

Internal and External Factors Analysis of IKEA

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INTERNAL AND EXTERNAL FACTORS ANALYSIS OF IKEA

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Company's Overview

IKEA is an international home products company. It has developed quickly since it was founded in 1943 by Ingvar Kamprad. At present, it is one of the world's leading furniture and textile retailers. IKEA offers more than 9,500 products, including a complete range of home and office furnishings, equipment, lighting, and accessories. This extensive range is available in all IKEA outlets, and consumers can order a variety of items online on IKEA's official website. At this point, there are 18 outlets in the UK, with the first one launched in Warrington in 1987. In July 2009, IKEA introduced its products in Ireland and opened an outlet in Dublin ("IKEA SWOT analysis", 2010). Over the previous 60 years, IKEA has grown from a simple enterprise into a cluster of companies with 76,000 associates. At the same time, an exceptional corporate culture with its own set of principles has been developed. The achievements of IKEA have been built upon zeal and eagerness, a steady aspiration to renew and progress, cost-consciousness and readiness to provide a hand and take accountability ("Our values", n.d.). The paper will make an internal and external analysis of the company to reveal its strength, weaknesses, opportunities, and threats as well as its place in the global market.

IKEA is a one-stop store satisfying the diverse needs of potential consumers and offering a variety of household and office products. These items have been carefully selected for the customers to be able to make their homes more attractive and comfortable. The consumers have an access to all kinds of products under one roof, and this is intended to improve their buying experiences. A wide variety of goods and

their design attract millions of customers from all over the world every year. The key goal of IKEA is to assist its clients in implementing their own ideas and improving their surroundings. That is mainly done by offering them an extensive range of premade furniture, textile, and utensils for their homes and offices at reasonable prices. Sweden is IKEA's country of origin, while its product designs come from different parts of the world, making it one of the most progressive companies in the market. In IKEA, customers have opportunities to choose from a wide range of products and get professional assistance from the IKEA staff.

Characteristics of IKEA

For both the company's customers and employees, IKEA is a unique company. Simplicity, which is one of IKEA's main features, is the key to the company's success. This principle is applied to everything, from the way the management operates to the relationships between managers, employees, and customers. For example, managers and subordinates work on the same tasks, share the same car parking facilities, and eat side by side in the same cafeterias ("Our values", n.d.). The company's personnel is an immensely valuable asset at IKEA, which is perpetually trying to enlarge the assortment base and improve the quality of its products and services ("Our values", n.d.). The creative approach and original designs along with reasonable pricing policy contribute to the company's competitive advantage and explain its success in going through the crisis periods.

IKEA is also famous for offering identical items in all countries. The number of the company's products offered at one store ranges from 8,000 to 10,000 goods, depending on the outlet's size. At the same time, the international strategy adopted by

the company is in adjusting to the specific atmosphere and national traditions of the country in which an outlet is operating. For instance, in China, the store layouts imitate the design of traditional Chinese apartments. In particular, the outlets contain a balcony sector because many Chinese apartments have balconies (Miller, 2004). Thus, the store locations, design, and display are usually adjusted to the overall market requirements and consumer behavior.

IKEA exhibits its massive range of more than 10,000 items in cheap out-of-town outlets. Most of its products, especially furniture, are sold as knock-down kits, for customers to take the products to their homes and collect them on their own. The combination of corporate traditions and flexibility in preserving similar assortment in different locations and at the same time adapting them to the needs of various countries explain the popularity of IKEA all over the world. This enables the company to compete with business rivals on quality, undercutting them by up to 30% on prices ("IKEA: SWOT analysis", 2010). IKEA introduced a new manufacturing cycle, "in which customers are also suppliers (of time, labor, information and transportation), suppliers are also customers (of IKEA'S business and technical services), and IKEA itself is not so much a retailer as the central star in a constellation of services" ("IKEA: SWOT analysis", 2010). An IKEA store, with its mouth-watering crèche and Scandinavian coffee, is believed to be an ultimate shopping destination for value aware, car-borne customers. IKEA changed the suppliers' and customers' views on the traditional buying experience.

Among the numerous exceptional characteristics attributed to IKEA, the one that makes it immensely attractive to consumers is the names given to every stock-keeping unit (SKU). Diaconis, the marketing manager of IKEA, admitted: "Instead of simply

calling a product 123456, we name a bookcase 'Billy' or a fabric 'Anna'. Sofa names are usually cities or rivers in Scandinavia, fabrics are steaks' names, and the wall units are boys' names. The reason is that IKEA wants to project the feeling that the products are a part of the family" ("IKEA: SWOT analysis", 2010). This approach as well contributes to unique image of the store.

Operations at IKEA

IKEA is highly concerned with the company's internal operations. It has always determined a target price of a product before creating it. This method was in contrast to the traditional practice of initially developing the product and then pricing it according to its actual cost and the prices in competitors' stores. The designers of IKEA had to take into account all the costs, including raw material, manufacturing, and distribution for making appropriate choices and reaching the initial price targets ("IKEA: SWOT analysis", 2010). IKEA has 202 retail outlets all around the world, which welcome more than a million consumers a day, throughout the year ("IKEA: SWOT analysis", 2010). Thus, supply chain management plays a vital role in decision-making process at IKEA.

The company carries 3.5 million stock units and provides 10, 000 different types of products. Almost 10% of them are new every year ("IKEA brings picture to life", 2005). Supply chain planning sometimes gets complicated because the outlets are spread across 32 countries. Furthermore, the company has 1600 suppliers in numerous regions and they are divided more or less evenly between Europe and Asia. IKEA consists of 27 central distribution centers in 16 different countries ("IKEA: SWOT analysis", 2010). As a rule, an IKEA retail store opening is a public event and some customers travel hundreds of kilometers to shop there.

Internal Factors Analysis

The aim of the internal analysis is to identify strategically important strengths and weaknesses of the company for improving its strategy if necessary. This goal can be achieved, first of all, by identifying key internal factors, such as distribution channels, cash flows, locations, technology, and organizational structure, and, secondly, by evaluating these factors. The internal factors analysis is neither linear nor simple. The steps tend to overlap, and the managers in different positions and levels approach the internal analysis in different ways. Therefore, it is essential for the company to pay proper attention to the internal factors analysis. IKEA has recently launched a strategic plan regarding sustainability and the company's targets up to the year 2015 ("IKEA SWOT analysis", 2010). IKEA's business strategy is mainly focused on the company's aims related to sustainability and environmental concerns.

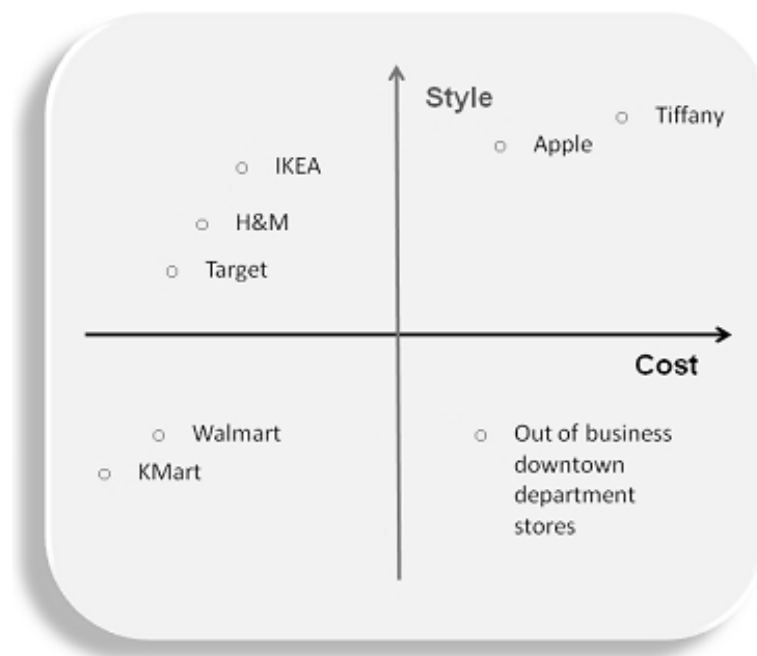
Strengths

The following aspects can be regarded as IKEA's strengths:

- A recognizable brand name and strong positioning in the global market give company a solid advantage over its competitors.
- Perfect match between quality and pricing along with effective cost reducing strategies is referred to as 'Democratic Design' (meaning good quality at lower prices).
- Responsible approach towards market research helps the company to be pro-active about entering new markets.
- IKEA enjoys economies of scale because of its bulk purchasing.
- Wherever IKEA goes, it develops an excellent infrastructure around its

location which makes this company an immediate favorite for the locals (“IKEA SWOT analysis”, 2010).

- One of IKEA’s major strengths is delivery of products directly from the supplier to IKEA retail outlets. This cuts down the handling costs, lessens the number of road miles, and decreases the carbon footprint.
- The product development and differentiation are considered to give it a competitive advantage over the others while keeping its operation costs low. The following diagram illustrates the correlation between costs and quality.



Weaknesses

Problems which any firm may face internally can have a significant impact on its performance. IKEA acts appropriately to eliminate such issues (“IKEA SWOT analysis”, 2010). The most notable weaknesses of IKEA are the following:

- It manufactures products in many countries, and its management can experience difficulties in adapting to the local specifics and meeting all the requirements

of social policies.

- Although IKEA spends a lot of funds on research and development, it has problems meeting one of its primary goals – providing quality products at low prices. Economies of scale help the company to reduce the prices but maintaining a balance between price and quality can be a tough task.
- IKEA continuously introduces differentiated products, but its business rivals are catching up with the copies as well as with their own products (“IKEA SWOT analysis”, 2010).
- Communication barriers are a major concern as well. IKEA’s management needs to maintain strong channels of communication within the organization as well as with their consumers.
- IKEA has limited advertising and promotional strategies.

External Factors Analysis

The external factors generally refer to the external environment of business and, therefore, can be divided into two categories. The first group of factors includes the opportunities that should become a basis for the company’s strategies. The second group includes external threats that display the difficulties, which a company can potentially experience, and which require taking appropriate preventative measures.

Opportunities

IKEA considers that its environmentally friendly manufacturing operations contribute to its positive branding. IKEA is working on recycling strategies, which would allow using the same materials repeatedly (“IKEA SWOT analysis”, 2010). From the analysis of the situation in the market sector, it can be stated that IKEA can take

advantage of the following opportunities:

- An immense possibility for developing and marketing is a rising demand for environmentally friendly products (“IKEA SWOT analysis”, 2010).
- The ever-growing interest of consumers in cheap products correlates with IKEA’s corporate culture and manufacturing cycle. The current economic situation can motivate consumers to pay more attention to the pricing policies.
- It is essential to attract the younger generation as they can become loyal customers in the future. IKEA attempts to attract them by creating low-priced, modern, and stylish products.
- The company works on reducing water usage and lowering the use of carbon footprints. IKEA has set out its plan for cutting the energy use by introducing alternative energy sources in its stores and changing its packaging material. Its environmentally friendly transport proposal embraces the aim to reduce business flights by 20% in 2010 and by 60% by the end of 2015 (“IKEA SWOT analysis”, 2010).
- IKEA considers social responsibility when developing its strategies. Focusing on corporate social responsibility, IKEA's strategy includes charity activities, such as the World Wildlife Fund, UNICEF, and Save the Children (“IKEA SWOT analysis”, 2010).
- To attain the market value, IKEA can follow the basic marketing strategies of penetrating and scheming the competitive industry in order to function globally.
- It is essential for the company to be open with all its suppliers and stakeholders. This includes creating confidence through good communication with customers, co-workers, and the media. Sustainability is a fundamental element of

IKEA's image ("IKEA SWOT analysis", 2010).

Threats

If a corporation is aware of the potential external threats, it has better chances to overcome them. By implementing the innovative ideas, IKEA can fight against its threats and secure its business in the industry. Threats to IKEA may arise from the issues described below.

- A considerable amount of potential consumers is afraid of trying new products. For this reason, some of the consumers can remain only one-time buyers.
- The furniture market has strong competitors that can influence IKEA's market value. Attracted by the consumer demand and expected returns from household and furnishing markets, many companies have entered these markets. IKEA should pay more attention to its unique qualities and special offers ("IKEA SWOT analysis", 2010).
- The economic factors are also among the major threats for furnishing retailers. The economic downturn has slowed down consumer expenditure, and disposable income has been reduced.

Nevertheless, IKEA is concentrating on these threats and trying to overcome them. It is handling weaknesses and threats to generate a positive effect. IKEA is developing the system of online assistance to inform customers about the sustainability strategies. On its website, IKEA provides the customers with information and ideas on how to lessen their damage to the environment. This is also expected to contribute to cost effectiveness. The managers and employees receive formal training on sustainability, particularly on what IKEA is doing and how they can take liability to become responsible for themselves ("IKEA SWOT analysis", 2010). IKEA's size allows

the company to benefit from the economies of scale, which results in lower average costs of operations. The company has a team of specialists who develop innovative technologies aimed at reducing the costs. Because of its ability to derive benefits from high levels of economies of scale and lower costs of doing business, the company is able to offer quality products at reasonable prices that make them highly competitive for consumers. By summing up the above-mentioned aspects, it could be suggested that due to its unique position in the market, the company has a considerable competitive advantage and establishes barriers for new market entrants.

Since IKEA offers reasonable and affordable prices, the company increases demand for its products even in the times of financial crisis in its market sector. It is imperative to keep prices as low and feasible as possible, disregarding all the difficulties. The company should preserve its democratic pricing policy ("IKEA SWOT analysis", 2010). IKEA's positive branding and other marketing strategies can contribute to its financial well-being. Therefore, its marketing department should use different media channels and promotions for reaching out to various groups of potential consumers and broadening the client base.

Consumer Behaviors Influencing IKEA's Marketing Strategies

IKEA's corporate culture includes the principles of fashionable design, low prices, and madcap promotions, which ensure its significant competitive advantage in the market sector. Due to the specifics of its marketing strategy, IKEA can influence people's preferences and lifestyles. In a highly competitive furniture and textile market, IKEA offers a one-stop shelter for assurance and positive buying experience. It is a safe zone that people can enter and instantly become a member of a like-minded, cost-

style-, and environmentally-sensitive global community (“IKEA: How the Swedish retailer”, 2005).

IKEA has all the necessary precursors for business success and further growth. It accounts for 5% to 10% of the furniture market in each country where it operates and sells its products (“IKEA: How the Swedish retailer”, 2005). The company’s CEO, Anders Dahlvig, admitted that brand awareness contributes to IKEA’s business success (“IKEA: How the Swedish retailer”, 2005). That is why IKEA positions itself as much more than a mere furniture merchant. “It sells a lifestyle that customers around the world embrace as a signal that they have arrived, that they have good taste and recognize value” (“IKEA: How the Swedish retailer”, 2005). The founder of IKEA, Ingvar Kamprad, is known as one of the most successful entrepreneurs who has led his business through creation of new designs and products to shaping up the consumer trends and tastes.

The company invests a significant amount of costs in the launch of new stores. That is on average \$66 million to ensure that the location and assortment of stores correspond to the needs of local consumers (“IKEA: How the Swedish retailer”, 2005). CEO Dahlvig intends to pay special attention to IKEA's development in the three of its fastest-growing markets: the USA, Russia, and China. The US market offers plenty of new opportunities for IKEA, “We have 25 stores in a market the size of Europe, where we have more than 160 stores” (“IKEA: How the Swedish retailer”, 2005). IKEA is offering exclusive catalogues to attract and fascinate the consumers. Pieces address the intricacies of the customer traditions. The IKEA catalogues are about uniqueness and personal style. They are distributed worldwide to 175 million people. The IKEA

catalogues offer a combination of fine arts and marketable production.

IKEA's Positioning in the Global Market

The company has recognized that the major proportion of its market constitutes the customers belonging to the middle class who have common buying behavior and preferences. The customer expenditure patterns are also similar throughout all countries. Despite these similarities, IKEA understands that the company's positions in the global market depend on its success in particular locations. It explains the growing need to adapt to the local specifics in different areas. For example in China, in the year 2005, IKEA produced 250,000 plastic placemats to commemorate the year of roosters ("IKEA: SWOT analysis", 2010). IKEA's promotional campaigns are based on exceptional marketing situations and cultural susceptibilities of each country, which differ radically across the markets.

For instance, European billboards and commercials, particularly in the UK, were more clear-cut than those in North America were, which were usually more humorous. IKEA stores have been available in some countries, such as Canada, Sweden, Australia, and Germany for more than twenty-five years. However, in countries, such as the United States, Russia, Britain, China, and Italy, the company has operated for only slightly more than a decade ("IKEA: SWOT analysis", 2010). During all these years, IKEA has worked with numerous advertising agencies to carry out some of the most inspired and exceptional television advertisements across the globe.

Conclusion

IKEA is an internationally recognized brand with hundreds of stores all around the world. From the analysis of external and internal factors, it can be stated that this

company should undertake further evaluation of its markets, whereas the competitors pose new challenges for it. It is essential for IKEA to make new strategies for keeping its strong financial position. This means revealing the essential opportunities it can make use of and the threats that should be dealt with to retain the market share. IKEA acts relying on its strengths and cutting down its weaknesses. As the result of this approach, the company has been able to take and preserve a strong position in the market. Over the years, it has continued to design and implement effective business development strategies.

IKEA's strengths include design, low prices, cost-effective use of resources, and accountability for people and the environment. The company's products, progression, and structure reveal its environmental position. For instance, smart exploit of packaging and design means that more goods can be stored in a crate and that reduces the number of delivery journeys, which lessens IKEA's carbon footprint. The company also offers support and assistance in furnishing homes and offices as well as provides some valuable and exceptional suggestions. The company strives to offer the furniture that can fit one's home in accordance with how much space is available or which color of wallpaper will go with the furniture. The customer can furnish and decorate the entire home and office based on information provided by IKEA's professionals. The company also offers delivery services and high standards for the product deliverability. In addition, there are special offers (such as gifts and additional features) which can make shopping experience even more enjoyable. IKEA's wide variety of products along with convenience and advanced customer care has enabled consumers to select and place the finest products in their homes and offices. Currently, the organization is renowned

for its product development, resourcefulness, and ability to respond and offer great varieties of goods across the continents.

Recommendations

IKEA should continue using its positive branding strategies. For example, in order to create a renowned trademark in Ireland, IKEA should pay more attention to its sustainability goals. IKEA can retain its market value in Ireland by planning to counteract the threats, using the innovative ideas and focusing on the company's strengths. IKEA's pricing approach currently targets customers with limited buying potential. In the future, the products for the premium consumers should be developed, featuring high-quality designs and extraordinary styles. The goals of sustainable development and corporate social responsibility do not only contribute to the company's reputation, they also improve its revenues and consumers' buying experience. Therefore, the company should continue developing functional and innovative products for diverse categories of potential consumers in order to keep expanding its market share.

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