**SWOT analysis and sustainable business planning – IKEA**

Questions:

1. Describe what is meant by a SWOT analysis
2. Explain the difference between internal and external factors
3. Analyse ways in which IKEA has managed to minimise threats to its business
4. Discuss the contribution of SWOT analysis to IKEA´s business growth

1. & 2.

The SWOT analysis is an analysis technique used by businesses when deciding on the how to achieve future growth. The SWOT analysis process consists of identifying the strengths and weaknesses of the business in question and the opportunities, as well as the threats possibly present in the operating market that could affect the business.

Considering above stated, the Strengths and weaknesses can be categorised as internal factors of the SWOT analysis and the opportunities and threats as external factors. Furthermore, expanding categorisation, the strengths and opportunities can be defined as ‘utilis’ and the weaknesses accompanied with the threats as possibly ‘periculo’ to any business activities. When examining the external factors, it should be obvious that to a great extent, said company has virtually no control over those factors. Opposed to the external factors, internal factors do permit some control, i.e. the re-structuration of the chair or the attempt of an optimised supply chain.

The acronym SWOT is created by taking the first letters from each of the factors, internal and external. A SWOT analysis can be helpful in the process of deciding what segments of the market provide best opportunities for success and hence profit/growth. Important to note is, that a SWOT analysis is highly subjective and definitely particular for different companies. This is due to the fact, that different companies possess specific strengths and weaknesses. Opportunities and threats are specific too, because of individual positioning in any market segment and hence the environment surrounding them, in a figuratively and literally meaning. Also, the factors depend to a major degree on the objectives a company is pursuing, which are, again subject to the company.

In order for a SWOT analysis to be useful, there are some strategic processes involved. First, the external environment has to be analysed in order to find one´s business position in the market segment/ecosystem it is located. This can be achieved using ‘PESTEL’ or ‘Porters five forces model’ and compares your position to your competition´s. As that is the analysis of an external factor, which cannot be changed, if identified as a threat or an opportunity, the internal capabilities of the business have to be considered, i.e. using the ‘Boston Box concept’, as the use of internal factors are the only way to respond to a possible change in the external factors.

Opportunities and Threats arise from changes. These changes can be virtually indefinite of nature but can be narrowed down. Hence, i.e. changes in: Technology, changes in demand or supply (i.e. price and hence, also any non-price determinants such as demographics etc.).

Handling identified factors can be done, using ‘matching and converting’, involving matching strengths and opportunities and converting threats or weaknesses into strengths and opportunities. (As a weakness/thread is subjective to a situation.) Weaknesses and threats can be strengths or opportunities, depending on the pursued objective, same accounts for the ‘utili’.

3.

IKEA, the Swedish self-assembly furniture retailer, is the world´s largest furniture selling company. IKEA is known for the modern and democratic design of furniture and their cost-cutting and eco-friendly nature.

Minimising threats to a business automatically implies maximising strengths and hence realising and exploiting opportunities.

IKEA, as stated, is the market leading and major shareholder in the furniture retailing market and is hence in a financially solid position. The democratic design philosophy enables low costs and therefore appeals to customers and potential customers. IKEA´s CSR (corporate social responsibility) by emphasising the environmentally friendly supply chain, led to a flourishing reputation.

Actually, IKEA´s reputation was at stake several times over the last decade, including mishandling employees, unwell handled advertisement and lobbying negatively affected IKEA´s reputation and hence decreased brand loyalty.

As obviously recognisable, the company´s reputation was not destroyed. When most people think about IKEA, those negative aspects do not arise to one’s mind immediately, but easy-to-build, low-cost and modern design.

A thread, decline in demand, is due to the rise in income consumers possess. Low-cost goods will become inferior as income rises, which definitely is a threat to IKEA´s business. To minimise this threat, IKEA chose to diversify their product portfolio in means of announcing and later expanding their premium product line. Therefore, becoming appealing as the seller of a superior or normal good (depending on one´s income) to a greater customer base.

IKEA is a European group and makes their greatest revenue in Europe. Funnily, just over two years ago, IKEA did not have nearly as good of a market share in any of the Asian countries. IKEA just announced the acceleration of its China operations and expansion plans to India in 2016 [[1]](#footnote-1), leaving them with ‘sales by almost 50 percent over the next four years’(Bloomberg). As observed, IKEA converted a threat, the missing presence in Asian markets, to an opportunity, increasing their presence.

Over the past few years, the costs of primary goods (raw materials) rose rather significantly to affect their business.[[2]](#footnote-2) IKEA though cannot influence or change the costs of primary commodities, of which the most prominent of their used ones, is wood. IKEA´s integrated supply chain commits them to long-lasting customer-supplier relationships, which provides the opportunity of negotiating low cost – high volume orders. On the other hand, IKEA is striving for innovation, intentionally allowing to drive costs down by making the production line more efficient and cost-effective or even finding alternative materials to incorporate into their business models.

Also, due to those low prices they induced, and the large nature of IKEA, their market penetration and domination is rather significant and has to be heavily considered by competitors. Their competitiveness creates barriers to entry, which hinders smaller companies from entering the market. Those barriers to entry a market, are unfortunately not well perceived by the government and hence, the government might impose sanctions or subsidise smaller firms/domestic firms in foreign countries. That is an actual threat IKEA has to be prepared to face at one point. The creation of monopolies is not an option in most parts of the world.

As above stated, IKEA is nowadays known for their environmental friendly focused production line. The ‘social trend’ of implementing environmentally friendly supply chains and the production of goods and services, driven by society led to IKEA joining that trend, by extending their product lines with completely environmentally friendly products, as they claim on their website. By considering societies needs and wants and the ongoing trends, IKEA successfully turned a threat into an opportunity.

4.

SWOT analysis allows an organisation to be sensitised for changes in the market and their environment and hence react afterwards, but furthermore, proactively prepare for those changes.

‘Utilis’ or ‘periculo’ of nature, a SWOT analysis will rise the chances of detecting changes and hence the chances of creating a positive outcome of that situation. Also, SWOT analysis assesses the internal performance of an organisation, and therefore allow the more efficient allocation of resources, as well as self-optimisation, meaning converting weaknesses into strengths.

As extensively stated above, the historical examples of changes in the environment and the market surrounding IKEA were mostly handled with extreme and extensive strategic execution. SWOT analysis definitely helped IKEA in those areas where the company did find possible threats and minimised them.

By identifying internal and external factors, an organisation allows themselves to widen their horizon of perception and hence ultimately their range of possible business. Strategies allow organisations to secure their places in the market, as planning for future possibilities does.

IKEA is the largest furniture retailing company in the world. There has to be a reason why that is the case. SWOT is a part of that success. The reason being, that if not knowing how one´s surroundings are, one cannot interact with said surroundings. Only when being knowledgeable about their position and their surroundings, only then they can interact. SWOT analysis is the strategy to become knowledgeable of a companies’ position in the market, figuratively their surroundings.

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   [↑](#footnote-ref-1)
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   [↑](#footnote-ref-2)