

UKS31897.docx

by

Submission date: 26-Apr-2023 04:11AM (UTC-0400)

Submission ID: 2075951740

File name: UKS31897.docx (31.21K)

Word count: 3684

Character count: 20376

3

Module Name: Strategy and Leadership in Practice

Module Code: BUS7B64

Level 7

Table of Contents

1.0 Introduction	3
2.0 IKEA's company structure and its value creation	3
3.0 Necessity of Culture to IKEA	5
4.0 Dynamic capabilities.....	6
5.0 Drivers of macro changes faced by IKEA	8
6.0 Competitive Context of the Company	9
12 7.0 Conclusion	10
Bibliography	11

1.0 Introduction

Analyzing an organization's performance, spotting its strengths and issues, and creating growth strategies all depend on doing a strategic analysis of that organization. Students must use a variety of concepts and methods in this project to undertake a thorough strategic analysis of IKEA, a vital international furniture retailer. Using its value generation, value configuration, as well as value capture techniques, IKEA's business model is being critically analyzed as part of the first task. Assessing the value of IKEA's culture and how it affects the organization's success is the second task. Analyzing IKEA's dynamic skills that have produced a durable competitive advantage is required for the third objective. The fourth step entails determining the primary macro-change factors that IKEA must deal with, and the organization's competitive environment must be evaluated for the final task. Students will have a thorough knowledge of IKEA's strategy, services, and competitive environment after completing this assignment, and they will be able to use pertinent theories and concepts to assess the organization's performance and create strategic activities.

2.0 IKEA's company structure and its value creation

IKEA's business strategy is largely regarded as distinctive and effective in the retail sector. Through a mix of reasonable prices, useful designs, and a broad selection of items, the organization has been capable to add value for its clients. IKEA bases its value generation approach on offering clients high-quality goods at competitive rates. In-house product design, effective manufacturing techniques, and cost-cutting flat packaging, which reduces shipping and storage costs, are how the company accomplishes this. IKEA's company structure contains vertical integration related to value configuration, which means that the firm has control over the majority of its supply chain (Arrigo, 2005). This covers the production, shipping, and distribution of its products. IKEA is capable to enhance output, cutting prices, and guaranteeing consistent quality standards since it personalizes the whole supply chain. A small selection of items with standardized designs is another component of the company's value configuration strategy, which lowers production costs and streamlines inventory management. IKEA's value capture approach is built on providing customers with an exceptional shopping experience that allows them to view and engage with products prior to making a purchase (Norrby and Hajek, 2011). This is accomplished by the business's sizable, welcoming storefronts, which are made to display its goods in a manner which is practical and visually beautiful. Apart from that, IKEA provides a number of services that improve

customer satisfaction and increase income, like home delivery, installation, and installation. IKEA's business strategy, though, also has some difficulties. One of the major issues is the supply chain, which can be intricate and susceptible to disturbances. Because of the company's reliance on Asian suppliers for manufacturing and production, there could be logistical issues with quality control. Furthermore, IKEA's flat packaging approach could not always work for all products, which can restrict the variety of goods the company can sell. IKEA's business strategy is built on offering low-cost, high-quality products to customers. Vertical integration, standardized designs, and effective production techniques help the organization do this. IKEA offers a variety of services and a distinctive shopping experience, both of which contribute to enhancing value. Despite its issues, IKEA's service strategy continues to be effective and a standard for the retail sector.

Theories: The analysis of IKEA's company structure can be done using a variety of theories and ideas. First, the idea of "cost leadership" can be applied to comprehend IKEA's business strategy of providing fashionable furniture at reasonable costs. IKEA has been able to manage cheap pricing while still providing high-quality products by focusing on cost reduction across the value chain (Baack and Boggs, 2008). Multiple tactics, like, the utilization of flat-pack furniture, effective supply chain management, as well as economies of scale, are employed to achieve this. Second, the capability and resource analysis that has allowed IKEA to build a sustained competitive advantage could have been done utilizing the resource-based perspective. IKEA's success has largely been attributed to its distinct strengths in design, transportation, as well as supply chain management. For instance, IKEA's designers use cutting-edge materials and manufacturing techniques to produce furniture that is both affordable and useful (Galvagno and Dalli, 2014). IKEA is also able to move and store goods effectively, which lowers costs and boosts customer happiness. This is made possible by its supply chain and logistics capabilities. Lastly, "value co-creation" is a notion that may be utilised to comprehend how IKEA collaborates with consumers to produce value. IKEA develops items that better suit customers' requirements and preferences by including them in the design process. IKEA's "Living with Children" assignment, in which parents were asked to contribute their experiences and suggestions for designing practical, kid-friendly living spaces, serves as an example of this strategy. IKEA is able to make items which are not only reasonably priced and fashionable but also practical and utilizer-friendly by adopting client review in its product enhancement process.

3.0 Necessity of Culture to IKEA

One of IKEA's strongest suits is its culture, which has contributed significantly to the company's success (Lindqvist, 2009). The company's values of equality, simplicity, as well as environmental sustainability, are founded on its Swedish history. Ingvar Kamprad, the company's founder, shaped and continues to affect IKEA's culture to this day. The company has a distinctive culture which values creativity, teamwork, and cooperation. IKEA's culture is notable for its emphasis on cost containment. IKEA's business approach and product design both reflect the company's thrifty mentality. Because of its stringent cost-control policies, the company is well renowned for its competitive prices. IKEA's culture also places a strong emphasis on environmental sustainability, which is seen in the company's utilization of renewable resources, energy-efficient building practices, and recycling initiatives. The company's culture is based on its dedication to social liability and its goal to improve the quality of life for its clients on a daily basis. IKEA's culture, which encourages innovation and creativity, has been essential to its success. The organisation encourages its staff to challenge conventional thinking and create novel solutions. Many enduring IKEA goods, including the Billy bookcase as well as the Poäng chair, were developed as a result. Apart from that, the company's culture encourages a sense of cohesion and cooperation among its employees (Kling and Goteman, 2003). IKEA staff members are encouraged to cooperate and impart their ideas and expertise to one another. ¹⁰ The success of IKEA has largely been attributed to its culture. The company has been able to build a distinctive brand and keep one step ahead of its rivals because of its emphasis on cost control, sustainability, and innovation. Encouraging a sense of community and teamwork, the company's culture has contributed to the development of a strong and devoted workforce. The culture of IKEA is a crucial part of its business strategy and will remain so in the periods to come.

Theories: IKEA's culture is fundamental to the success of the business since it permeates all of the organization's practices, beliefs, and values. The Competing Values Framework by Quinn, as well as Rohrbaugh, is a useful theory to comprehend the significance of IKEA's culture. According to this theory, ⁷ there are four different types of organisational culture: clan, adhocracy, market, and hierarchy. Clan and adhocracy cultures are both present in IKEA's culture (Edvardsson and Enquist, 2002). Cooperation, teamwork, as well as employee empowerment are valued in clan culture. The corporate culture of IKEA values innovation, creativity, and teamwork (Quinn and Rohrbaugh, 1981). For instance, IKEA uses a "Democratic Design" methodology where a group of designers, engineers, product designers,

and suppliers collaborate to produce things which are both cost-effective and aesthetically beautiful. The Adhocracy culture, on the contrary, places a premium on creativity, risk-taking, and adaptability. Innovation and taking risks are also valued in the IKEA culture. For instance, the business's flat-pack furniture was an inventive idea that allowed the company to save costs associated with storage and shipment, translating into lower rates for clients. Additionally, the culture of IKEA fosters original thought among staff members. The organisational culture model by Edgar Schein is an additional pertinent hypothesis. Organisational culture, according to Schein, is divided into three levels: artefacts, values, and fundamental presumptions. The outward manifestations of culture, like symbols, logos, and behaviours, are known as artefacts. Values are the attitudes and convictions that every individual in an organisation has in common. Basic presumptions are the implicit, taken-for-granted attitudes and actions that are profoundly embedded in the culture of the organization (Yu and Wu, 2009). IKEA's artefacts, like the blue and yellow logo, the layout of its stores, as well as the company's dedication to sustainability, all serve as visual highlights of its culture. IKEA's mission statement, which emphasizes the significance of improving everyday living for multiple individuals, clearly demonstrates the company's principles. The fundamental tenets of the organization include its dedication to affordable costs, superior quality, and a distinctive shopping experience. The success of IKEA is largely attributed to its corporate culture (Quinn and Rohrbaugh, 1983). IKEA has enhanced a distinctive and prosperous company structure which has disrupted the furniture sector thanks to its clan and adhocracy culture and emphasis on cooperation, creativity, and risk-taking. The company's culture has also aided in forging a strong sense of identity as well as mission among its staff, which has facilitated the growth of the company.

4.0 Dynamic capabilities

IKEA provides multiple versatile qualities which have helped the company maintain a competitive advantage. IKEA's capacity to create and produce reasonably priced, useful, and fashionable furniture that satisfies consumer wants is one of its major competencies. A talented design team at the company works to provide goods that are not just attractive to the eye but also practical and inexpensive. IKEA's design ethos is focused on simplicity, affordability, and functionality (Vahlne and Jonsson, 2017). The company has been able to enhance a distinctive identity and a powerful company reputation which is connected to quality and cost thanks to this design concept. The effective supply chain management of

IKEA is another trait which has helped it maintain a competitive advantage. The company keeps prices down while upholding high levels of quality thanks to its highly integrated and effective supply chain. IKEA imports its raw materials from multiple regions of the world, as well as its suppliers are selected with care on the basis of their capacity to offer premium materials at competitive prices. In order to save money on transportation, the company also has its personal manufacturing facilities which are near to its suppliers. IKEA's supply chain management has allowed it to keep costs low and quality levels high, which has allowed it to manage a competitive advantage. The culture of IKEA is another important dynamic feature that has aided in maintaining its competitive advantage. The company has a distinctive culture that places an emphasis on simplicity, thrift, and sustainability. ³ IKEA's culture is based on the firm's mission, which is to improve people's daily lives. This mission permeates everything the organization does. The company's culture supports creativity, taking calculated risks, and constant enhancement, which has allowed it to stay one step ahead of its competitors. Along with its culture, IKEA has a strong competitive advantage thanks to its adept use of technology. The business has made significant technological investments, which have allowed it to improve customer satisfaction and streamline processes. For instance, IKEA has created a smartphone application that enables users to browse products, check for availability, and even conduct online purchases (Johnson et al., 2017). The company has also made investments in cutting-edge manufacturing technology like robotics and 3D printing, which have allowed it to lower production costs and increase productivity. The brand of IKEA is yet another crucial dynamic capacity that has aided in maintaining its competitive advantage. The firm has a strong brand reputation that is linked to reliability, value, and sustainability. IKEA's brand has made it possible for them to keep a devoted client base and draw in new consumers via word-of-mouth strategies. The business has also made significant investments in marketing as well as advertising, which have aided in enhancing awareness of its name and products. In conclusion, IKEA possesses a variety of versatile qualities that have helped it maintain a competitive edge (Cao, 2011). These contain its capability to create and market reasonably priced, useful, and fashionable furniture; effective supply chain management; distinctive culture; capability of utilizing technology; and powerful brand. IKEA has been capable to keep costs down, managing high standards of quality, and providing a better consumer experience because of these skills.

5.0 Drivers of macro changes faced by IKEA

To describe the drivers behind the macro change the consideration of the official statement in the financial year 2015 by the company can be cited. It stated that ¹ “*we want to be even more accessible to many people. This means working hard to ensure we make it easier for customers to shop with us, wherever and whenever they want to visit our stores and shopping centres, or our website and apps.*” The global position of the company IKEA had been strong with the help of their control over raw material production and others and had been able to develop a market share of 16.7% in the UK. Besides the improvement of the products and their pricing by making them affordable to the customers through the reduction of sales price by around 20% compared to the competition, the aggressive reduction in the production cost needed higher sales to survive (Johnson et al., 2017). On the contrary, the competition in the furniture industry had been fragmented and local where the big retail companies were shifting strategy to the global scenario and from the same the field for the operations to generate higher revenue had been one of the main drivers behind ⁵ the macro changes faced by the company. The key driver behind ⁵ the macro changes faced by the company had been the change in the comparative scenario from the strategy of the different players in the industry.

As described by the CEO of the company Dahlvig, ² had been fragmented and local in nature but the big retail players had been shifting their strategy from local to global and the main reason behind the same had been to capture the large market of China, Russia and Eastern Europe. he said that there has been a need for the improvement for the company where the earlier growth of the company ² had come from going 'wide but thin' in the UK with limited market share and they needed to go deep in the market and increase the market share in the existing market of the company (Khan and Shafiq, 2021). The big retail companies which were shifting globally had been broadening their product range and one of the ways to compete with them had been entering the home furnishing arena through the aggressive reduction of price and increase of sales through more stores in the local markets where the company had been operating. Therefore the main method driver behind the change had been the increase in the market share which can help the company to survive the low price and profitability margin.

Another driver behind the macro changes faced by the company IKEA ⁶ was cost efficiency where growing sales is the most proficient way to grow the revenue of the company. As the company had to decrease their product price aggressively in order to survive in the market, it

was necessary for them to increase sales and gain the advantage of high production scale (Zámborský, 2021).

6.0 Competitive Context of the Company

The drivers of the macro change faced by the company IKEA has been competition with the fragmentation of different local and global companies. To consider the drivers, the use of the framework of Porter's Five Forces can be done here as follows:

Industry rivalry

From the understanding of ¹¹the case study, it can be seen that the competition of the company IKEA was more at local levels than global. The multinational players in the furniture industry like Jysk in Denmark had a lower turnover compared to the company (Porter, 1980). on the contrary the competition from the different specialised manufacturers like DFS which have dominated the market of beds, baths and beyond. Besides non-specialist companies like Home Retail Group and its subsidiary Agros had offered ²a wide range of furniture in the UK market and was the largest supplier of the same which had more than 53000 products and 840 stores with online sales. In 2014 the market share of IKEA in the UK was about 16.7% which ⁸indicates the high competitive rivalry in the industry.

The threat of new entrants

The threat of new entrants had been high within the industry as the company had followed the strategy of offering low-cost products with quality and design which can reach the maximum number of customers. As discussed in the case study, by the late 2000s, the home furnishing market was huge across the world where the retail sales were in excess of \$US600bn which indicates the presence of new entrants and the emergence of players in the local markets (Johnson et al., 2017). As an example, the specialist manufacturers like Anlo from Germany's head offered different product ranges regarding kitchens whereas companies like ⁴Kingfisher and Castorama were attempting to capture the bottom of the market. Therefore the threat of the new entrants was high.

Threat of substitutes

The threat of substitutes of the company IKEA had been very high as almost all the local players like Jysk, Agros, and others offer the same products to the customers. Although the upside-down approach of the company indicates that their furniture is modern, flat-pack with self-assembly, and low price had differentiated them from the other players, the threat had remained to a high extent.

9

Bargaining power of suppliers

The bargaining power of the suppliers had been low to medium where the suppliers would aim to provide the materials to the large players which would ensure their payment and sales.

4

Bargaining power of buyers

The bargaining power of the buyers had been high as both the local players like Argos, Castorama, and other multinational and global players like IKEA, Jysk, and others had been selling identical things. Besides, the local players and brands like IKEA both tried to develop a cost advantage which offered the buyers the option to choose from different companies (Roy, 2020).

7.0 Conclusion

13

The development of the present assignment has been done based on the case study of the expansion of the business of IKEA in countries like China and India. The business model of IKEA had been upside down where the modern design, flat pack assembly, and low price (around 20% compared to others) have been the key where the cost leadership has been the main value creator for the company. On the other hand, based on the discussion of theoretical perspectives of the culture and dynamic capabilities of the company, it can be concluded that the control over both the production and retail line with low-cost production strategy across the countries they operate has given them a sustainable competitive advantage. Further, based on the key drivers of macro changes and the competitive context of the company, it can be further concluded that the shift towards a global strategy by the high-value retailers and the increase in the competition to capture the bottom end of the market has enabled IKEA to change the strategy by increasing sales in stores.

Bibliography

- Arrigo, E., 2005. Corporate responsibility and hypercompetition: The IKEA case. *Symphonya. Emerging Issues in Management*, (2), pp.37-57.
- Baack, D.W. and Boggs, D.J., 2008. The difficulties in using a cost leadership strategy in emerging markets. *International Journal of Emerging Markets*, 3(2), pp.125-139.
- Cao, L., 2011. Dynamic capabilities in a turbulent market environment: empirical evidence from international retailers in China. *Journal of Strategic Marketing*, 19(5), pp.455-469.
- Edvardsson, B. and Enquist, B., 2002. 'The IKEA saga': How service culture drives service strategy. *Service Industries Journal*, 22(4), pp.153-186.
- Galvagno, M. and Dalli, D., 2014. Theory of value co-creation: a systematic literature review. *Managing service quality*, 24(6), pp.643-683.
- Johnson, Gerry, et al. *Exploring Strategy Text and Cases PDF EBook : Text and Cases*, Pearson Education, Limited, 2017. ProQuest Ebook Central.
- Khan, A. and Shafiq, A.A., 2021. Internationalization Challenges for Retail Firms in Emerging Asian Markets: A case study of IKEA.
- Kling, K. and Goteman, I., 2003. IKEA CEO Anders Dahlvig on international growth and IKEA's unique corporate culture and brand identity. *Academy of Management Perspectives*, 17(1), pp.31-37.
- Lindqvist, U., 2009. The cultural archive of the IKEA store. *Space and Culture*, 12(1), pp.43-62.
- Norrby, C. and Hajek, J., 2011. Language policy in practice: what happens when Swedish IKEA and H&M take 'you'on. *Uniformity and diversity in language policy: Global perspectives*, 145, p.242.
- Porter, M., 1980. *Competitive strategy*. New York: Free Press.
- Quinn, R.E. and Rohrbaugh, J., 1981. A competing values approach to organizational effectiveness. *Public productivity review*, pp.122-140.
- Quinn, R.E. and Rohrbaugh, J., 1983. A spatial model of effectiveness criteria: Towards a competing values approach to organizational analysis. *Management science*, 29(3), pp.363-377.
- Roy, D., 2020. *Impact of Consumer Market Preferences on Expansion Strategies: Strategies Used by IKEA in the International Market*.
- U. Johansson and A. Thelander, 'A standardised approach to the world? IKEA in China', *International Journal of Quality and Service Sciences*, vol. 1, no. 2 (2000), pp. 199-219.

Vahlne, J.E. and Jonsson, A., 2017. Ambidexterity as a dynamic capability in the globalization of the multinational business enterprise (MBE): Case studies of AB Volvo and IKEA. *International Business Review*, 26(1), pp.57-70.

Yu, T. and Wu, N., 2009. A review of study on the competing values framework. *International journal of business and management*, 4(7), pp.37-42.

Zámborský, P., 2021. A blueprint for succeeding despite uncertain global markets. *Journal of Business Strategy*, 42(3), pp.168-176. Doi: <https://doi.org/10.1108/JBS-01-2020-0010>

ORIGINALITY REPORT

7%

SIMILARITY INDEX

6%

INTERNET SOURCES

0%

PUBLICATIONS

3%

STUDENT PAPERS

PRIMARY SOURCES

1	Submitted to Liverpool John Moores University Student Paper	1%
2	dokumen.pub Internet Source	1%
3	Submitted to London School of Business and Management Student Paper	1%
4	www.porteranalysis.com Internet Source	1%
5	Submitted to Napier University Student Paper	<1%
6	vdoc.pub Internet Source	<1%
7	culshajanis.home.blog Internet Source	<1%
8	www.cram.com Internet Source	<1%
9	www.slideshare.net	

Internet Source

<1 %

10

epdf.tips

Internet Source

<1 %

11

fe.unj.ac.id

Internet Source

<1 %

12

www.bartleby.com

Internet Source

<1 %

13

www.impgroup.org

Internet Source

<1 %

14

Submitted to Glasgow Caledonian University

Student Paper

<1 %

Exclude quotes Off

Exclude matches Off

Exclude bibliography On