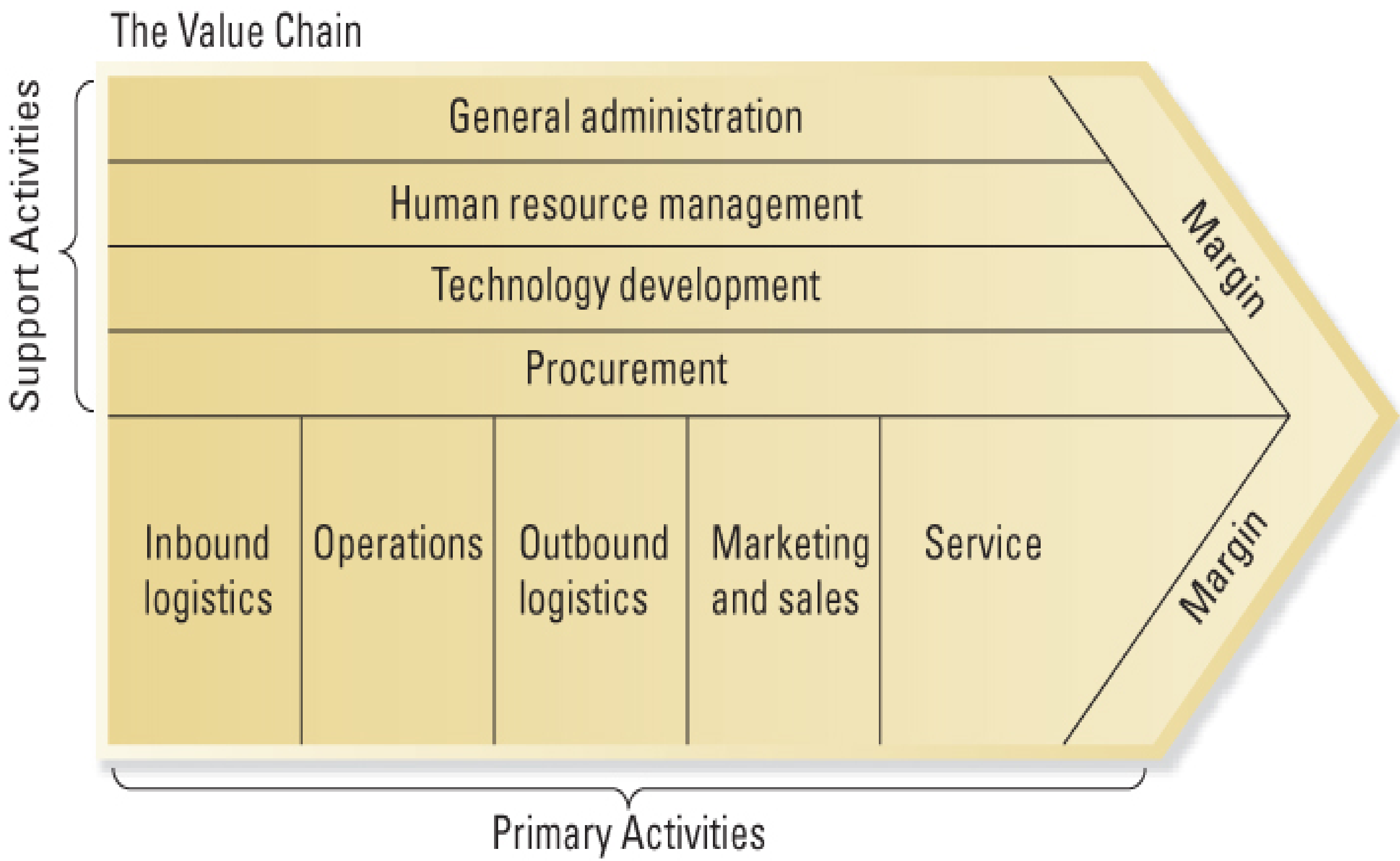
Value-Chain Analysis

- **Primary activities**
  - contribute to the physical creation of the product or service, its sale and transfer to the buyer, and its service after the sale.
  - inbound logistics, operations, outbound logistics, marketing and sales, and service

Value-Chain Analysis

- **Support activities**
  - activities of the value chain that either add value by themselves or add value through important relationships with both primary activities and other support activities
  - procurement, technology development, human resource management, and general administration.

Porter's Value Chain Model



Primary Activity: Inbound Logistics

- Associated with receiving, storing and distributing inputs to the product
  - Location of distribution facilities
  - Warehouse layout and designs

Primary Activity: Operations

- Associated with transforming inputs into the final product form
  - Efficient plant operations
  - Incorporation of appropriate process technology
  - Efficient plant layout and workflow design

Primary Activity: Outbound Logistics

- Associated with collecting, storing, and distributing the product or service to buyers
  - Effective shipping processes to provide quick delivery and minimize damages
  - Shipping of goods in large lot sizes to minimize transportation costs.

Primary Activity: Marketing and Sales

- Associated with purchases of products and services by end users and the inducements used to get them to make purchases
  - Innovative approaches to promotion and advertising
  - Proper identification of customer segments and needs

Primary Activity: Service

- Associated with providing service to enhance or maintain the value of the product
  - Quick response to customer needs and emergencies
  - Quality of service personnel and ongoing training

Support Activity: Procurement

- Function of purchasing inputs used in the firm’s value chain
  - Procurement of raw material inputs
  - Development of collaborative “win-win” relationships with suppliers
  - Analysis and selection of alternate sources of inputs to minimize dependence on one supplier

Support Activity: Human Resource Management

- Activities involved in the recruiting, hiring, training, development, and compensation of all types of personnel
  - Effective recruiting, development, and retention mechanisms for employees
  - Quality relations with trade unions
  - Reward and incentive programs to motivate all employees

Support Activity: Technology Development

- Related to a wide range of activities and those embodied in processes and equipment and the product itself
  – Effective R&D activities for process and product initiatives
  – Positive collaborative relationships between R&D and other departments
  – Excellent professional qualifications of personnel

Support Activity: General Administration/ Infrastructure

- Typically supports the entire value chain and not individual activities
  - Effective planning systems
  - Excellent relationships with diverse stakeholder groups
  - Effective information technology to integrate value-creating activities

Activity Types

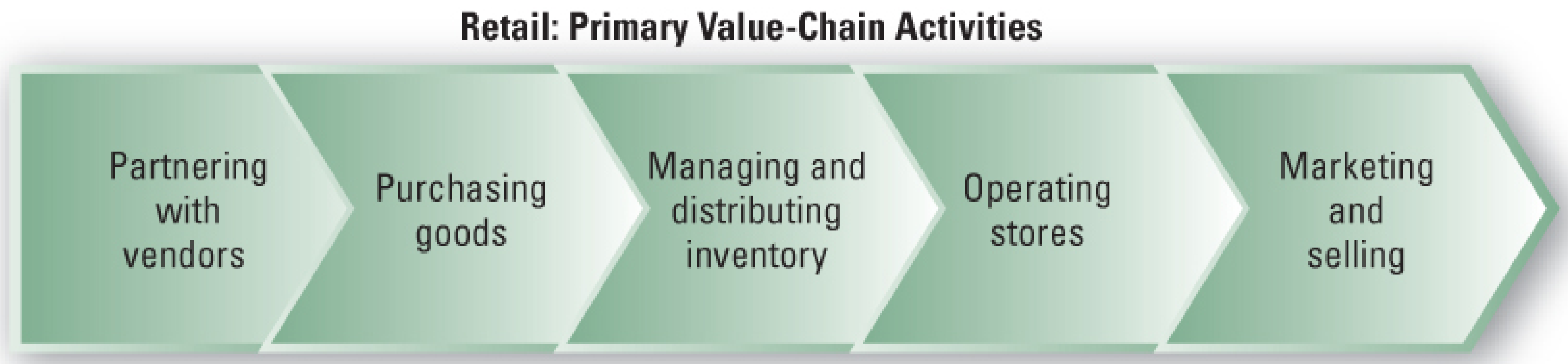
- Direct- Create value

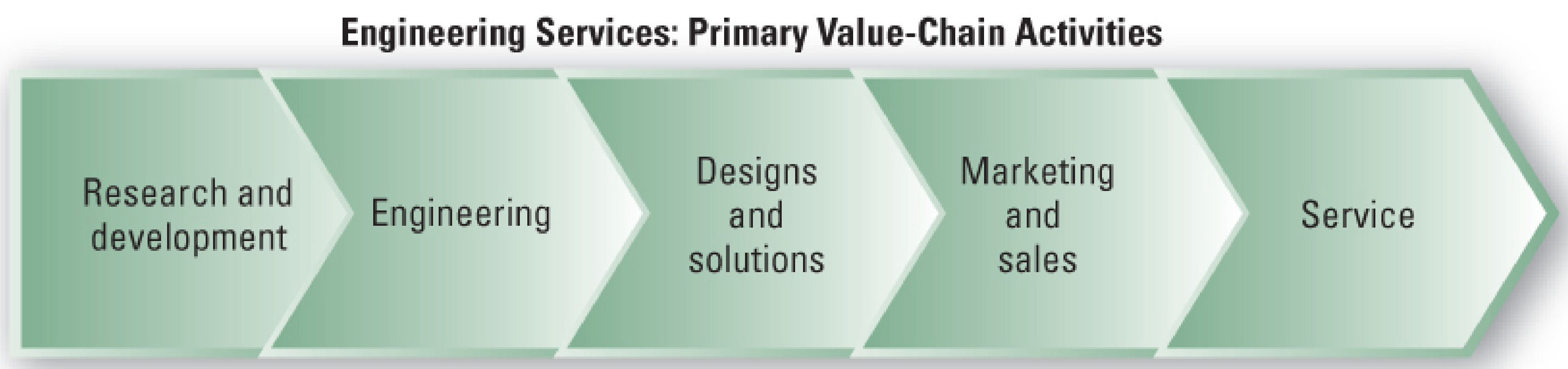
- Indirect- support

Margin

- Implies that organizations realize a profit margin that depends on their ability to manage the linkages between all activities in the value chain.
- Organization is able to deliver a product / service for which the customer is willing to pay more than the sum of the costs of all activities in the value chain.

Value Chains in Service Industries



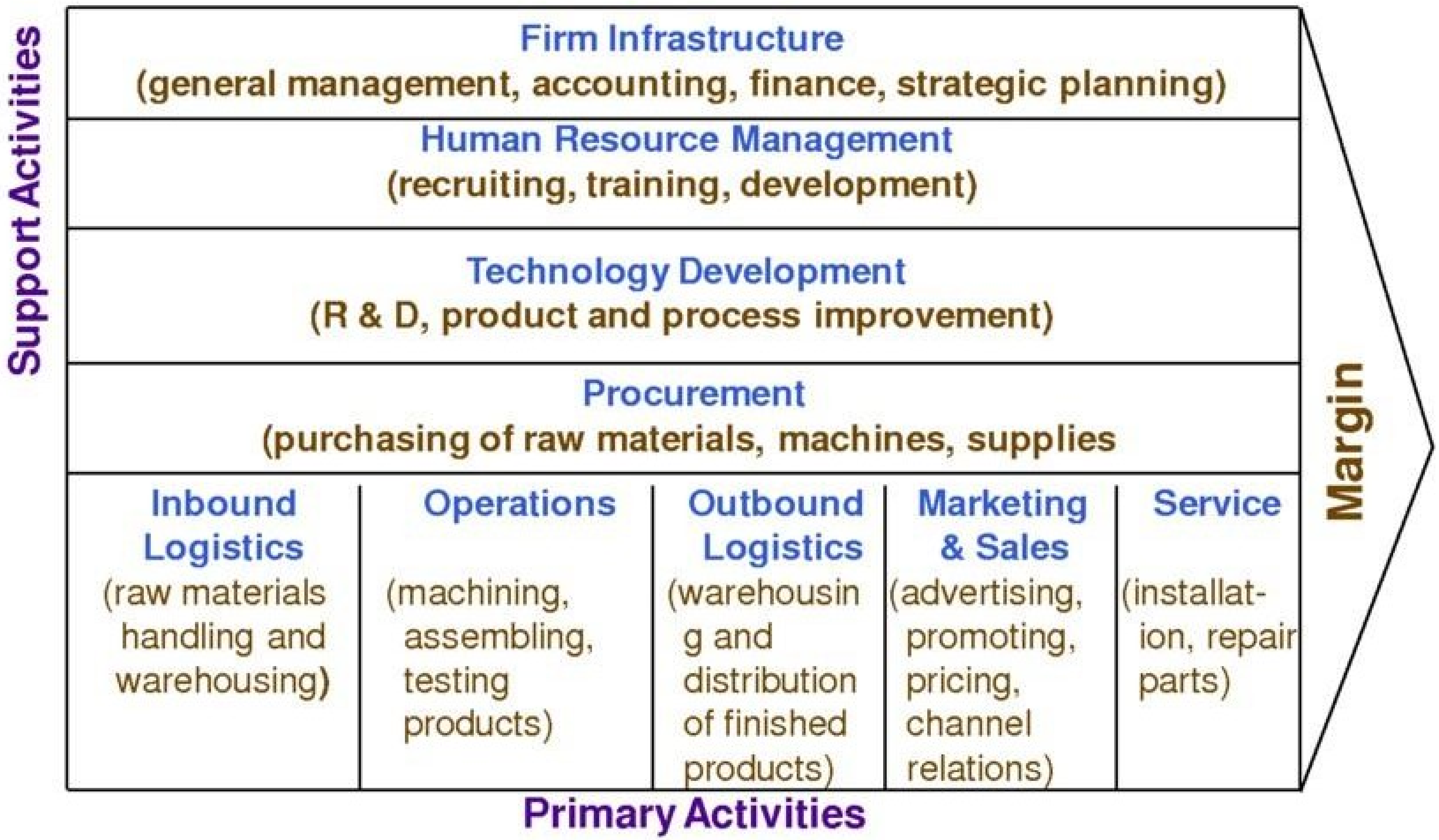


Value Chain Analysis

- The term value chain was used by Michael Porter (1985)
- A value chain is a set of activities that an organization carries out to create value for its customers. Eg: Retailers making it convenient for customers to buy the products they want
- Porter proposed a general-purpose value chain that companies can use to examine all of their activities, and see how they're connected.
- The way in which value chain activities are performed determines costs and affects profits, so this tool can help you understand the sources of value for your organization.
- The value that's created and captured by a company is the profit margin:

<u>Value Created and Captured – Cost of Creating that Value = Margin</u>

Value chain analysis



PESTLE

Political, Economic, Sociological, Technological, Legal, Environmental

PESTLE analysis is in effect an audit of an organisation's environmental influences with the purpose of using this information to guide strategic decision-making. The assumption is that if the organisation is able to audit its current environment and assess potential changes, it will be better placed to respond to changes.

A PESTLE analysis is often used as a generic 'orientation' tool, finding out where an organisation is in the context of what is happening outside that will at some point affect what is happening inside an organisation. The six elements form a framework for reviewing a situation, and can also be used to review a strategy or position.

The Model

The PESTLE model, on the next page, provides a series of headings under which users can brainstorm or research key factors.

P Political	E Economic	S Sociological	T Technological	L Legal	E Environmental
tax policy	economic growth/decline	cultural norms & expectations	new technologies	changes to legislation	ecological issues
employment laws	interest rates	health consciousness	rate of change	employment	environmental issues
environmental regulations	exchange rates	population growth		access to materials	economic or social factors
trade restrictions & reform	inflation rate	age distribution		quotas	
tariffs	wage rates	career attitudes		resources	
political stability	minimum wage	emphasis on safety		imports/exports	
	working hours	global warming			
	unemployment				
	credit availability				
	cost of living				

Decide
how information is to be collected and by whom
(a team approach is more powerful than one person's view)

Identify
appropriate sources of information

Gather
the information – it's useful to use a template as the basis for exploring the factors and recording the information

Analyse
the findings

Identify
the most important issues

The Process

Identify
strategic options

Write
a discussion document

Disseminate
and discuss the findings

Decide
which trends should be monitored and what actions need to be taken

Do	Don't
Get other people involved to gain multiple perspectives.	Do this in isolation - a more effective result is obtained with multiple views
Exploit any expertise and resources that are already available within the organisation.	Jump to conclusions about the future based on the past or the present
Use PESTLE analysis in conjunction with other techniques, such as SWOT analysis, Porter's five forces, competitor analysis or scenario planning etc.	Get bogged down in collecting vast amounts of detailed information without analysing and understanding your findings appropriately.
Incorporate your analysis within an ongoing process for monitoring changes in the higher education environment.	
Organisations that regularly and systematically do analyses often spot trends before others, thus providing competitive advantage.	

SWOT, PESTEL, Porter's 5 Forces and Value Chain analyses of IKEA
(2012, 2700 words)

This paper looks at IKEA, one of the global leading furniture retailers and a very successful brand. It examines the environment in which IKEA operates using SWOT, PESTEL, Porter's 5 Forces and Value chain analyses to inspect the attractiveness and competitiveness of the industry. Conclusions are also made.

IKEA, SWOT; PESTEL; Porter's Five Forces; Value chain analysis

1. Introduction and Company overview

IKEA, a global furniture retailer, is established on the concept of offering wide range of functional, well-designed and low-cost home furnishing products. The IKEA concept journey continues with its global operations (The IKEA concept, 2012) in 40 countries, with 330 stores and 154,000 workers. The sales turnover is recorded as 27.5 billion for the year 2012 (Inter IKEA Systems B.V., 2012). Inter IKEA Systems B.V. owns IKEA retail system, IKEA concept and IKEA franchisor. The business model closely embraces 'franchising' it as means of rapid growth. Initiated its operations as a seller of home furnishing products, IKEA today diversifies its products into prefabricated housing and food (Inter IKEA Systems B.V., 2012). This report takes a strategic analysis of IKEA through employing PESTEL, SWOT, Porter's 5 forces and Value chain analysis tools.

2. PESTEL analysis

2.1. Political

- The level of corporate tax and consumer taxation regulated by political authorities of any country affects corporation's after-tax income. The rate of corporate tax (tax that corporation pays on its profits and not on income) impacts profits, hence lowering after-tax income. For example, with an illustrative purpose only, UK tax businesses for 30% of their profits for operating in the UK, United States tax 35% and Japan imposes highest of all, 42 % (PwC, 2012). Hence, IKEA regional profits are subject to regional tax laws. However the specific characteristic such as subsidiary model (The IKEA Group, 2012, p.1) of the furniture retailer also plays a major role in the actual tax rate. It is also learnt that corporate tax rate impacts the structure of the business. IKEA business structure, a subsidiary model (Interview by Gareth Bell, 2012) propels its subsidiaries to abide by regional tax laws.
- Addition to corporate tax, tariff and trade barriers also impact businesses. Some of the major reasons for imposing tariffs and trade barriers such as protecting local employment, new industries, consumers, retaliation and national security, tariffs increase the prices of imported products into the

country (Kourdoumpalou and Karagiorgos, 2012). This benefit the local producers who are not forced to reduce their prices, however local consumer pay higher prices (Reynoso, 2009; Rindel et al., 2011; Hellström and Nilsson, 2011). Considering the case of IKEA and its reliance on local manufacturers for its products rather than importing products into the local market, tariffs and trade barriers seemingly have little influence on its business profits.

- Most importantly, political stability of any country affects business operations. As an example after the fall of communist government in Poland, political situation drastically transformed, affecting the buyer-supplier relationship of IKEA. Similarly 20-30 years ago, some of the IKEA East German suppliers forced political prisoners to manufacture products that were sold to IKEA (The Blaze, 2012a). The retailer's involvement with accused suppliers, in the midst of political instability of a country, negatively affects business and consumer perception of the corporation.

2.2. Economical

- Economic growth of individual markets has its influence on businesses. For example, rapidly growing economies provide higher standard of living and higher employment rate. As a result, consumers' disposable income increases and so does their purchase power, ultimately benefiting business profits (Reynoso, 2009). In particular with the emerging economies showing high potential of economic growth, provides a promising future (Thelander, 2009) for corporation such as IKEA.
- Other factors such as cost of labour also impact business success. In regions such as India and China popular for their low-cost yet skilled labour, provides IKEA with a wide profit margin.
- Inflation rate is another important factor affecting business and consumer experience. For instance, high inflation rate such as in the UK (BBC News, 2012) deforms consumer behaviour, destabilising markets and generates avoidable shortages of resources (Zentes and Schramm-Klein, 2007). Similarly, in countries with high inflation rate, trade unions demand higher wages, distorting the entire value chain.
- Lastly, market trends should be closely observed to make strategic decisions benefiting the business.

2.3. Social

- Social factors such as modifications in demographic variables (income, age, family size etc.) of different countries significantly influence the strategic decisions made by the business. As an example, ageing population is less likely to buy furniture (Mintel Oxygen, 2010) where as younger generation would demand trendy furniture that should also add value to their purchase.
- Demand of certain products is controlled by changes in demographics. As an example, a major shift of rural population to urban areas due to job creation indicates higher demand of less costly products for new families to get settled.
- Similarly, cultural factors, fashion trends and consumer behaviour also regulate demand trendier, less bulky, and easy-to-assemble furniture.
- Lastly, reduced income levels place furniture purchase at less priority.

2.4. Technological

- Emergence of technology particularly popular with in the retail sector such as RFID (Radio Frequency Identification), and online and mobile shopping, has immensely benefited corporations. RFID helps businesses to reduce their cost of operations through inventory shrinkage, smart labelling, self-stocking, efficient checkout process etc. (Gaukler, 2010).
- Further on easy access to retailer's online stores provides enormous selling opportunities for the seller. In addition, technological innovations in the retail sector like consumer mobile payment, and mobile gift cards promises consumer to experience easier, and reliable means of payment (Reynoso, 2009).
- The increasing popularity and reliance of businesses on social media as an unconventional marketing channel, benefits firms by increasing awareness and reach amongst target market, marketability factor, increased website traffic, ability to develop community and relationship with customers (Forbes.com, 2012) and so forth.

2.5. Environmental

- Factors such as ethical business operations demonstrating sensitivity and accountability towards carbon-emission, forestry, community development, and supplier conduct issues are significantly important for business success and sustainability.

- Industrial giants such as IKEA are constantly scrutinised for their contribution towards carbon emission, disposal of hazardous manufacturing waste in the environment, recycling, and supplier behaviour. Therefore local governments ensure that environment can be protected, compelling businesses to meet specific standards to reduce the adverse affect of business activities. Compliance with these regulations is one of the most essential success factors.

2.6. Legal

- Consumer protection legislations restrict the business in terms of what they are permitted to do along with adding cost to business operations. This means that products that are manufactured must comply with the consumer protection legislations of respective country of operations. In the UK, Sale of Goods Act 1979 requires products to be sold in good quality with no faults or problems, should serve the purpose, and must be described for the purpose they serve (legislation.gov.uk, 2012). So the additional costs come from changing business practices, compliance with the law, damaged reputation and image within the consumer market etc. that is ultimately borne by the corporation (Reynoso, 2009; Hellström and Nilsson, 2011).
- Other legislative requirements such as employee protection, health and safety at work etc. demand proximity of business objectives with the local legislations. For instance, IKEA is lately accused to be contradicting with its Group values, when the Saudi version of retailer's catalogue airbrushes women model out (The Blaze, 2012b). Even though the company was complying with local laws against advertising women in Saudi Arabia, nevertheless accusation of contradicting with its Group value (i.e. against gender discrimination) is likely to alter consumer perception towards the corporation.

3. Porter's 5 forces analysis

Porter's 5 forces, an analytical tool is a tool that analyses industrial structure in accordance with the 5 competitive industrial forces (Raab, 2012). This model is commonly used to analyse the drawing power of a specific industry where corporation operates, consequently determining the probability of a corporation's profit making in the given industry. Presented below, is the Porter's 5 forces analysis of IKEA.

3.1. Competitive rivalry among firms

IKEA operates in an extremely competitive industry, defined by many other low-priced, good quality furniture manufacturers namely Galiform, Euromarket Designs Inc., Argos and so forth. Given the attractiveness of the of DIY (Do-it-yourself) furniture industry, IKEA continues to compete and grow in markets such as China, and Japan. Nonetheless, global recession had affected the furniture industry, one of the hardest hit industry then other sectors. As a result previously premium-priced furniture manufacturers Dreams (UK) is now reported to increase its market share (Mintel Oxygen, 2010) against IKEA, thus making competition even fiercer. However, considering that furniture is now low spending priority according to consumer behaviour affected by recession, competitive rivalry is likely to diminish.

3.2. Threats of new entrants

This force is considered weak and the probability of development of new competition for the furniture retailer is insubstantial, due to market saturation, high amount of capital investment, and skilled labour required to become a global giant in discounted-DIY- furniture manufacturing sector. Other factors such as suffering of pricy-labelled household items and furniture considered as a low spending priority (Mintel Oxygen, 2010) due to recessed economies, further weakens this industrial force.

3.3. Bargaining power of suppliers

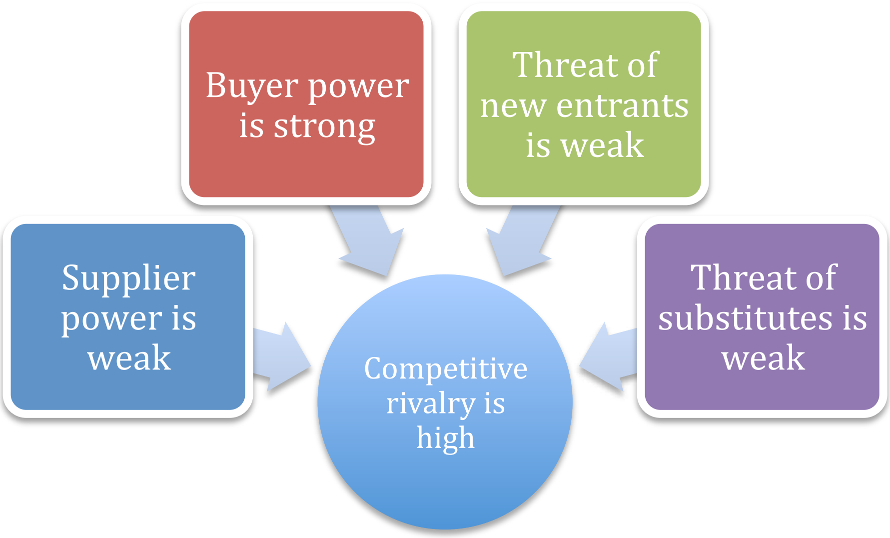
This force is weak because suppliers of IKEA are constantly competing to maintain their relationship with the global giant who can easily access resources and capabilities in the form of potential suppliers, seeking opportunities to form affiliation with IKEA. However, IKEA values to create the strategic relationships with suppliers, to empower its suppliers in certain extent excluding their bargaining power. Therefore, this weak industrial force in case of IKEA actually sanctions the corporation to optimise resources and maximise its profits.

3.4. Bargaining power of buyers

This force is strengthening by factors such as intense competition, and wide choice of substitute products. Nevertheless, the threat of substitute products is weak because of IKEA unbeatable expertise in manufacturing low-cost, good-quality flat pack furniture. On the other hand, buyer power is also controlled by IKEA growth strategy of opening its stores

3.5. Threat of substitutes

As mentioned above, threat of substitutes is weak force here. IKEA specializes in manufacturing functional, low-cost, good-quality furniture. Even though customer retention rate remains best with IKEA and Argos, nonetheless combination of IKEA characteristics remains un-matched by its competitors. IKEA brand perception 'trendy' also surpass Argos 'affordability' and John Lewis 'quality' (Mintel Oxygen, 2010), due to unmatched product and service functionality.



Dig. 1.1. Porter's 5 Forces Analysis

4. SWOT analysis

SWOT analysis, a strategic tool that helps corporations to identify their strengths, weaknesses, opportunities and threats. Since the firm ultimately controls its strengths and weaknesses, this analytical tool helps firms improve their competitive advantage. Opportunities and threats reside in the external environment, however through transforming weaknesses into strengths, a firm can deflate threats and grasps opportunities. Presented below is the SWOT analysis of IKEA.

4.1. Strengths

- The key strength of IKEA is application of strategic practices such as optimising material to reduce manufacturing cost, development of manufacturing plants to optimise use of recycled material. In addition, the Corporation uses innovative technologies such as catalogue iPhone application to facilitate consumer experience (Mintel Oxygen, 2010).
- IKEA is also considered as leading specialist in the retail furniture manufacturing industry, with a strong brand image. The strong global brand targeting key consumer groups, offers uniformity in quality and product range across the globe. The right approach to strike off balance between quality, design, functionality and cost, gives IKEA cost and competitive advantage in the highly competitive market.

4.2. Weaknesses

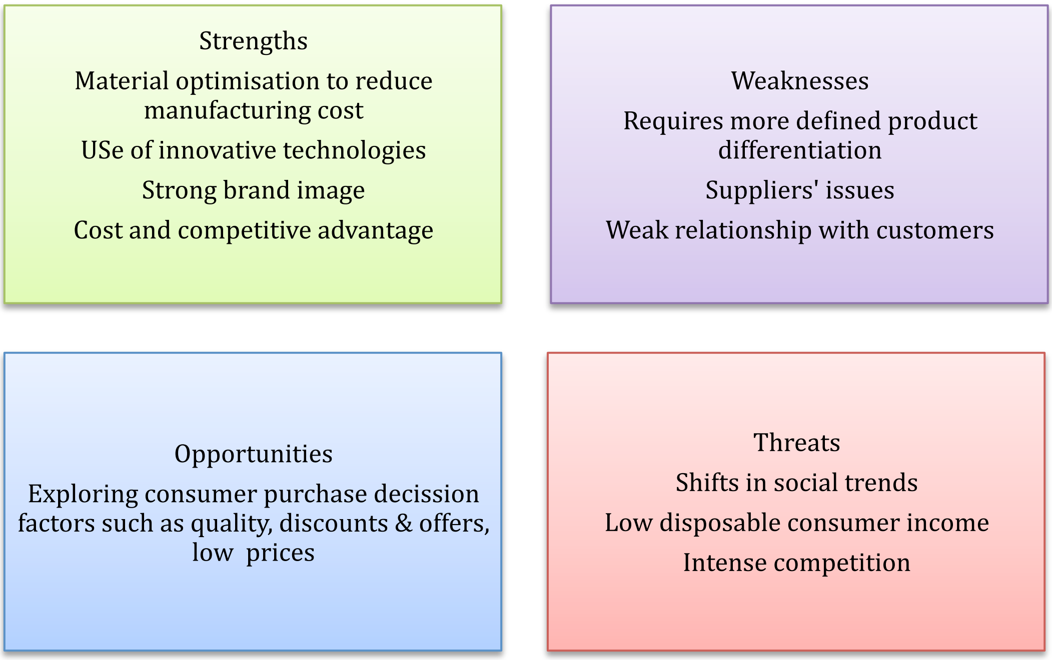
- Highly competitive market brings IKEA weaknesses such as magnitude of the global business that is or isn't capable of managing stakeholders, product differentiation, suppliers' issues of not abiding by IKEA Group Code (IWAY code) in to limelight. Other weaknesses of IKEA i.e. ineffective communication and information exchange with its consumers and stakeholders due to huge scale of business operations are also identified (Johansson et al., 2008).
- Specific to the UK market, perhaps these weaknesses are resulting in providing competitive advantage to Argos as it beats IKEA in terms of most visited furniture retailer (Mintel Oxygen, 2010).
- Another competitor of IKEA, DFS also beats IKEA in terms of biggest furniture advertiser. Mintel Oxygen (2010) also indicates lowered market share, where only 3 in 10 buyers, buy furniture from IKEA.

4.3. Opportunities

- Several opportunities lie ahead for IKEA due to recent purchase trend from DIY stores in the furniture sector. Opportunities also arise from factors influencing consumer purchase decisions such as desire of quality, special discounts and offers, and excellent and competitive customer service.
- There is also an increasing demand in green (eco-friendly), and low-priced products manufactured with sensitivity towards the environments.
- IKEA aims to reduce carbon emission, and achieve zero wastage targets coupled with improved relationship with stakeholders, suppliers and consumers, that provides massive opportunities resulting in business sustainability, competitiveness and higher profits.

4.4. Threats

- The global recession and suppliers' issues particularly threaten IKEA.
- Furthermore, social trends showing lowered entrance of first-time buyers into the housing market also affect furniture sale (Mintel Oxygen, 2012) .
- Increasing competition and lowered disposable income are factors that motivate buyers to purchase low price furniture, even at the cost of compromising quality. Threats such as these, demands the furnishing giant to reform its value chain, and optimise innovative technology in order to provide good quality at lowered prices (Tarnovskaya, 2012; Johansson et al., 2008).
- Strategic development in this regard would also raise entrant barriers into the industry, providing possibilities to maintain and increase its market share.



Dig. 1.2. SWOT analysis of IKEA

5. Value chain analysis

Value chain analysis, a concept introduced by Porter in 1985 categorises the activities of a firm as primary activities and support activities. Primary activities are essential elements to run a business where as support activities define how businesses obtain competitive advantage in the market. Presented below is the value chain analysis of IKEA.

5.1. Inbound logistics

IKEA possesses and develops a well-structured inbound logistics managing 10,000 products manufactured by 2000 suppliers, distributed and transported to the IKEA stores from 27 distribution centres. The logistics function accounts for 25% jobs of each store (IKEA corporate webpage, 2012)

5.2. Operations

The global giant operates in more than 38 countries. Its operations comprises of 208 company-owned stores across, whereas remaining stores are franchised. The manufacturing is usually outsourced, which leaves business focus on other core activities.

5.3. Outbound logistics

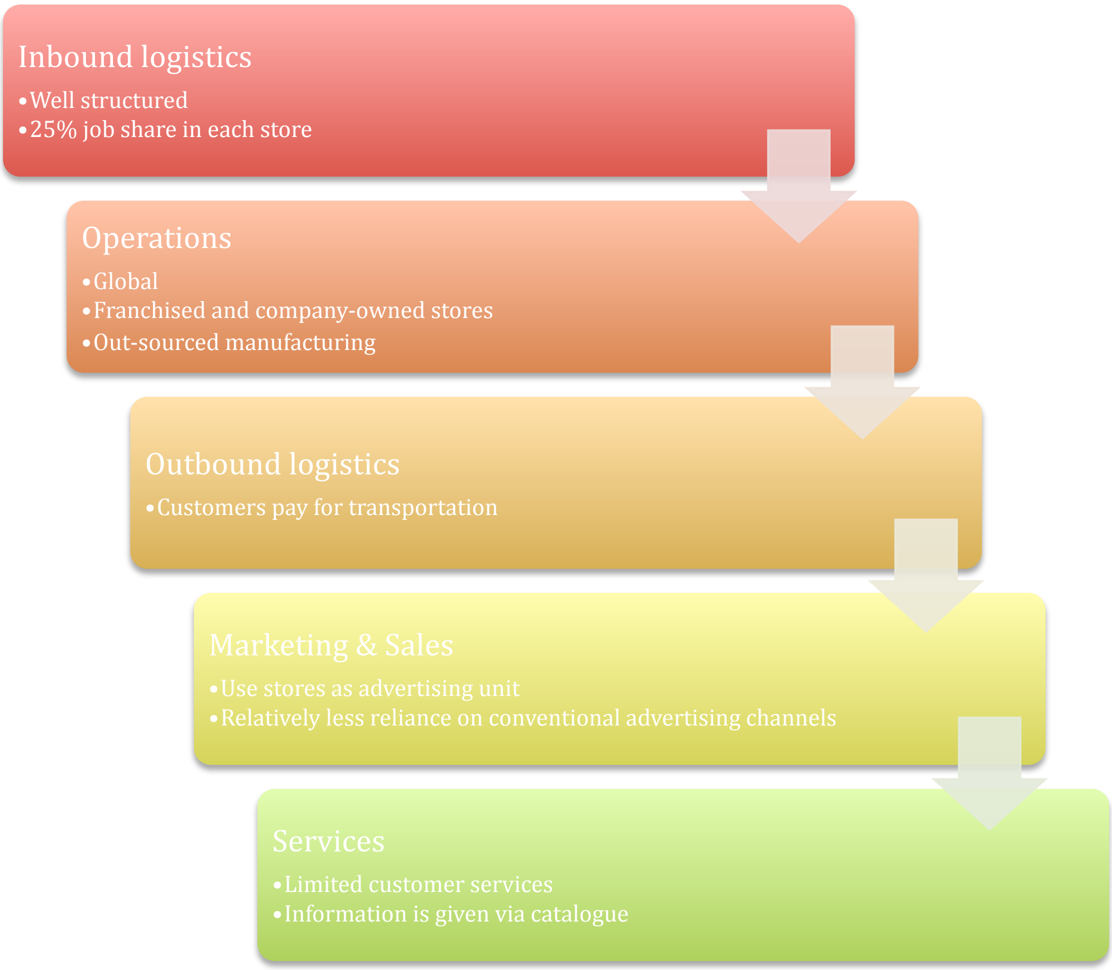
The customers transport the final product enabling the firm to further add value to its products by keeping their final cost down.

5.4. Marketing and sales

The target market is well defined, comprised of people with low-income level, students, and young couples starting their family. IKEA does not rely heavily on advertising, rather its stores are advertising units in themselves providing family friendly environment, where customers can actually see and check the products before making any purchase.

5.5. Services

The business strategy of providing limited customer service means reducing cost of manufacturing, resulting in low-priced products means that most of the information is provided to the customer through catalogues and displays. Low number of sales staff within stores also means cost saving in operations and competitive prices.



Dig. 1.3. Value chain analysis

Support Activities

5.6. Infrastructure

The IKEA group controlled by INGKA Holding B.V, is a hierarchical organisational structure, operating through large-sized stores.

5.7. Human resources management

IKEA demonstrates high level of commitment to its HR practices, providing consistent investments in staff training and development.

5.8. Technology

IKEA invests regularly in its research and development activities that are carried out in Sweden. Eager to use of information technology within business processes, the

Corporation makes most use of technology in order to provide low price quality products and consumer experience.

5.9. Procurement

The retail giant establishes long-term relationship with its suppliers, to investing in their education, training and development. Working close with communities where it operates, IKEA facilitates local suppliers.

6. Conclusion

Given the success of IKEA as a global brand, improved performance levels can be achieved through closely examining it's external and competitive environment that in turn enables the firm to make most out of available opportunities. The analysis identifies that a proactive and dynamic approach is adapted by IKEA to maintain its competitive edge however transforming its weaknesses into strengths can further strengthen the brand. With an aim to add further value to its value chain, IKEA has immense opportunity to establish a stronger relationship with its customers.

7. References

Andersen, M. Skjoett-Larsen, T. (2009) "Corporate social responsibility in global supply chains", Supply Chain Management: An International Journal, Vol. 14 Iss: 2, pp.75 - 86

BBC News (2012) UK inflation rate rises to 2.7% in October [online] Available at: http://www.bbc.co.uk/news/business-20310102 [accessed on 9 December 2012]

Forbes.com (2012) 10 ½ Ways to Take Advantage of "Social SEO" [online] Available at: http://www.forbes.com/sites/cherylsnappconner/2012/12/02/10-%C2%BD-ways-to-take-advantage-of-social-seo/ [accessed on 9 December 2012]

IKEA corporate webpage (2012), IKEA corporate webpage available at: www.ikea-group.ikea.com [accessed on 9 December 2012]

Interview by Gareth Bell, (2012),"Interview with Anders Dahlvig", Strategic Direction, Vol. 28 Iss: 5 pp. 34 - 36

Friedman, T. (2006), World is Flat, the Globalized World in the Twenty-first Century, Penguin Books, New York, NY.

legislation.gov.uk (2012) Sales of Goods Act 1979 [online] Available at: http://www.legislation.gov.uk/ukpga/1979/54 [accessed on 9 December 2012]

Mintel Oxygen (2012) Furniture Retailing - UK - August 2012, Mintel Oxygen

Mintel Oxygen (2010) Furniture Retailing UK- August 2010, Mintel Oxygen

PwC (2012) Corporate income tax- a global analysis

Porter, M. 1985, Competitive Advantage: Creating and Sustaining Superior Performance. New York: The Free Press.

Gaukler, G. (2010) "Preventing avoidable stock outs: the impact of item-level RFID in retail", Journal of Business & Industrial Marketing, Vol. 25 Iss: 8, pp.572 - 581

Hu, H., and Jasper, C.R. (2006) Social cues in the store environment and their impact on store image. *International Journal of Retail and Distribution Management,* Vol. 34, Iss: 1, pp. 25-48

Hellström, D. Nilsson, F. (2011) "Logistics-driven packaging innovation: a case study at IKEA", International Journal of Retail & Distribution Management, Vol. 39 Iss: 9, pp.638 - 657

Johansson, U., Hansson, C., Hansson, F. and Thelander, Å. (2008), "Newspapers – image formation agents for retailers?", in Gröppel-Klein, A. and Germelmann, C.C. (Eds), Medien im Marketing, Gabler, Wiesbaden.

The IKEA concept (2012), The IKEA concept [online] Available at
http://franchisor.ikea.com/concept.html [accessed on 9 December 2012]

Inter IKEA Systems B.V. (2012) Facts and figures [online] Available at http://franchisor.ikea.com/facts.html [accessed on 9 December 2012]

Kourdoumpalou, S. and Karagiorgos, T. (2012) "Extent of corporate tax evasion when taxable earnings and accounting earnings coincide", Managerial Auditing Journal, Vol. 27 Iss: 3, pp.228 – 250

Raab, G, (2010), The Psychology of Marketing: Cross-Cultural Perspectives, Gower Publishing

Reynoso, J. (2009) "Values-based Service for Sustainable Business – Lessons from IKEA", Journal of Service Management, Vol. 20 Iss: 4, pp.473 - 475

Rindell, A. Korkman, O. Gummerus, J. (2011) "The role of brand images in consumer practices: uncovering embedded brand strength", Journal of Product & Brand Management, Vol. 20 Iss: 6, pp.440 - 446

The Blaze (2012a) IKEA apologises for using forced prison labour in Communist-occupied East Germany [online] Available at http://www.theblaze.com/stories/ikea-apologizes-for-using-forced-prison-labor-in-communist-occupied-east-germany/ [accessed on 9 December 2012]

The Blaze (2012b) IKEA airbrushes women out of so the version of catalogue-see the incredible pictures [online] Available at http://www.theblaze.com/stories/ikea-airbrushes-women-out-of-saudi-version-of-catalog-see-the-comparisons/ [accessed on 9 December 2012]

Tarnovskaya (2012), Activating Stakeholders: An Approach by MNCs in Emerging Markets, in Amjad Hadjikhani, Ulf Elg, Pervez Ghauri (ed.) *Business, Society and Politics (International Business and Management , Volume 28)*, Emerald Group Publishing Limited, pp.45-68

Thelander, J. (2009) "A standardised approach to the world? IKEA in China", International Journal of Quality and Service Sciences, Vol. 1 Iss: 2, pp.199 - 219

Zentes, J., Morchett, D. and Schramm-Klein, H. (2007), Strategic Retail Management, Gabler, Wiesbaden.

Business Opportunities Identification

Identifying, Evaluating Business Opportunities, and Generating Ideas

- **Identifying Opportunities**: This process involves recognizing market gaps, emerging trends, and unsolved customer pain points. Entrepreneurs can conduct **SWOT analysis** (Strengths, Weaknesses, Opportunities, and Threats) to identify potential business areas.
  - **Example**: **Nykaa** (founded by Falguni Nayar) identified the lack of a dedicated online beauty marketplace in India and tapped into the growing demand for cosmetics and skincare products. By offering a wide range of authentic products, Nykaa created a trusted platform and became a dominant player in India's beauty e-commerce market.
- **Evaluating Opportunities**: Analyze potential profitability, scalability, and market size. It's crucial to conduct **market research** and **competitive analysis** to understand the target audience and industry trends.
  - **Example**: **OYO Rooms** (founded by Ritesh Agarwal) saw an opportunity in India's unorganized budget hotel sector. Agarwal evaluated the lack of affordable, standardized accommodation options and capitalized on this gap by creating a network of budget hotels under one brand.
- **Generating Ideas**: Generating ideas can come from **brainstorming sessions**, **crowdsourcing**, or feedback from customers.
  - **Example**: **UrbanClap** (now **Urban Company**), co-founded by Varun Khaitan and Abhiraj Bhal, generated the idea of offering standardized home services like cleaning, plumbing, and beauty, which were previously fragmented in India. They solved a pain point by bringing skilled service professionals directly to consumers via an app.

Creativity and Innovation

- **Creativity**: Creativity involves generating original, novel ideas to solve problems. It is crucial for product development and marketing strategies.
  - **Example**: **Amul** used creativity in its marketing campaigns, such as the famous "Utterly Butterly Delicious" tagline and cartoon ads, which became iconic and helped Amul maintain a strong brand presence for decades.
- **Innovation**: Innovation is turning creative ideas into actionable, valuable solutions. This could involve introducing new products, services, or business models.
  - **Example**: **Swiggy** (founded by Sriharsha Majety, Nandan Reddy, and Rahul Jaimini) introduced innovations in food delivery by improving logistics and focusing on real-time tracking, helping them stand out in India's highly competitive food-tech market.
- **Innovation in Product or Process**:
  - **Product Innovation Example**: **boAt** (founded by Aman Gupta) revolutionized the consumer electronics market in India with stylish, affordable headphones and speakers. The brand used innovation in product design and affordable pricing to become a market leader in the audio segment.
  - **Process Innovation Example**: **Flipkart** revolutionized e-commerce in India by introducing **cash on delivery**, a payment method that catered to Indian customers who were hesitant about online payments. This innovation helped Flipkart gain a large customer base early on.

Identifying Opportunities for Social Entrepreneurship

- **Social Entrepreneurship**: Social enterprises focus on solving societal challenges while also maintaining financial sustainability. These ventures aim to create social or environmental value alongside profit.
  - **Example**: **Selco India**, founded by Harish Hande, provides affordable solar energy solutions to low-income households in India. By addressing energy poverty, Selco has made a positive social and environmental impact while maintaining a sustainable business model.
- **Key Areas for Social Ventures**: Affordable healthcare, education, clean energy, and rural development offer significant opportunities for social entrepreneurship.
  - **Example**: **Goonj**, founded by Anshu Gupta, identified the need for clothing in underprivileged rural areas. Through innovative recycling and distribution models, Goonj not only addresses clothing scarcity but also empowers communities by using old clothes as a resource for rural development projects.
- **Environmental and Social Focus**:
  - **Example**: **AgroStar** is an agri-tech start-up that helps Indian farmers access quality seeds, fertilizers, and expert advice via a mobile app. By solving rural farmers' challenges, AgroStar improves agricultural productivity and social welfare.

Feasibility Analysis

- **Feasibility Analysis**: This analysis examines whether the business idea is practically doable. It covers aspects such as market demand, technical capability, and financial requirements.
  - **Market Feasibility Example**: **BigBasket** conducted market research before launching its online grocery platform to ensure that urban consumers in India were ready to buy groceries online.
  - **Technical Feasibility Example**: **Mfine**, a health-tech start-up, assessed whether India's internet penetration and smartphone adoption were sufficient to support an online healthcare consultation platform before launching.

Design Thinking Challenge

- **Design Thinking Challenge**: A collaborative event where teams work on solving a real-world problem using the design thinking framework. The goal is to come up with innovative, human-centered solutions.
  - **Example**: **Tata Motors** held a design thinking challenge to improve safety features in their cars. The challenge led to the development of the **Tata Nexon**, which became India's first 5-star safety-rated car under the Global NCAP rating.
- **Steps in Design Thinking**:
  1. **Empathize**: Understand the user's needs by observing and interacting with customers.
  2. **Define**: Clearly define the problem statement.
  3. **Ideate**: Brainstorm multiple creative solutions.
  4. **Prototype**: Develop small-scale prototypes to test ideas.
  5. **Test**: Gather user feedback on the prototypes and refine the solution.

- **Example**: During a design thinking challenge, **Arogya Setu**, India’s COVID-19 contact tracing app, was ideated and developed rapidly using user feedback loops and testing to ensure widespread adoption and effectiveness in tracing infection chains.