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Case Study 2: IKEA 'S BELIEVES A STRONG ENVIRONMENTAL STANCE IS GOOD BUSINESS

Summary

IKEA is one of the world's top furniture retailers. The company offers customers a wide range of nearly 10,000 Scandinavian-style products from housewares to leather sofas and from plush toys to curtains. IKEA has ability to sustain the strategic competitive advantage to the road of success through few factors such as the cost leadership strategy where their attention are directed towards minimising costs to operate more efficiently than the competitors. As a result of their majority of furniture is flat-pack, their costs and packaging can be reduced. Besides that, IKEA is success through their wide expansion of market because IKEA now has 37 stores in the U.S. and more than 300 IKEA stores in 38 countries. Furthermore, the low price is affordable to everyone and is reasonable with their high quality and stylish products. IKEA has always been social responsible through environmental goal setting. IKEA concerns for the environment by increasing the use of recycled and reusable materials, waste reduction, etc. Its socially and environmentally responsible approach to business is recognised as a benchmark for retailers around the world.

Question 1 : Perform a SWOT analysis

SWOT analysis is the analysis of the organisation and analysis of its environment, the internal analysis of organisational strengths and weaknesses as well as the external analysis of environmental opportunities and threats. It is the initial stage of planning and helps producers to target issues. Strength is the capability within the organization that provides a competitive advantage in the market whereas weakness is any existing or potential force which could serve as a barrier to maintaining or achieving a competitive advantage in the market. On the other hand, opportunity is any existing or potential force in the external environment that, if properly leveraged, could provide a competitive advantage. Last but not least, threat is any existing or potential force in the external environment that could erode a competitive advantage.

The first part of SWOT analysis is covered by strengths.

There are five points of strengths which IKEA hold. First of all, brand recognition. IKEA is an internationally known brand and is a strong global brand which attracts key consumer groups. It ranges worldwide and promises the same quality. Since IKEA was founded in 1943 and had 253 stores in 24 countries, it has a strong brand awareness. Everyone knows about IKEA.

Secondly, IKEA's strong concept and clear vision. IKEA has its clear vision which is "to create a better everyday life for many people" and its concept focuses on simple, low cost, stylish and functional products. It reaches an ideal balance between function, quality, design and price. They not only taken into account of good functions and high quality products but also well and modern design as well as low price to attract customers.

Furthermore, IKEA enjoyed the economies of scale. IKEA bulk buying of materials that stem from operating on a large scale and maintained long-term relationships with the suppliers reduces the average cost and could access to high quality materials at reasonable prices. IKEA committing to buy large volumes over a number of years so IKEA can negotiate for lower prices.

Next, IKEA has a good market share. IKEA has a large market share as it is the world's largest furniture retailer, it grown rapidly since it was founded and has more than 200 stores all over the world in different countries.

Lastly, IKEA owned the skilled workforce in its organisation. IKEA is always highly focuses on training for management and staff to ensure all the staff provide quality services for the consumers. Their training for staff varies from sales person, customer relations, logistic co-workers, cashiers, human resource, etc as all of them requires a degree of specialist knowledge to provide assistance for example kitchen installations.

The next part covered in this analysis is the weakness.

IKEA has to recognize its weaknesses in order to improve and manage them. This is important for objectives setting and develops new strategies. There are five weaknesses of IKEA. The first weakness is the size and scale of its global business. The large scale of business that IKEA practicing making it hard to communicate with its consumers and other stakeholder about its environmental activities. It has to put much larger effort in promoting and advertising for its products and activities. The large scale of IKEA's global business also caused quality concern of its products in some area. Some of the countries where IKEA's products have made do not complement the regulation on the working condition.

Next weakness is the privately owned & needed of real estate. The privately owned characteristic of IKEA's business will restricts the capital owned. This formed a restriction for the business investment. The capital limitation restricts the business to invest high capital project and prevent it response faster to the environment changes. Another weakness of IKEA is from the real estate point of view. It requires extremely large areas for building its warehouse and stores. However, it is always not an easy job to get a strategic location or area within budgeted cost. The high cost of real estate will increase the cost of the business.

Another weakness of IKEA is the demand for low cost products. This needs to be balanced against producing good quality. IKEA also needs to differentiate itself and its products from competitors. It believes there is no compromise between being able to offer good quality products and low prices.

Then, IKEA has no direct competition. IKEA as the world's largest furniture retailer has no direct competition. This is because most of its competitors having smaller scale of global business and is hard to compete with IKEA. IKEA has no motivation to improve its business and products due to lack of competition. If this situation sustain continuously, the business will short of crisis awareness to the environment changes.

Then, opportunities are the next part in this analysis.

IKEA uses its strength to take advantages of the opportunities that arise. The business gets to response quickly to the changes of environment on both a broad and narrow scale. There are four opportunities for IKEA. First of all, the growing demands for greener products. The new global pursuit of green growth is an opportunity for the IKEA. Growth of greener products will increase the sales of IKEA as it is always practicing environmental activities. Asian economies such as Korea and China are future large market for IKEA as they are looking at cutting environmental impact. The demand for reduced water usage and lower carbon footprints are another trend that promoting IKEA's environmentally activities.

Then, there is a growing demand for low priced products. The current financial climate may result in consumers trading down from more expensive stores. IKEA as a store selling low cost products will gains advantage from the trends. Consumers will reduce their expenditure by purchasing less expensive products. Thus, IKEA may target larger range of customers during this period.

Besides that, the moving from International to global status. IKEA is moving from international to global status through the development of Asia and Eastern European models as the result of globalization. The large proportion of middle class consumers in Asia country represents the target customers for IKEA. Following the raise in demand of better living standard in Asia has opened a large market for IKEA's business.

Last but not least, E-commerce. E-commerce represent another opportunities for IKEA following e-commerce as the new trends in business market. Internet penetration in regions such as North America, Australia, and Europe, has made World Wide Web an important medium for e-commerce transactions. IKEA is now possible to reach the target customer anywhere in the world with the help of IKEA's ecommerce website.

Lastly, threats are the final part in this analysis.

Threats are an external factor that will affect IKEA. If IKEA is aware of these possible external threats, it can be able to encounter them. Threats to IKEA are as follows. The first one is the social trends. The slowdown in first time buyers who entering the housing market is one of the social trends referred to. This phenomenon occurred due to the buyers are lack of awareness and information about the unique of IKEA products. This is a core market segment for IKEA products. IKEA needs more newly customers to enter the market in order to stimulate its sales. With the growth of percentage customer, IKEA may able to expand their market share as well.

The second one is the market forces. One of the reasons that IKEA has grown rapidly is the way of its furniture's packing — flat-packed, that ready to be assembled by the customers which will allow a reduction in costs and packing. In order to gain the advantages from it, more competitors are entering the low price household and furnishings markets. The competitors are imitating the strategy of low cost value flat packed furniture which will impact on the buoyancy of IKEA. Therefore, IKEA is facing the threat of the entry of the new competitors in this field which may also affect its sales.

Last but not least, the economic factors. Economic factors are normally referred to the hit of the recession. A recession is a general slowdown of economic activity. During the recession, it will reduce the consumer's spending power because the incremental of their income have reduced.

In conclusion, there is no doubt that IKEA is an internationally known home furnishing retailer. IKEA has conducted a SWOT analysis in its business operation. A SWOT analysis allows the company to assess and evaluate its business operation from both internal and external point of view. The company will then examine each strengths, weaknesses, opportunities and threats deeply in order to improve their business performance. The first part of the SWOT analysis covers the strengths of IKEA. Those five strengths clearly shown that the reason of succeed for IKEA. Another part covers the weaknesses. This part allows IKEA more in depth to know the weakness of its internal company. The next one is the opportunities. This part successfully identified that the opportunities that IKEA hold which may help to expand their market. Threats are last part which covered in this SWOT analysis. With thoroughly knowing the threats that IKEA faced on, it may not only able to minimize it, but also may help to avoid it to take place. In short, IKEA may take the advantage of strengths and opportunities to develop the strategy which may help to expand the market. However, IKEA may also through the analysis to minimize the weaknesses and reduce the threats that they facing on. Through this, IKEA may then be able to generate the strong growth and up hold a strong identity in the market.

Question 2 : Analyze ways in which IKEA has managed to minimize threats to its business.

Threats of the IKEA are divided into three aspects which are social trends, market forces and economic factors. IKEA may not be able to eliminate these threats but they can minimize them to some extent. IKEA minimizes threats by the following ways. Firstly, in the aspects of social trends, IKEA is providing a more sustainable online help for customers to be more familiar to the existence of IKEA products. It also helps to increase the well-known status of its brand name. Moreover, it provides customers some helpful tips and ideas on its website to get their desired items.

In addition, there is from the aspect of market forces. IKEA is now using the advanced technology to produce its products and reconstructing a specialized management in order to counter the imitation of the new competitors. IKEA, which has the advantage to enjoy economies of scale, can lower its products price and the competitors are hardly to compete with such cost savings. Thus this puts up high barriers for smaller companies to enter the market.

Last but not least, the aspect of economic factors. IKEA is famous with its products at low price, so it is vital to keep prices as low as possible when the retail sector is depressed especially during economic recession. This pricing strategy targets those limited budgeted consumers to consume its products yet for those who desire better quality and design with higher budgeted can also approach to IKEA. However, IKEA must ensure that it is always recognized as having the lowest prices on the market in the future in order to not lose its own customers yet attract new customers.

To conclude, IKEA is a well-known global brand with hundreds of stores across the world. However, there are some threats that arise which may influence their business activity. Therefore, IKEA has to develop various plans or solutions against those threats that they are facing in order to turn them into positive outcome. There are three threats which IKEA is facing, which are social trends, market forces and economic factors. However, IKEA managed to find the suitable solutions for each of it. After those threats have been minimized, IKEA may then be able to sustain its potential market and practice more business activities.

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