

# UKS31600.

*by P A*

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## 1. Introduction

Ikea is a future company that fosters a culture of innovation and creativity within the organisation. It guides the employees to inculcate a behaviour that enables them to empathise and understand the necessities of their customers and make efforts to deliver the desired product. Its report discusses the business model of Ikea in detail. It evaluates the importance of culture within the organisation and discusses relevant theories as well. It sheds light on the capability of the organisation to generate a competitive advantage while being sustainable in its offering and business processes. It discusses the factors that caused the organisation to experience macro changes and highlights the competitiveness of the organisation.

## 2. Critical evaluation of the business model of Ikea

Ikea follows a unique business model which enables the company to deliver innovative and creative products to its customers. With a huge share of the company in markets across the world, it creates products that are well-designed and at the same time offers its products at an affordable rate. The main goal of the company is to attract as many customers as it can and places a lot of importance on its products being affordable to a wide range of customers. One of the most important features of the business model of Ikea is the emphasis on cost-effectiveness. In order to maintain a low price of its product, the company has established strict control over most of the levels of its value chain. This includes sourcing raw materials, designing the product, production and manufacturing, retail stores and distribution centres among others. This enables The company to exclude unwanted costs of production or distribution of products which raises the value of the finished goods in other companies. In addition to that, the company put a lot of emphasis on obtaining sustainable raw materials and the overall sustainability of its business.

In terms of value configuration, Ikea's focus is on developing the value of its products and business by offering valuable products that are of good quality at low prices. It also emphasises the functionality of its design in furniture as well as the sustainability of its product. Due to these factors, the company has been able to stay in the long-term conditions and market activations and at the same time deliver a value proposition. It has been able to integrate various functions in its business which include the design of furniture, production, marketing as well as distribution of its goods into a system that is closely knit and provides a lot of support to the strategic objective of the company. The company has stylish and modern designs in terms of its furniture as well as sourcing them from environmentally friendly Suppliers. The company also makes a huge investment in integrated renewable energy into

the production and manufacturing units of the organisation. As a result, the value configuration of the company Revolves around the needs and demands of customers in the market. In addition to that, Ikea also provides a lot of opportunities in order to help others. The in-store business experience of Ikea enables the customers To take a closer look and make a purchase decision based on their own experience with the product.

Furthermore, The company capsules the attention of customers and emphasises retaining the Loyal Group of customers by offering products and services at affordable cost. This is done by the company due to the strategy of designing its own products, producing the products in the production units owned by the company, and positioning them in the company-owned distribution centres and retail stores. This allows the company to keep all the profits made from the sale of products within the company which enables it to keep tight control over the cash flow and other aspects of revenue collection.

### **3. Critical evaluation of the importance of culture to Ikea**

The focus of the company is the significance of its culture. Expanding its business in Asian countries, Ikea realised that it can not function as flexibly as it was in European markets. Expanding the business into the Chinese and Indian markets, Ikea found it difficult to conduct its business operations at ease and in alignment with the culture of the company. It realised the unique cultural characteristic of the company is directly dependent on its commitment towards sustainability, affordability of products, Innovation and customer service. It also realised that the deeply embedded culture of the company adds to the value of the organisation as well as the culture is reflected in the products, operations and other business activities of Ikea.

	Europe (incl. Russia)	Americas	Asia/Pacific
% of global market <sup>5</sup>	52	29	19
% of IKEA sales <sup>6</sup>	72	18	10

**Figure: Geographical spread of IKEA**

(Source: Case Study)

The above image shows the spread of Ikea stores in terms of geographical locations. Ikea promotes a strong sense of community among its employees. Entering the Asian markets made the company realise that there was a huge cultural difference between individuals belonging to European countries and those belonging to Asian countries. It also realised that customer behaviour, supply chain activities and other associated groups of individuals exhibited behaviour that was poles apart from that of the European Nations. Hence the

company made a few adjustments in its business in order to stay true to its organisational culture.

Within the organisational culture of Ikea, a lot of emphasis is put on collaboration, teamwork as well as open communication. This enables the organisation to develop a positive culture and atmosphere within the workplace of the organisation. As a result of this, the employees find it easy to work within the organisation which also encourages the employees to think creatively and also brings about creativity and innovation in the products and designs of the furniture produced by the company. The positive culture of the organisation also enables the company to attract the top talent in the market which enables the company to hire employees who possess the necessary skills required for delivering products that are aligned with the ultimate objectives and goals of the organisation including CSR initiatives and others. Hence, it can be implied that the cultural importance of Ikea has a huge contribution towards the success of the organisation. It also enables the company to stay competitive in the market as well as deliver products that are aligned with the demands and needs of the customers.

From the above discussion, theories and concepts that can be drawn from the cultural importance of the organisation include

***Organisational culture-*** It basically refers to the shared beliefs, attitudes and values of individuals belonging to the organisation that forms the backbone culture of the organisation. Ikea promotes a culture that revolves around sustainability, innovative capacity and positive customer service which helps in shaping the behaviour of its employees.

***Cultural intelligence-*** This theory refers to the ability of a business organisation to understand the unlying cultural beliefs of the markets and the customers in it. The CI of Ikea enables it to make adjustments and adapt to the market situation in order to conduct business activities with ease.

#### **4. Discussion of the dynamic capabilities within Ikea**

***Innovation and design:*** Ikea fosters a culture within the organisation that encourages the employees, designers and individuals in production units as soon as other departments of the organisation to think of innovative ways and ideas to incorporate into the business. This has enabled the company to establish itself in the market and draw the attention of customers. It has also enabled it to differentiate itself in front of its competitors. The in-house design team of Ikea have an exceptional eye for creating furniture that is both functional and affordable. This allows the company to develop itself in a distinct manner and also has the company stand out in the market.

*Supply chain-* The raw materials for the furniture produced by the company are derived from mostly local suppliers who are capable of delivering products that are aligned with the values and integrity of the organisation. The company has collaborated with multiple suppliers in order to have multiple options to choose from while sourcing new raw materials. Deriving naturally existing products and using them in the furniture enables the company to cut down on extra expenses on chemical processes and complex technology. This allows the company to increase its efficiency as well as local sourcing allows the company to have easier transportation of products to the production units of the organisation.

*Cost leadership-* The company is able to offer furniture at a much lower price than its competitors. This is due to the fact that the company does not have to engage with expensive transportation costs and other complex processing methods required for artificial processes. This enables the company to keep the final products affordable and low without compromising on the profit margin of the company. Hence, it implies that the company has an upper hand in terms of pricing its products which helps Ikea establish itself as a leader in costing its products in the market which enables it to have an edge in front of its competitors.

*Customer experience-* The company offers unique designs to its customers in the stores. The company also makes a lot of efforts in educating the customers about the products. The layout of the stores is designed in such a way that it encourages the customers to engage and explore the products offered by the company on their own. This offer is a sense of control to the customers as well as allows customers to browse the products independently. This allows the company to not only offer an unmatched experience to its customers in front of its competitors but also allows the company to save the cost of hiring sales staff in retail stores.

*Sustainability-* The commitment of the company towards sustainability helps the company differentiate itself in the market from the competitors. The sustainable products and business processes of the company reduce the carbon footprint which is a huge factor of attraction for the business. The rising awareness around environment-friendly business activities adds to customer engagement at Ikea.

## **5. Discussion of the key drivers of macro change faced by Ikea**

Some of the most important factors that brought about macro changes at Ikea include

***Democracy shifts:*** With changing demographic factors such as population growth, rapid increase in urbanisation of cities and an ageing population have a huge impact on the customer base of the organisation. These demographic factors have a direct impact on the behaviour of the customers in the market. This proved to be one of the major reasons that

forced Ikea to modify its business prospects. For example, the increase in urbanisation of individuals may require the company to make micro changes in terms of its location and store strategy in order to continue serving the customers in the market.

**Economic instability:** Economic changes and the economic scenario of the markets which include exchange rates, inflation and economic down can have a huge impact on the purchasing power of the customers. This in turn has a huge impact on the demand for the product offered by Ikea. Hence, the company has to make minute changes from time to time in its business operations in order to overcome the tumultuous situation in the market and maintain its profitability.

**Technology advancement:** With increasing changes and innovations in terms of Technology, Ikea has to go through macro changes in its business operations. The advancement in technology has completely transformed the purchasing behaviour of customers. These Technological Advancements are the main reason behind the preference of customers to buy things online instead of preparing to go to brick-and-mortar shops. The convenience and independence of customers to shop from the comfort of their homes from the online website of organisations have been a major driver of macro changes faced by the focus company.

The theories and concepts that are relevant to the above discussion are

**Disruptive innovation theory (DIT):** This theory indicates that technological innovations caused disruption to businesses that have been already established in the market. For example, the rise in e-commerce businesses and online shopping formats has disrupted retail stores in actual marketplaces in real locations. They have moved the customer traffic from brick-and-mortar shops to the online website of businesses.

**Resource Dependence theory (RDT):** The dependency of Ikea upon the suppliers and resource allocators for the finished product is explained by the RDT. According to this theory, the dependency on business as an external factor has a direct impact on the availability of resources which are an essential part of business operations for Ikea. The Profitability and demand of products are dependent on the external market situation which enables the company to have less control over its revenue collections.

## **6. Assessment of the competitive context of Ikea**

Although there are a number of competitors of Ikea, the most prominent competitors of Ikea include DFS and Wayfair.

**DFS** has a strong presence in the market. It has built a strong reputation that is a result of the quality performance of the products offered by the company to its customers. The stylish

designs offered by the company attract a lot of customers which enables it to strengthen its market presence. It operates through a huge network of stores and has established an online marketplace as well. This enables the company to operate its business activities on online platforms as well as increases the reach of customers. Although the primary focus of the company is to offer well-designed sofas to its customers, it also offers a wide range of furniture and products necessary for home decor. The home decor products offered by the company include beds, tables, accessories and chairs among others. One of the strengths of the company is that DFS is capable of offering customised products which is not a speciality of Ikea. This enables the company to have a slight edge in the market incomes of competition. The company also offers the personalization of products as well which enables it to earn the trust of customers.

**Wayfair** is another significant competitor of Ikea. The company is known for selling furniture and products of home decor on online platforms. Wayfair has a huge collection of products which include rugs, lighting, bedding sets, furniture and other items which add to the decoration of homes. The increasing growth of online businesses has directly impacted Wayfair and brought it to the attention of customers. As a result of this, the company has recently grown in the market and has given tough competition to Ikea. The online store of Wayfair enables the customers of the organisation to shop from the comfort of their homes and also offers a delivery option for the product.

Based on the above discussion, theories and concepts that can be drawn are as follows

**Resource-based view:** According to this theory, the resources that a company possesses can be exploited in order to achieve a competitive advantage in the market. The resources can be gathered from sustainable Sources which will enable an organisation to add value to its brand identity. It can also allow the organisation to have a rarity in terms of its product and reduce the imitability of its products as well. This will not only enable the organisation to be competitive but also provide confidence which is essential for operating a business in a highly-competitive market.

**Customer relationship management (CRM):** For instance, Ikea has been able to build strong relations with its customers by offering quality goods at low costs. This enables the organisation to build a strong relationship with its customers. The emphasis on building a long-lasting bond with the consumers is highlighted by the framework. This is done by understanding the needs of customers and offering goods that meet their expectations of the customers.

## **7. Conclusion**

From the above discussion it can be concluded that Ikea has a strong focus on the demands and expectations of customers and put a lot of effort into meeting them. The company operates its business in alignment with the culture of the organisation and operates business activities in such a manner that enables it to add to the value and reputation of the organisation. These factors contribute to the attraction of the company and increase the customer engagement of the business. This in turn adds to the capital revenue of the organisation enabling it to continue its business activities by staying true to its ultimate objective. The report discusses a number of aspects of the organisation which contribute to its business operations.



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