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Strategy and Leadership in Practice
Report on Ikea

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1.0 Introduction

This report conducts a full strategic analysis of Ikea across different dimensions of the company. The first section critically evaluates Ikea's business model across the contexts of value creation, configuration and capture strategies. This is followed by a critical evaluation of Ikea's company culture, where models such as Schein's Organisational Culture Model are used. The report then discusses the dynamic capabilities at Ikea which generates its sustainable competitive advantage, drawing on real-world instances of the organisation's competitive successes. The key drivers of macro change are summarily discussed across relevant concepts and theories, and the report assesses the competitive context of Ikea towards the conclusion.

2.0 Critical evaluation of Ikea's business model

2.1 Value creation strategies

Value creation is the benefit that customers receive when performing transactions for goods and services with a particular organisation. The extent of value creation is therefore determined by the degree of customer satisfaction that is acquired through the purchase of the company's products. At Ikea, value is created through the satisfaction of customer needs at dynamic levels. The products offered at Ikea are designed with contemporary sensibilities in mind, making them equivalent to the offerings of high-street shops (Ikea, 2023). The value-chain optimisation of manufacturing products at Ikea retains a cost-benefit advantage that is passed onto the consumers in the form of lower prices (Ikea, 2023). These are utilitarian values that offer grounded benefits to the consumers, and Ikea's do-it-yourself philosophy enhances the customer experience by requiring them to assemble store-bought furniture products directly (Ikea, 2023). This particular strategy involves the co-creation of value with customers, as customers participate directly in the assembly of end-user products without requiring a third-party agent to perform the same responsibilities (Clifford, 2019). Ikea, therefore, involves consumers in its value-chain operations by having them participate in assembling the purchased goods, making the value proposition unique in comparison to rivals like Home Depot.

2.2 Value configuration strategies

A value configuration process involves a particular approach to doing business operations by an organisation. Value is configured through the vertical integration of supply chain systems at Ikea, which increases the degree of the firm's control and ownership of essential supply chain activities (Pringle, 2022). At Ikea, this includes extending the activities of Swedwood across the factory manufacturing systems to include control over the procurement of raw materials, component factories and sawmills. Coordinating the supply chain and manufacturing activities ensure the smooth distribution of final goods to stores, as production can be scaled up to meet sudden demands across different global markets (Pringle, 2022). The complex integration of value-chain activities and supply-chain systems increases the cost-efficiency of Ikea, as quality control measures result in cost-savings acquired through the minimisation of wasteful steps across the value-chain and the supply chain systems (Pringle, 2022). It also increases the ethical quality of Ikea's business operations as this approach ensures supply chain partners are determined in compliance with the firm's code of conduct and CSR sensibilities, which improves the sustainability performance of the company as a whole (Lee et al., 2021).

2.3 Value capture strategies

Value capturing is the process of creating profit for the business through the value configuration and transactions that allows it to retain a percentage of the profits across each transaction. Therefore, the optimisation or value configuration extent determines the scope for capturing value, as profits are maximised when overheads are reduced across the value-creation process (Sjödin et al., 2020). This is determined through the bargaining position of the company concerning its stakeholders such as customers and suppliers. Ikea's vertical integration of supply chain systems makes it more securely positioned to bargain with supply chain partners, due to direct ownership of supply-side resources. Through this, Ikea can optimise its procurement and production activities to make it cost-effective, thereby reducing the cost involved in product development. In turn, Ikea products are sold to customers at a minimum of 20% cheaper than comparable products, while going up to a maximum of 50% cheaper prices (Fogel, 2022). This cost leadership advantage creates a resilient position for Ikea relative to its customers, and therefore Ikea captures value across its operations through this strategic integration of manufacturing, operations and supply chain systems.

3.0 Critical Evaluation of Ikea's company culture

3.1 Evaluation through relevant theories and Concepts

Schein's model of company culture is presented across the three dimensions of artefacts, values and assumptions (Burkus, 2014). Artefacts determine the visible processes of the company, whereas values indicate the corporate values, goals and vision of the firm (Burkus, 2014). Shared assumptions are developed from these values and artefacts, where the organisational behaviour represents unconscious beliefs and actions that form the company's cultural foundations (Burkus, 2014). For Ikea, this will be elaborated across the three dimensions of this model individually as follows.

Artefacts

Ikea is a multinational corporation with over 170000 employees present across its global retail stores and various operations (Werber, 2022). The artefacts or visible appearances are identified through the strategies implemented by Ulrika Biesert who serves as the head of people and culture at Ikea, which is responsible for creating a company culture that unifies employees across the world (Werber, 2022). This is achieved through internal surveys across employees, where their feedback is implemented in the form of company policies and processes (Werber, 2022). This ensures an equitable culture is created where Ikea's employees are treated as valuable internal stakeholders, as their input is incorporated in creating the visible cultural qualities represented across the workplace environment globally. The mission statement of Ikea is another tangible artefact, as it declares that ⁴ Ikea's intention is "to create a better everyday life for many people" (Magyar, 2022). Empowering ⁴ the employee voice presents an equitable workplace environment, as employees are empowered to escalate issues with their line managers and subsequent senior managers upstream of the corporate hierarchy. These developments result in creating an equitable and progressive work environment that promotes cooperative performance across diverse teams and champions equality through measures like balancing gender participation and pay gaps (Werber, 2022).

Values

Ikea's values are represented across eight distinct values designed to guide day-to-day behaviour and decision-making within the organisation and with the external environment. These values are characterised as ¹ togetherness, caring for people and the planet, cost-consciousness, simplicity,

renewing and improving, being different with meaning, giving and taking responsibility and leading by example (IKEA, 2023). These values correspond with the stated intention of the mission statement in creating a better everyday life for others, which is developed by making cost-effective value configuration and capturing that leads to affordable prices for engaging with customers. It also secures Ikea's organisational behaviour in terms of Environmental, Social and Governance (ESG) criteria, where values such as caring for people and the planet increase the sustainability performance of the company. Ikea's values in this context are further determined in its decarbonisation agenda to become climate positive by 2030, in a bid to retain its environmental commitments expressed in its values (Peters, 2020).

Assumptions

Shared assumptions are formed based on the essence of culture which is created by organisational values and beliefs. This translates to the behaviour and performance of employees in alignment with the values of the organisation (Aboramadan et al., 2020). For instance, Ikea personnel share strong beliefs in giving and taking responsibility, which increases their commitment towards performing their workplace duties. The satisfaction of customers remains a priority and the shared assumptions across different departmental functions such as sales and marketing ensure that a unified representation of company values is expressed through the workforce participants (Aboramadan et al., 2020). This shared culture at Ikea drives innovative performance across the company, as shared assumptions allow for openness and collaboration to be undertaken across the workforce (Aboramadan et al., 2020).

4.0 Discussing dynamic capabilities at Ikea that generate sustainable competitive advantage

Ikea's sustainable competitive advantage is evidenced in its consistent revenue performance in the past decades, for instance, its revenue grew from 12.9 billion Euros in 2004 to 29.3 billion Euros in 2014 (Rankin, 2015). The sustainable competitive advantage here is identified between the alignment of the business model and the daily operations strategy of the firm. The business model secures vertical integration of supply chain activities along with conscious design choices for products. For instance, the products are packed in slim, flat boxes that minimise the dimensions of the packaging, reducing the overall footprint emissions and costs associated with global logistics and delivery of products (Rankin, 2015). A competitive advantage is maintained

here through this design choice as it eliminates wasteful possibilities in packaging and logistics, thereby streamlining the performance of daily operations.

The business model incorporates a democratic design philosophy that seeks to identify and understand customers' needs and requirements. Quantitative research is performed by Ikea researchers as they visit the residential addresses of different homes quarterly. This ensures data is gathered regarding in-home observation of furniture quality, room layout and other factors associated with consumer situation and behaviour (Rankin, 2015). The Data Mining Board at Ikea receives these details in the form of a quarterly report titled “²Life at Home”, which also includes information derived from other studies (Rankin, 2015). From this position of market knowledge and special access to consumers’ lifestyles, Ikea product designs are modified across the range of basic and speciality home furnishings (Rankin, 2015). Through the integration of supply chain systems, such modifications can be deployed at scale if required, thereby ensuring Ikea is responsive to shifts in furniture buying trends and changes in the market. This advantage is sustainable as it ensures that customer-centric vision is maintained while engaging with product design, ensuring a competitive edge develops at Ikea that differentiates it from its market rivals (Rankin, 2015).

The production systems at Ikea are located across factories globally, the majority of which are located in regions across Europe and Asia (Rankin, 2015). Through the complex research process shown above, Ikea can scale production across factories to ensure the timely delivery of new products is fulfilled at Ikea retail stores globally. This ensures a sustainable competitive advantage is maintained by maintaining the value proposition with the customers which promises low-cost products with contemporary designs (Rankin, 2015). Customer satisfaction, loyalty and trust are established through the continuity of satisfactory purchase encounters and experiences with a company, and Ikea's consistency in its business model and operations manages to ensure this outcome is achieved (Salamah et al., 2022). The pricing strategy ensures accessibility is always guaranteed for the middle-income consumer groups that are the largest consumers of Ikea brand products, owing to its low-cost and quality control values.

In summary, the sustainable competitive advantage at Ikea is maintained through the strategic orientation of its value-chain activities and business model performance. The integration of digital technologies has enhanced the competitive performance of Ikea, as technologies such as artificial intelligence are used to increase the efficiency in data analysis of customers and

historical market trends. This allows strategic decision-making to be grounded on objective facts that will result in an accurately forecasted outcome, which is characterised as the performance of business intelligence (Niu et al., 2021). For Ikea, the integration of digital technology has increased the continuity or sustainability of competitive market performance.

5.0 Discussing the key drivers of macro change faced by Ikea

5.1 Discussion through relevant theories and concepts

Firstly, the digital transformation of the retail sector presents a technological driver of macro change for Ikea in its operations. This is evidenced in the expansion of customer engagement to include e-commerce retail, which has increased the convenience of purchasing products online. The necessity for the digital transformation of the sales channel was further emphasised during the onset of the Covid-19 pandemic, which saw Ikea and other companies across the world restrict their physical store sales due to the lockdown measures designed to mitigate the spread of the virus (Jansen, 2021). Companies with robust e-commerce channels were more resilient to the impact of the disruption, as they were positioned to benefit from the sudden growth of e-commerce participation across different consumer markets. For Ikea, this involved quickly shifting its operations to accommodate the e-commerce demand for its products that were expressed by its customers (Jansen, 2021). The website and shopping experience online was not optimised to engage with e-commerce on such a scale, and Ikea's infrastructural growth was limited during this time which resulted in delayed order deliveries from e-commerce channels. However, Ikea managed to adapt to this development by using its retail footprint to use stores as distribution and fulfilment centres for e-commerce logistics performance (Jansen, 2021).

The Ikea group has invested over 3 billion Euros into its e-commerce channel development, with the main intent of transforming existing stores to serve as e-commerce distribution centres (Ringstrom, 2022). This shows that Ikea used its advantage of retail presence to adapt to a disruptive change in the external environment, which was the need to become capable of e-commerce performance. By using its existing stores to function as digital fulfilment centres, Ikea was able to increase the quality of its last-mile delivery performance (Ringstrom, 2022). Last-mile delivery is a key determining factor in customer satisfaction when shopping across digital e-commerce channels, as it allows them to receive their purchase orders more quickly (Olsson,

Hellström and Vakulenko, 2022). Optimising the last-mile delivery secures the efficiency of logistics performance as well since any wasteful steps are eliminated that would slow down the performance of last-mile deliveries. The use of digital technologies such as artificial intelligence is useful in this capacity, as last-mile delivery route optimization ensures there is a total awareness of traffic routes, traffic buildup awareness and predetermined routes that will ensure maximum efficiency in performing logistics operations.

The unification of physical retail channels with digital e-commerce channels presents a hybrid multi-channel performance in the retail sector of Ikea, which allows it to operate at a higher level of efficiency. Customers are empowered to interact with the company's offerings digitally and experience the same while visiting physical stores for product demonstrations. This enhances the overall customer experience in the retail sector by offering them a hybrid retail experience which unifies the benefits of in-store retail engagement with the convenience and transparency of digital e-commerce performance.

6.0 Assessing the competitive context of the Organisation

6.1 Assessment through relevant concepts and Theories

Ikea's competitive performance is best illustrated through its expansion into the Chinese market. The Chinese market is a challenging prospect for foreign companies as it requires gaining awareness of local customer sentiments, as well as acknowledging the cultural differences of the consumers (Daxue Consulting, 2021). Ikea's initial endeavour failed to resonate with Chinese consumers due to cultural disparity. For instance, Ikea stores prominently featured bedroom designs in the centre which were ignored by the customers due to cultural associations of the bedroom area with privacy. Consumers would also avoid purchasing beds due to the size disparity, as the pre-designed beds sold in China by Ikea were larger than the standard sizes preferred by the general population (USCBC, 2016). These cultural differences were eventually overcome as Ikea adapted to the local market through effective localisation of brand identity and product design (Daxue Consulting, 2021). For instance, the Ikea stores permitted consumers to rest on the beds, sofas and other furnishings on display, as this was a local cultural preference among the consumers who sought to test the products before making their purchase decision. Ikea also allowed customers support in assembling the purchased products at their place of

residence, as Chinese consumers were not receptive to the do-it-yourself philosophy that became associated with Ikea's product design (USCBC, 2016). Most importantly, the Ikea concept of home renovation through incremental purchases was communicated in-store to visiting customers, through the use of brochures and catalogues featuring illustrations that communicated the brand concept to visitors (USCBC, 2016).

Ikea also adapted to local market challenges through collaborative performance that ensured it would be meeting the needs of customers thoroughly. Recently, Ikea collaborated with the Chinese e-commerce platform Tmall to engage with domestic customers on the e-commerce storefront (Reuters, 2020). This increases the local digital market penetration that allows Ikea to become accessible to diverse regional consumers across the Chinese market. This was further explored through the Ikea Digital Hub China app, which was launched through the participation of 250 experts (Reuters, 2020). This integrates local payment channels such as WeChat Pay and Alipay, further increasing the ease of access to consumers locally (Reuters, 2020). Ultimately, these adaptations show that Ikea has maintained its competitive performance by living up to its mission statement of creating "a better everyday life for many people" (Magyar, 2022).

7.0 Conclusion

The report has assessed the strategic performance of Ikea through the various instances across the sections. The assessment shows that Ikea has maintained a competitive market advantage through the unified use of a business model with a production strategy, which has resulted in Ikea's consistent growth over time. The competitive performance of Ikea was further established in separate instances where it had to adapt to macro-environmental changes such as Covid-19. The flexibility of the brand identity and product design philosophy allowed Ikea to secure its position in the Chinese market as well, ultimately asserting that Ikea is a sustainably competitive organisation.

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