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Executive Summary

The business model canvas of IKEA gives an overview of the overall business model. The success of IKEA has predetermined its future strategy. In this report, they have discussed the net income of this organisation worldwide. IKEA ¹ is renowned for the modernist design of several sorts of furnishing and equipment and it frequently combines its entire interior design with ecological simplicity.

The case study suggests that IKEA is well established in the home furnisher retail industry. Despite being in a vast competition of the global retail sector IKEA possesses uniqueness in their products to stand out in the competition. They stand out from the competition due to their low-cost products, unique styles and services of customer inclusiveness. The article and other sources also support the facts presented in the case study as well. IKEA adapting to replication strategy, standardisation and adaptation strategy, localization, cost leadership and transnational strategies makes their products and services unique and helps them to control both the customers' supper's while directly competing with the competitors.

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Introduction

IKEA is a home furnishing retailer company who was the largest seller of home furniture in the early 21st century. They have over 300 stores worldwide and specialise in low-price flat-pack goods. The company was founded in 1943 in Sweden and they still maintain the tradition of painting their stores in Swedish flag colours. The company became an international retailer in 1963, opening its first foreign store in Sweden (Lewis, 2023). They introduced flat-packing systems of furniture back in 1956, which was a key step for them in reducing costs of expenses of the company taking steps towards sustainability. This report will discuss a critical and detailed evaluation of strategic and leadership development of the company leading towards innovation and sustainability.

1. Critical Evaluation of IKEA’s Business Model

<u>Key Partners</u>	<u>Key Activities</u>	<u>Value Proposition</u>	<u>Customer Relationship</u>	<u>Customer Segments</u>
Manufacturers Designers Delivery companies	The Furniture Sale Furniture Designing	All renewable sources using The furniture system as ready-to-assemble	Customer Support Social Media	Middle-class and young individuals who are generally cost-conscious as well as need quality and stylish furniture. Single Customer-oriented
<u>Key Resources</u>			<u>Channels</u>	
Stores Brand Suppliers Network			Mobile apps and Websites Printed catalogues and Physical stores	
<u>Cost Structure</u>		<u>Revenue Streams</u>		
<ul style="list-style-type: none">• Distribution and Stores• Staff• Manufacturing		<ul style="list-style-type: none">• Franchise fee• Wholesale of the goods• Sales of the goods		

Table 1: Business model canvas of IKEA

(Source: Self-developed)

⁶ The business model of IKEA is a core strategy that aims to gain economic and commercial value. This has involved every component, which is required for making perfect quality and

affordable. According to Burt *et al.* (2021), the demand for IKEA is not just for the benefits mentioned, but also for the exclusive design, which reflects modernism and is friendly at a low cost. IKEA is a non-profit brand, and the goal of this brand is to make every day a better person. The business approach of IKEA has been noted for its innovative structure of different mobilisation and appliance types. On the other hand, Böttcher *et al.* (2021) asserted that the success of the business model of IKEA is based on attention to cost control and regular product improvement. Clients should capture the overall mass market as well as ship its product to customers that are very sensitive to costs. This brand has offered a specific family card to all its customers through that they could avail of an affordable discount. The cost of IKEA goes into the design manufacturer of the products, and it is well spent on distribution. According to Han *et al.* (2022), this organisation sells its products through websites. In terms of enhancing the overall market presence, this as well gives proper advertisement in the catalogue. IKEA has used its service of nearly 1400 suppliers from more than 60 countries (Shastri, 2021). The organisation has offered product development, raw materials, manufacturing, product design, and customer service.

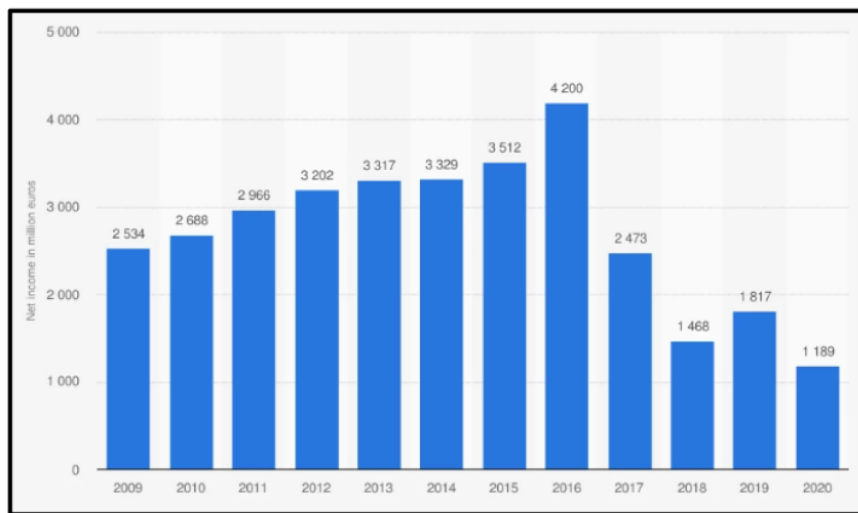


Figure 1: IKEA Net income worldwide (in million euros)

(Source: Shastri, 2021)

In the case of IKEA, the franchisees are paying their firm a 3% annual royalty on their overall Net sales. As cited by Elf *et al.* (2021), the organisation has made money by selling its goods as well as other revenue to the franchise fees. IKEA made revenue from merchandise sales, franchise charges, and some other revenue of nearly EUR 23.7 billion in the 2020 financial year (Shastri, 2021). In accordance with demographic segmentation, the IKEA segment is the

target market. People in different demographic industries would have such distinct desires, preferences as well as requirements. In contrast, Sebhatu and Enquist, (2022) stated that the effective segmentation of IKEA has met its particular requirements on market. This organisation has collaborated with UNICEF, WWF, UNDP, and some non-profit organisations. The major partners of IKEA are transporting firms, wood makers, delivery companies, harvesters, and more.

2. Critical Assessment of Culture for IKEA

As per the case study, In the own words of Mikael Ydholm, the head of research in the company, IKEA needs to learn and adapt to other cultures more if they are to take a global approach. As of today, about 70 percent of the stores of IKEA are still in Europe indicating not a significant amount of global expansion and inclusion of culture. Being founded in Sweden the main culture adopted in the company and its hierarchies are *Swedish culture*. However, a growing IKEA is mostly focussed on establishing roots in South-Easter Asia such as in China and India. IKEA first opened in China in 1998 (case study). They first entered India in 2018. Thus, consideration of Adopting to South-East Asian culture is not relatively new to the company.

As per their own Words IKEA represents a shared culture, while most of their employees belonged from Sweden, others came from different parts of Europe. Since then, they have adopted different ways to adapt to different region-based cultures. The introduction of the IKEA way programme in 1985 was a testament to this initiative (Inter.ikea.com, 2023). Today about 200,000 employees working in the company share equal values regarding adoption of culture while operating almost worldwide.

IKEA culture is mainly dependent on four pillars; working together, getting things done, finding better ways and leading by example (Inter.ikea.com, 2023). Adopting international market operations however, IKEA has to adapt to the market and deliver strategies best suitable for the market. The findings of Roy, (2020) suggest, for international operations IKEA has adopted a variety of strategies such as *replication strategy, standardisation and adaptation strategy, localization, cost leadership and transnational strategies*. This has led to a better adoption of operations despite external and internal cultural differences. The study also suggests that these adaptations prove their own cultural intelligence, awareness and ambiguity tolerance.

The adoption and maintenance of multiple cultures of an organisation can be related to *Edgar Schein's Organisational culture theory*. This theory suggests that different cultures can be adopted in an organisation in three distinct levels. The levels are *artefacts, values and*

assumptions (Singaram and Mayer, 2022). Artefacts are physical objects through which an organisation showcases its degree of other culture adopting capability. No deeper evaluation is needed in this case to understand the level of involvement of the organisation in a particular or multiple culture. Secondly values are espoused by a set of guidelines and norms that creates the morale guidelines of an organisation. Thus, the inclusion of different cultures should also consider the advance of values from that culture in the set of principles and norms. The last level of inclusion is sharing of assumptions which is also the bedrock of organisational culture.

IKEA's adaptation to different region-based culture can also be determined by their capability of delivering to that culture. In the case of China, they found competitiveness in pricing and thus adapted to attracting the youth of the county towards exclusive Western European Interior design while incorporating a home delivery and assembly option. In the case of Japan, they adopted the concept of "Harmony" to nurture the likelihood of acceptance of the products by the Japanese (Lindholm, 2022). They are known to both adapt to and introduce their own culture in the market for the consideration of acceptance. Some cafeterias in the Indian stores of IKEA feature Swedish marbles concerning the exposure of *artefacts* in cultural adoption as per the theory (Thejakartapost.com, 2023). Their consideration of gender equality showcases integration of cultural *values* in their operations.

3. IKEA's Dynamic Capabilities for Sustainable Competitive Advantage

Having about 70% of the shops in Europe (case study), the company has to consider most of the competition in the home region. Other than that, in global operations as well having lesser presence in the market is also a subject of completion for the company as well. In the European market the main competitors of the company are Target, Walmart, Wayfair, Amazon, Tesco and other similar and globally operable retail operators. To tackle such compilation, as per MEHRA, (2020), IKEA adapts to customer *co-creation activities* and similar dynamic capabilities. Involving in *strategic hedging* and *recombining resources* has been their market driving process while *building resilience* towards risks has been their priority through short term plans.

In 2015, the UN suggested nations adopt certain "Sustainable Development Goals". One of those goals (SDG 12) was to "ensure sustainable consumption and production patterns". This was one of the focuses adopted by IKEA to develop more products with the use of less resources thereby increasing resource life cycle and bringing sustainability. IKEA also adopts a low-cost strategy and their competitive advantage is in generating low-cost materials while maintaining a large sales volume. Thus, it is only imperative that such a mature firm can be

preferred by the customers. A process of co-creation is also adopted by the company where the customers have a higher degree of involvement in choosing shapes and designs of their own product (MEHRA, 2020). This increases the preferability of the product, earning IKEA a greater competitive advantage. Customer loyalty also increases in this case as IKEA are able to address the pain points of the customers in a comparatively better manner.

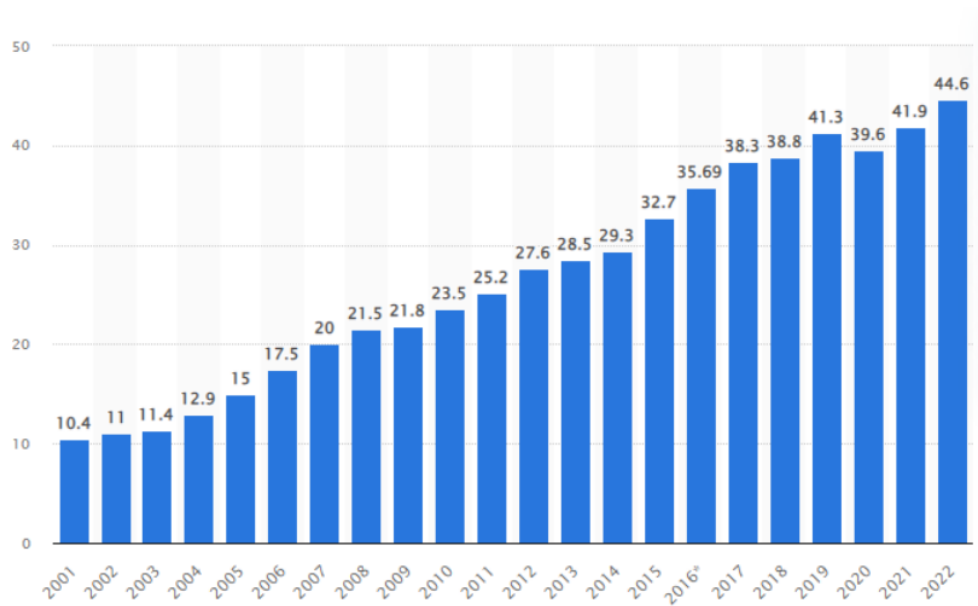


Figure 1: Annual revenue increase of IKEA

(Source: Statista.com, 2023)

IKEA also shows off their dynamic competitive capabilities by adopting to the local environments, even in a global crisis. The findings of Zámbořský (2020) shows that in the midst of global pandemic crisis, the 5-year strategic planning of the company was changed to 3-year strategic plan ensuring short term considerations for survival. And due to this short-term consideration, the company has been able to not only survive but also thrive. Statistics show that in the wake of the global pandemic crisis, IKEA's global revenue generation decreased to 39.6 billion Euros. However, within 2 years a continuous rise of revenue has also been seen leading to a revenue generation of 44.6 billion Euros in 2022 (Statista.com, 2023). This only indicates the success of IKEA's dynamic capabilities in the competitive market.

IKEA targets mainly young customers who want to buy stylish furniture at affordable pricing. Above that, the customers can also enjoy a certain degree of customization capability to make the products more suitable for their needs. This consideration alone gives the company a

significant competitive advantage over similar services (Kremer *et al.* 2019). This definitely caters porter's notion that the very centre of strategy development is to perform activities differently from the rivals. Above that IKEA also considered providing low-cost materials with occasional additional services of delivering and assembling the materials in client homes. This is in line with their Self-service model and helps them to ensure a low profit but vast operation strategy. Thus, it can be said that IKEA is a focussed competitor who targets specific needs of a subset of customers while concerning sustainability.

For attaining such a competitive advantage with dynamic capability involvement, IKEA had to invest in smart digital algorithms and forecasting technologies. The findings of Liu *et al.* (2019) suggests that IKEA became one of the top 10 retail firms worldwide by transforming their blue box stores with integrating distributive data management systems and centralising them with AI based Management operations. This helped them further understand their customer, supplier and employee experiences. Changing their data-driven architecture helped them to achieve a better understanding of the environment, therefore gaining the competitive advantage.

4. Key Drivers of Macro Change concerning IKEA

The macro environmental factors that affect any organisation include political, economic, social, technological, legal and environmental aspects. They are factors that control the internal factors of an organisation and drive them in specific directions. The drivers of the macro environmental factors are evaluated as following:

PESTLE framework

Elements	Analysis	Impact
Political	<ul style="list-style-type: none"> UK corporate tax rate has dropped in 2017 and has been at a steady rate since then to 19%. On average the European countries offer a tax rate at 21.5% (Taxfoundation.org, 2023). 	Positive control in tax paying
Economic	<ul style="list-style-type: none"> An overall GDP of the EU is estimated to be found at \$16.6 trillion in 2022. Among them Germany is said to possess the highest national GDP with Sweden being the lowest (Worldbank.org, 2023). 	Positive expansion in other EU countries

Social	<ul style="list-style-type: none"> ● Russia has the highest population among the EU countries with 144.7 million people. Next in line are Turkey, Germany, UK and France (Statista.com, 2023) ● Average education rate of the EU countries is 98.59% as of current value. The highest rate is seen in Spain (Theglobaleconomy.com, 2023). 	Higher population density means more customers
Technological	<ul style="list-style-type: none"> ● The European countries make about 80% of the cutting-edge technology implementers in the world across a variety of sectors including It technology and data science (Hbr.org, 2023). 	Greater availability of technology <i>positively</i> affects business improvement
Legal	<ul style="list-style-type: none"> ● Legal support for businesses in the EU is governed by Company law and corporate governance of the EU. <p>Business supportive laws include:</p> <ul style="list-style-type: none"> ● “Directive 2017/1132 - Digital company law” ● “Directive 2012/17 - System of interconnection of business registers” (‘BRIS’) ● “Regulation 2157/2001 and Regulation 2137/85 - EU legal entities rules” etc (Commission.europa.eu, 2023). 	These directives govern companies to a <i>positive</i> development
Environmental	<ul style="list-style-type: none"> ● In 2021 CO2 emission rate was seen at 2.73 billion metric tons. ● This is a 6% increase from 2020 (Statista.com, 2023). 	Greater CO2 emission can be <i>negative</i> for doing business related to carbon emissions.

Table 2: PESTLE analysis of EU for Macro environment evaluation

(Source: self-developed)

Analysis

The average corporate Tax rate of the EU is close to being less than most Asian countries. This indicates that the company has to pay a lower tax rate in neighbouring country operations than Asian countries. This is a positive sign as the conditions can bring stability faster and increase the revenue generation of the company. Economically, European countries are well developed and have a high GDP generation rate both individually and combined. This would mean higher government support and customer support for IKEA. Socially, countries Like Russia are highly populated along with Turkey, Germany, UK and France. A higher population density means a higher number of customers for IKEA to target.

Technologically EU is severely advanced enough to host about 80% of worlds cutting edge technology initiations. Thus, innovation is a huge part of the EU environment. IKEA's business here can be subjected to quicker innovation practices leading to a positive change. Legally, EU countries are bound to support businesses under certain rules and regulations. Business supportive frameworks such as Directive 2012/17 helps maintain company confidentiality and promotes data protection. Thus legally, the EU environment is helpful as well. The Environmental carbon emission rate has increased since last year and furniture companies such as IKEA have to strictly follow emission regulations. Not being able to pursue an emission rate under a certain amount may create a bad image for the business.

5. Possible Competitive Context of IKEA

IKEA being a retailer, a large number of competitors are present in the market both physically and digitally. IKEA's competitors include Wayfair, Target, Walmart, Amazon and many other global organisations. Having a greater number of competitors indicates having threats regarding unavailability of resources and suppliers and saturation of customers in the market (Sazu and Jahan, 2022). The competitive context is better understood with the Porter's five forces framework.

Element	Description	Impact
Competition in the industry	<ul style="list-style-type: none">Competitors include Target, Walmart, Wayfair, Amazon, Tesco etc.	High
Threat of new entrants	<ul style="list-style-type: none">New entrants in the same field require high investments and serious expertise.Majority of the entrants will be SMEs and therefore no significant new completion may arise	Low

Power of suppliers	<ul style="list-style-type: none"> • IKEA in their global operations has created a large supplier network. • Suppliers won't be able to bargain for costs easily. 	Low
Power of customers	<ul style="list-style-type: none"> • Similar product-based rivalry is significant in the market. • IKEA however has an upside-down product development approach. • First designs are made then customers are targeted (case study). • Thus, customer bargaining is not significant. 	Moderate
Threat of substitutes	<ul style="list-style-type: none"> • Their products are cheap • They offer specious foldable designs • Offer free delivery and On-spot assembly. • No rival offer such services 	Low

Table 3: Porter's Five forces Evaluation for competitive landscape identification

(Source: self-developed)

Analysis

There are several competitors that are currently in the market with almost similar products and quality in the market. Concerning innovation practices adopted in global organisations, it takes little time to release a highly competitive product in the market for global organisations. Thus, the threat of competitors is significant in the market. However, the threat of new entrants in the market is significantly low. This is due to the fact that IKEA is already established as a global brand and new interest in the market cannot easily compete with the global brands as they are mostly SMEs (Hånell *et al.* 2020). Being a global brand IKEA has a significant number of suppliers and also has the choice to switch between suppliers in a bargaining process. Thus, suppliers do not have a significant power in the relationship with IKEA.

Customers are the main aspect of any business and IKEA has managed to gather a significant number of customers. They adhere to an upside-down product developmental approach where a product is decided first based on market research and then customers are targeted for that product (case-study). Thus, customers naturally have less power. However, IKEA intentionally gives power to the customers regarding product customization. Customers are

able to choose some design aspects of the products making the power of the customers moderate in this case. Customers also enjoy a process of *co-creating* with IKEA (Ollila, 2021). Lastly, IKEA's products are unique and cheaper than competitors. This makes the threat of substitute products very low giving IKEA the advantage over competition.

Conclusion

Based on the case study based and secondary sources-based discussion, it can be said that IKEA is well established as an independent Global furniture retailer. The business model of IKEA suggests that they aim to gain long term economic and commercial value despite falling behind worldwide net income. Analysis of IKEA's culture shows inclusive culture for all regions despite having Swedish culture priority. Also, having a leadership consideration in developing convenience products. Strategic hedging, recombining resources and building resilience are among IKEA's dynamic capability considerations. The key drivers of IKEA's surrounding macro environment are largely helpful in sustaining the business except environmental concerns. Lastly, evaluating the competitive landscape, IKEA, though having significant rivalry, is still way ahead of competition because of its uniqueness.

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