This paper looks at IKEA, one of the global leading furniture retailers and a very successful brand. It examines the environment in which IKEA operates using SWOT, PESTEL, Porter’s 5 Forces and Value chain analyses to inspect the attractiveness and competitiveness of the industry. Conclusions are also made.

IKEA, SWOT; PESTEL; Porter’s Five Forces; Value chain analysis
1. Introduction and Company overview

IKEA, a global furniture retailer, is established on the concept of offering wide range of functional, well-designed and low-cost home furnishing products. The IKEA concept journey continues with its global operations (The IKEA concept, 2012) in 40 countries, with 330 stores and 154,000 workers. The sales turnover is recorded as 27.5 billion for the year 2012 (Inter IKEA Systems B.V., 2012). Inter IKEA Systems B.V. owns IKEA retail system, IKEA concept and IKEA franchisor. The business model closely embraces ‘franchising’ it as means of rapid growth. Initiated its operations as a seller of home furnishing products, IKEA today diversifies its products into prefabricated housing and food (Inter IKEA Systems B.V., 2012). This report takes a strategic analysis of IKEA through employing PESTEL, SWOT, Porter’s 5 forces and Value chain analysis tools.

2. PESTEL analysis

2.1. Political

- The level of corporate tax and consumer taxation regulated by political authorities of any country affects corporation’s after-tax income. The rate of corporate tax (tax that corporation pays on its profits and not on income) impacts profits, hence lowering after-tax income. For example, with an illustrative purpose only, UK tax businesses for 30% of their profits for operating in the UK, United States tax 35% and Japan imposes highest of all, 42 % (PwC, 2012). Hence, IKEA regional profits are subject to regional tax laws. However the specific characteristic such as subsidiary model (The IKEA Group, 2012, p.1) of the furniture retailer also plays a major role in the actual tax rate. It is also learnt that corporate tax rate impacts the structure of the business. IKEA business structure, a subsidiary model (Interview by Gareth Bell, 2012) propels its subsidiaries to abide by regional tax laws.

- Addition to corporate tax, tariff and trade barriers also impact businesses. Some of the major reasons for imposing tariffs and trade barriers such as protecting local employment, new industries, consumers, retaliation and national security, tariffs increase the prices of imported products into the
country (Kourdoumpalou and Karagiorgos, 2012). This benefit the local producers who are not forced to reduce their prices, however local consumer pay higher prices (Reynos, 2009; Rindel et al., 2011; Hellström and Nilsson, 2011). Considering the case of IKEA and its reliance on local manufacturers for its products rather than importing products into the local market, tariffs and trade barriers seemingly have little influence on its business profits.

• Most importantly, political stability of any country affects business operations. As an example after the fall of communist government in Poland, political situation drastically transformed, affecting the buyer-supplier relationship of IKEA. Similarly 20-30 years ago, some of the IKEA East German suppliers forced political prisoners to manufacture products that were sold to IKEA (The Blaze, 2012a). The retailer’s involvement with accused suppliers, in the midst of political instability of a country, negatively affects business and consumer perception of the corporation.

2.2. Economical

• Economic growth of individual markets has its influence on businesses. For example, rapidly growing economies provide higher standard of living and higher employment rate. As a result, consumers’ disposable income increases and so does their purchase power, ultimately benefiting business profits (Reynos, 2009). In particular with the emerging economies showing high potential of economic growth, provides a promising future (Thelander, 2009) for corporation such as IKEA.

• Other factors such as cost of labour also impact business success. In regions such as India and China popular for their low-cost yet skilled labour, provides IKEA with a wide profit margin.

• Inflation rate is another important factor affecting business and consumer experience. For instance, high inflation rate such as in the UK (BBC News, 2012) deforms consumer behaviour, destabilising markets and generates avoidable shortages of resources (Zentes and Schramm-Klein, 2007). Similarly, in countries with high inflation rate, trade unions demand higher wages, distorting the entire value chain.

• Lastly, market trends should be closely observed to make strategic decisions benefiting the business.
2.3. Social

- Social factors such as modifications in demographic variables (income, age, family size etc.) of different countries significantly influence the strategic decisions made by the business. As an example, ageing population is less likely to buy furniture (Mintel Oxygen, 2010) where as younger generation would demand trendy furniture that should also add value to their purchase.

- Demand of certain products is controlled by changes in demographics. As an example, a major shift of rural population to urban areas due to job creation indicates higher demand of less costly products for new families to get settled.

- Similarly, cultural factors, fashion trends and consumer behaviour also regulate demand trendier, less bulky, and easy-to-assemble furniture.

- Lastly, reduced income levels place furniture purchase at less priority.

2.4. Technological

- Emergence of technology particularly popular with in the retail sector such as RFID (Radio Frequency Identification), and online and mobile shopping, has immensely benefited corporations. RFID helps businesses to reduce their cost of operations through inventory shrinkage, smart labelling, self-stocking, efficient checkout process etc. (Gaukler, 2010).

- Further on easy access to retailer’s online stores provides enormous selling opportunities for the seller. In addition, technological innovations in the retail sector like consumer mobile payment, and mobile gift cards promises consumer to experience easier, and reliable means of payment (Reynoso, 2009).

- The increasing popularity and reliance of businesses on social media as an unconventional marketing channel, benefits firms by increasing awareness and reach amongst target market, marketability factor, increased website traffic, ability to develop community and relationship with customers (Forbes.com, 2012) and so forth.

2.5. Environmental

- Factors such as ethical business operations demonstrating sensitivity and accountability towards carbon-emission, forestry, community development, and supplier conduct issues are significantly important for business success and sustainability.
• Industrial giants such as IKEA are constantly scrutinised for their contribution towards carbon emission, disposal of hazardous manufacturing waste in the environment, recycling, and supplier behaviour. Therefore local governments ensure that environment can be protected, compelling businesses to meet specific standards to reduce the adverse affect of business activities. Compliance with these regulations is one of the most essential success factors.

2.6. Legal
• Consumer protection legislations restrict the business in terms of what they are permitted to do along with adding cost to business operations. This means that products that are manufactured must comply with the consumer protection legislations of respective country of operations. In the UK, Sale of Goods Act 1979 requires products to be sold in good quality with no faults or problems, should serve the purpose, and must be described for the purpose they serve (legislation.gov.uk, 2012). So the additional costs come from changing business practices, compliance with the law, damaged reputation and image within the consumer market etc. that is ultimately borne by the corporation (Reynoso, 2009; Hellström and Nilsson, 2011).
• Other legislative requirements such as employee protection, health and safety at work etc. demand proximity of business objectives with the local legislations. For instance, IKEA is lately accused to be contradicting with its Group values, when the Saudi version of retailer’s catalogue airbrushes women model out (The Blaze, 2012b). Even though the company was complying with local laws against advertising women in Saudi Arabia, nevertheless accusation of contradicting with its Group value (i.e. against gender discrimination) is likely to alter consumer perception towards the corporation.

3. Porter's 5 forces analysis

Porter’s 5 forces, an analytical tool is a tool that analyses industrial structure in accordance with the 5 competitive industrial forces (Raab, 2012). This model is commonly used to analyse the drawing power of a specific industry where corporation operates, consequently determining the probability of a corporation’s
profit making in the given industry. Presented below, is the Porter’s 5 forces analysis of IKEA.

3.1. Competitive rivalry among firms
IKEA operates in an extremely competitive industry, defined by many other low-priced, good quality furniture manufacturers namely Galiform, Euromarket Designs Inc., Argos and so forth. Given the attractiveness of the DIY (Do-it-yourself) furniture industry, IKEA continues to compete and grow in markets such as China, and Japan. Nonetheless, global recession had affected the furniture industry, one of the hardest hit industries then other sectors. As a result, previously premium-priced furniture manufacturers Dreams (UK) is now reported to increase its market share (Mintel Oxygen, 2010) against IKEA, thus making competition even fiercer. However, considering that furniture is now low spending priority according to consumer behaviour affected by recession, competitive rivalry is likely to diminish.

3.2. Threats of new entrants
This force is considered weak and the probability of development of new competition for the furniture retailer is insubstantial, due to market saturation, high amount of capital investment, and skilled labour required to become a global giant in discounted-DIY- furniture manufacturing sector. Other factors such as suffering of pricy-labelled household items and furniture considered as a low spending priority (Mintel Oxygen, 2010) due to recessed economies, further weakens this industrial force.

3.3. Bargaining power of suppliers
This force is weak because suppliers of IKEA are constantly competing to maintain their relationship with the global giant who can easily access resources and capabilities in the form of potential suppliers, seeking opportunities to form affiliation with IKEA. However, IKEA values to create the strategic relationships with suppliers, to empower its suppliers in certain extent excluding their bargaining power. Therefore, this weak industrial force in case of IKEA actually sanctions the corporation to optimise resources and maximise its profits.
3.4. Bargaining power of buyers

This force is strengthening by factors such as intense competition, and wide choice of substitute products. Nevertheless, the threat of substitute products is weak because of IKEA unbeatable expertise in manufacturing low-cost, good-quality flat pack furniture. On the other hand, buyer power is also controlled by IKEA growth strategy of opening its stores.

3.5. Threat of substitutes

As mentioned above, threat of substitutes is weak force here. IKEA specializes in manufacturing functional, low-cost, good-quality furniture. Even though customer retention rate remains best with IKEA and Argos, nonetheless combination of IKEA characteristics remains un-matched by its competitors. IKEA brand perception ‘trendy’ also surpass Argos ‘affordability’ and John Lewis ‘quality’ (Mintel Oxygen, 2010), due to unmatched product and service functionality.

![Porter's 5 Forces Analysis Diagram]

Dig. 1.1. Porter’s 5 Forces Analysis

4. SWOT analysis

SWOT analysis, a strategic tool that helps corporations to identify their strengths, weaknesses, opportunities and threats. Since the firm ultimately controls its strengths
and weaknesses, this analytical tool helps firms improve their competitive advantage. Opportunities and threats reside in the external environment, however through transforming weaknesses into strengths, a firm can deflate threats and grasps opportunities. Presented below is the SWOT analysis of IKEA.

4.1. Strengths

• The key strength of IKEA is application of strategic practices such as optimising material to reduce manufacturing cost, development of manufacturing plants to optimise use of recycled material. In addition, the Corporation uses innovative technologies such as catalogue iPhone application to facilitate consumer experience (Mintel Oxygen, 2010).

• IKEA is also considered as leading specialist in the retail furniture manufacturing industry, with a strong brand image. The strong global brand targeting key consumer groups, offers uniformity in quality and product range across the globe. The right approach to strike off balance between quality, design, functionality and cost, gives IKEA cost and competitive advantage in the highly competitive market.

4.2. Weaknesses

• Highly competitive market brings IKEA weaknesses such as magnitude of the global business that is or isn’t capable of managing stakeholders, product differentiation, suppliers’ issues of not abiding by IKEA Group Code (IWAY code) in to limelight. Other weaknesses of IKEA i.e. ineffective communication and information exchange with its consumers and stakeholders due to huge scale of business operations are also identified (Johansson et al., 2008).

• Specific to the UK market, perhaps these weaknesses are resulting in providing competitive advantage to Argos as it beats IKEA in terms of most visited furniture retailer (Mintel Oxygen, 2010).

• Another competitor of IKEA, DFS also beats IKEA in terms of biggest furniture advertiser. Mintel Oxygen (2010) also indicates lowered market share, where only 3 in 10 buyers, buy furniture from IKEA.
4.3. Opportunities

- Several opportunities lie ahead for IKEA due to recent purchase trend from DIY stores in the furniture sector. Opportunities also arise from factors influencing consumer purchase decisions such as desire of quality, special discounts and offers, and excellent and competitive customer service.
- There is also an increasing demand in green (eco-friendly), and low-priced products manufactured with sensitivity towards the environments.
- IKEA aims to reduce carbon emission, and achieve zero wastage targets coupled with improved relationship with stakeholders, suppliers and consumers, that provides massive opportunities resulting in business sustainability, competitiveness and higher profits.

4.4. Threats

- The global recession and suppliers’ issues particularly threaten IKEA.
- Furthermore, social trends showing lowered entrance of first-time buyers into the housing market also affect furniture sale (Mintel Oxygen, 2012).
- Increasing competition and lowered disposable income are factors that motivate buyers to purchase low price furniture, even at the cost of compromising quality. Threats such as these, demands the furnishing giant to reform its value chain, and optimise innovative technology in order to provide good quality at lowered prices (Tarnovskaya, 2012; Johansson et al., 2008).
- Strategic development in this regard would also raise entrant barriers into the industry, providing possibilities to maintain and increase its market share.
5. **Value chain analysis**

Value chain analysis, a concept introduced by Porter in 1985 categorises the activities of a firm as primary activities and support activities. Primary activities are essential elements to run a business where as support activities define how businesses obtain competitive advantage in the market. Presented below is the value chain analysis of IKEA.

5.1. **Inbound logistics**
IKEA possesses and develops a well-structured inbound logistics managing 10,000 products manufactured by 2000 suppliers, distributed and transported to the IKEA stores from 27 distribution centres. The logistics function accounts for 25% jobs of each store (IKEA corporate webpage, 2012)

5.2. **Operations**
The global giant operates in more than 38 countries. Its operations comprises of 208 company-owned stores across, whereas remaining stores are franchised. The manufacturing is usually outsourced, which leaves business focus on other core activities.

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### SWOT Analysis of IKEA

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<th><strong>Strengths</strong></th>
<th><strong>Weaknesses</strong></th>
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<td>Material optimisation to reduce manufacturing cost</td>
<td>Requires more defined product differentiation</td>
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<tr>
<td>Use of innovative technologies</td>
<td>Suppliers' issues</td>
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<td>Strong brand image</td>
<td>Weak relationship with customers</td>
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<th><strong>Opportunities</strong></th>
<th><strong>Threats</strong></th>
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<tr>
<td>Exploring consumer purchase decision factors such as quality, discounts &amp; offers, low prices</td>
<td>Shifts in social trends</td>
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<tr>
<td>Low disposable consumer income</td>
<td>Intense competition</td>
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5.3. Outbound logistics
The customers transport the final product enabling the firm to further add value to its products by keeping their final cost down.

5.4. Marketing and sales
The target market is well defined, comprised of people with low-income level, students, and young couples starting their family. IKEA does not rely heavily on advertising, rather its stores are advertising units in themselves providing family friendly environment, where customers can actually see and check the products before making any purchase.

5.5. Services
The business strategy of providing limited customer service means reducing cost of manufacturing, resulting in low-priced products means that most of the information is provided to the customer through catalogues and displays. Low number of sales staff within stores also means cost saving in operations and competitive prices.
Dig. 1.3. Value chain analysis

**Support Activities**

5.6. Infrastructure
The IKEA group controlled by INGKA Holding B.V, is a hierarchical organisational structure, operating through large-sized stores.

5.7. Human resources management
IKEA demonstrates high level of commitment to its HR practices, providing consistent investments in staff training and development.

5.8. Technology
IKEA invests regularly in its research and development activities that are carried out in Sweden. Eager to use of information technology within business processes, the
Corporation makes most use of technology in order to provide low price quality products and consumer experience.

5.9. Procurement

The retail giant establishes long-term relationship with its suppliers, to investing in their education, training and development. Working close with communities where it operates, IKEA facilitates local suppliers.

6. Conclusion

Given the success of IKEA as a global brand, improved performance levels can be achieved through closely examining it's external and competitive environment that in turn enables the firm to make most out of available opportunities. The analysis identifies that a proactive and dynamic approach is adapted by IKEA to maintain its competitive edge however transforming its weaknesses into strengths can further strengthen the brand. With an aim to add further value to its value chain, IKEA has immense opportunity to establish a stronger relationship with its customers.
7. References


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