



Strategic Management (BUS 411)

Case study & analysis



Love your home

By

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Introduction:

In this case, I've studied the internationally known home furnishing retailer, which is (IKEA) the largest furniture retailer in the world. The purpose of the case study is to analyze the objectives and strategies used by IKEA, analyze the company financially, SWOT analyzing and discuss major issue that the company faced.

About:

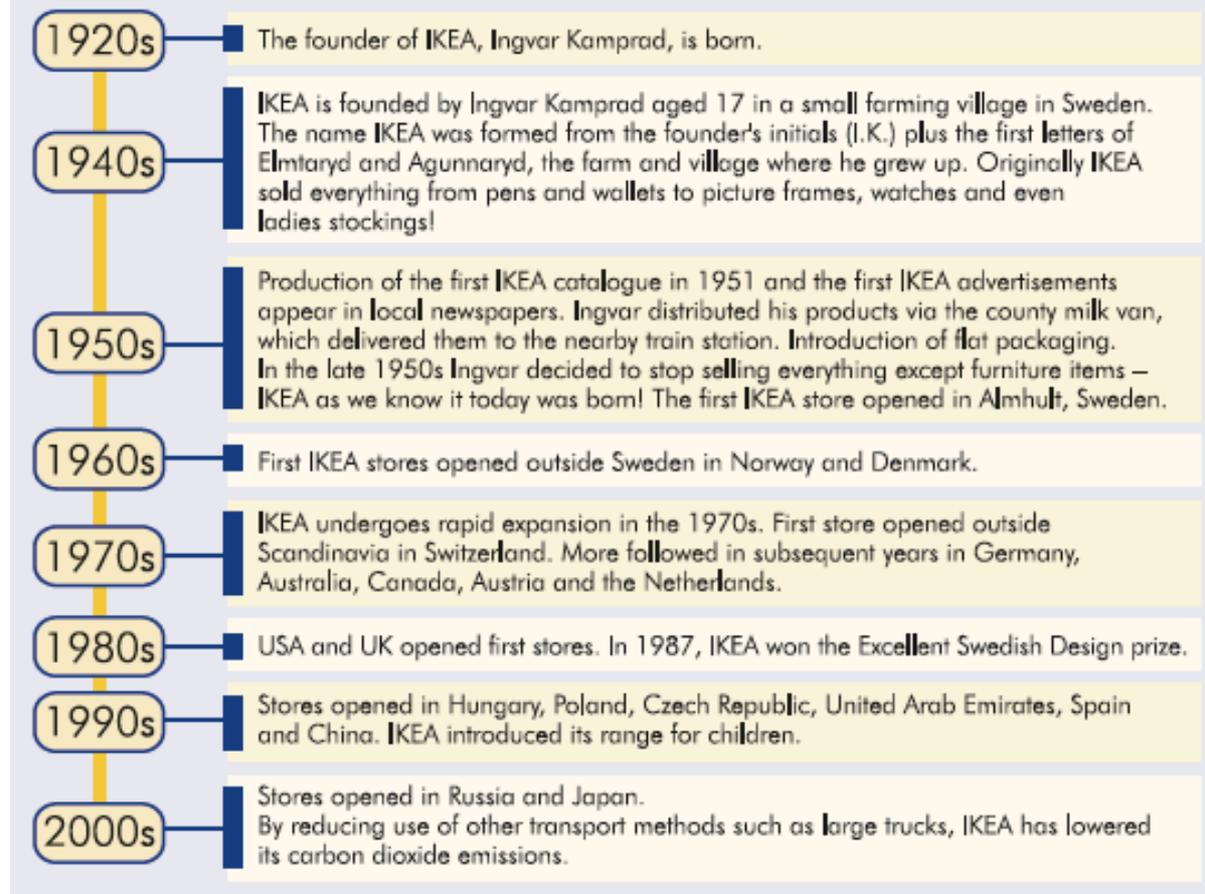
IKEA is a privately-held, international home products retailer that sells flat pack furniture, accessories, and bathroom and kitchen items in their retail stores around the world. The company, which pioneered flat-pack design furniture at affordable prices, is now the world's largest furniture retailer. IKEA was founded in 1943 by 17-year-old Ingvar Kamprad in Sweden and it is owned by a Dutchregistered foundation controlled by the Kamprad family.

The company that was originated in Småland, Sweden, distributes its products through its retail outlets. As of August 2009, the chain has 301 stores in 37 countries, most of them in Europe, North America, Asia and Australia.

History:

The IKEA Concept began when Ingvar Kamprad, an entrepreneur from the Småland province in southern Sweden, had an innovative idea. In Småland, although the soil is thin and poor, the people have a reputation for working hard, living frugally and making the most out of limited resources. So when Ingvar started his furniture business in the late 1940s, he applied the lessons he learned in Småland to the home furnishings market. Ingvar's innovative idea was to offer home furnishing products of good function and design at prices much lower than competitors by using simple cost-cutting solutions that did not affect the quality of products. Ingvar used every opportunity to reduce costs, and he scraped and saved in every way possible - except on ideas and quality. The name IKEA comes from the initials of Ingvar Kamprad, I and K, plus the first letters of Elmtaryd and Agunnaryd, which are the names of the farm and village where he grew up.

IKEA time line



Vision:

IKEA vision statement is **"To create a better everyday life for the many people."**

Mission:

IKEA mission statement is **"To offer a wide range of well designed, functional home furnishing products at prices so low that as many people as possible will be able to afford them."**

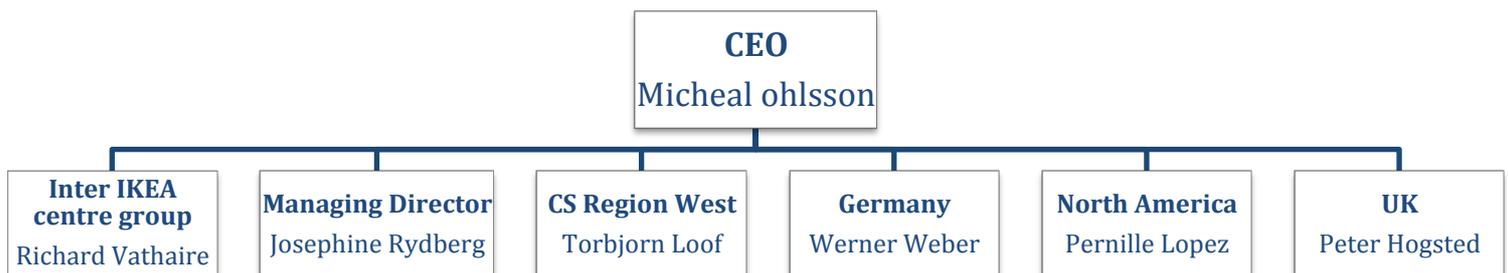
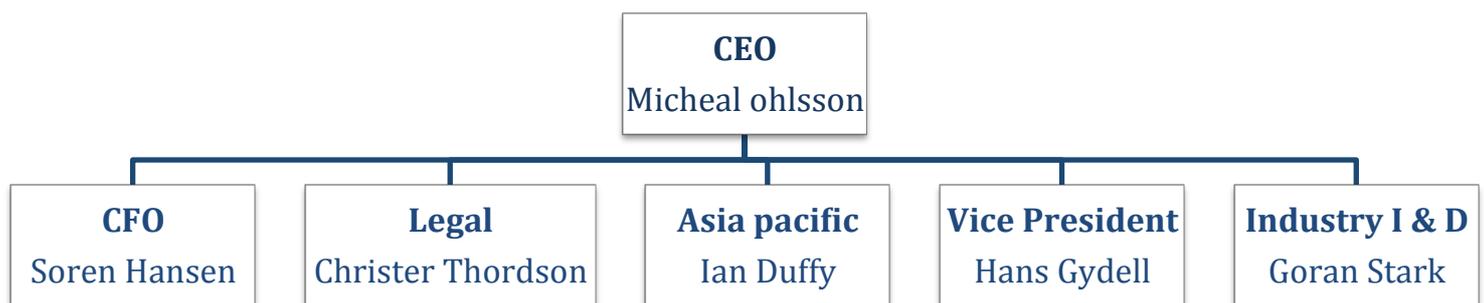
Market positioning:

IKEA market positioning statement is **"Your partner in better living. We do our part, you do yours. Together we save money."**

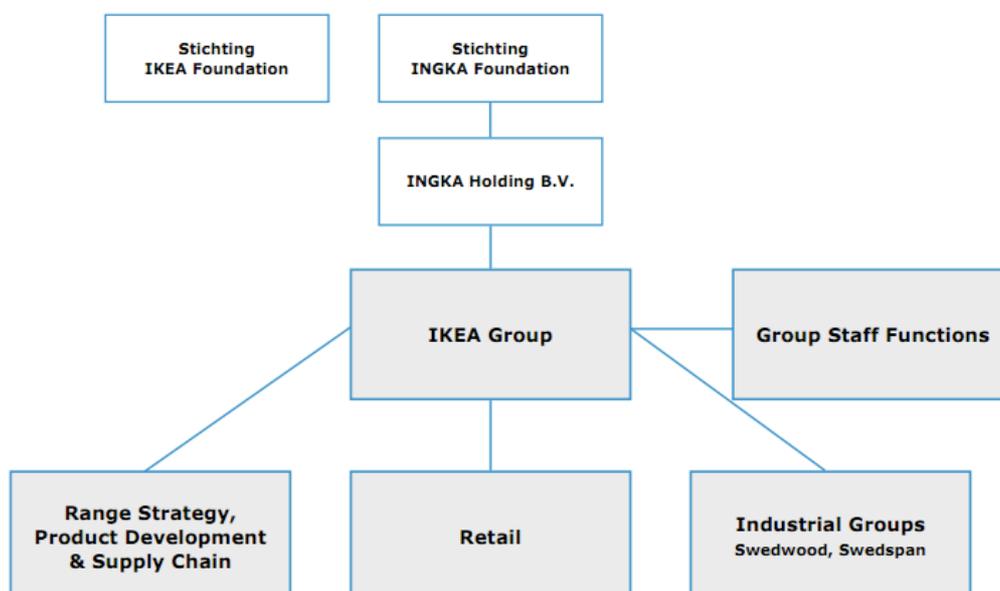
Objectives of IKEA:

- To produce cheap and affordable product for the public/customers.
- Better life for those who can't afford expensive products.
- Ensure the customer finds what they are looking for in store.
- Low prices.

IKEA Organizational chart:



STRUCTURE OF THE IKEA GROUP OF COMPANIES



IKEA Financial Analysis:

Income Statement

CONSOLIDATED INCOME STATEMENT

SEPT 1 – AUG 31

(IN MILLIONS OF EURO)	2010	2009
Revenue*	23,539	21,846
Cost of sales	12,454	11,878
Gross profit	11,085	9,968
Operating cost	7,888	7,202
Operating income	3,197	2,766
Total financial income and expense	76	143
Income before minority interests and taxes	3,273	2,909
Tax	577	384
Income before minority interests	2,696	2,525
Minority interests	(8)	9
Net income	2,688	2,534

- Net income:
2009 >> 2010: + 154 m €
- Revenue:
2009 >> 2010: + 1693 m €
- Gross profit:
2009 >> 2010: + 1117 m €
(more cost in 2010)

Increase of net income:

- 2010: (12) new stores + investments other stores.
- Sales increase: +2.4%.
- Overall sales: +7.7%.

Balance Sheet - Assets

CONSOLIDATED BALANCE SHEET – ASSETS

AUGUST 31

(IN MILLIONS OF EURO)	2010	2009
Property, plant and equipment	15,982	14,206
Other fixed assets	2,683	2,652
Total fixed assets	18,665	16,858
Inventory	3,415	3,116
Receivables	2,238	2,797
Cash and securities	16,955	14,334
Total current assets	22,608	20,247
Total assets	41,273	37,105

- Assets:
2009 >> 2010:
37,1 bln € >> 41,3 bln €
(+ 4168 mln €)
- Property, plant and equipment:
2009 >> 2010:
14,2 bln € >> 15,9 bln €
(+ 1776 mln €)
- Cash and securities:
2009 >> 2010: +2621 mln €

Total increase: about 4 bln €

Balance Sheet – Equity & Liabilities

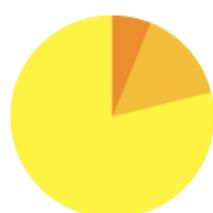
CONSOLIDATED BALANCE SHEET – EQUITY AND LIABILITIES

AUGUST 31

(IN MILLIONS OF EURO)	2010	2009
Group equity	22,841	19,775
Long-term liabilities	4,296	4,509
Other non-current liabilities	1,325	1,395
Total non-current liabilities	5,621	5,904
Short-term liabilities	7,724	7,251
Other payables	5,087	4,175
Total current liabilities	12,811	11,426
Total equity and liabilities	41,273	37,105

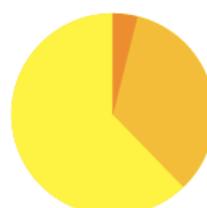
- Group equity:
2009 >> 2010: + 3066 mln €

More stores = more equity



**SALES
PER REGION, %**

- Asia & Australia: 6%
- North America: 15%
- Europe: 79%

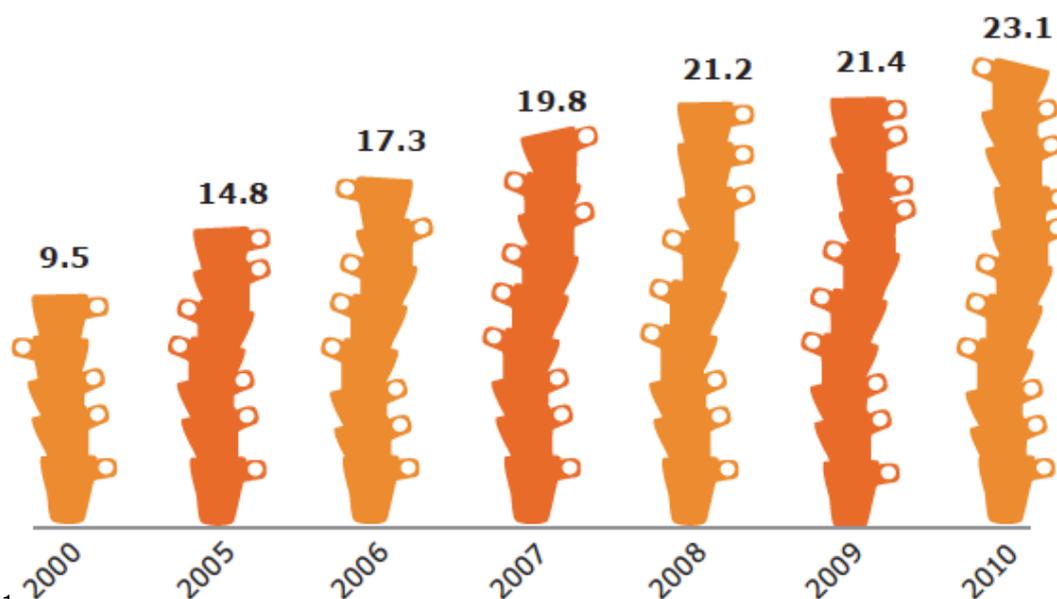


**PURCHASING
PER REGION, %**

- North America: 4%
- Asia: 34%
- Europe: 62%

ANNUAL SALES FIGURES, BILLION EURO

Sales of goods, excl. rental income



Financial Analysis:

FY10 was an unpredictable year with the effects of the financial crisis in 2009 still a reality for many of our customers. The conditions in our markets ranged from favorable to difficult. FY10 turned out to be a very good year for our retail operations, with growth in most markets, further increasing our market shares.

Increasing sales, gross margin and improvements in the cost structure, adjusted for one-off items, led to a strong result. New stores, refurbishments and other investments were funded with our own cash flow.

Good profit level:

Sales increased to 23.1 billion EURO in FY10, an increase of 7.7% compared to the previous year. The growth came both from existing stores, which grew by 2.4% and new stores. Sales grew in almost all countries, with China, Russia and Portugal showing the strongest increase.

Gross margin improved to 46.1% from 44.6% in FY09. This increase was driven by higher sales and reduced costs in our supply chain, strongly supported by steps taken together with our suppliers. As a franchisee of the IKEA concept, IKEA Group pays a franchise fee of 3% of sales to the concept owner Inter IKEA Systems B.V.

Operating cost increased from 7.2 billion EURO in FY09 to 7.9 billion EURO in FY10. The increase in expenses is mainly due to two one-off items, being the settlement of the dispute about the lease of diesel generators in Russia and the impairment of assets in our industrial groups. Adjusted for these one-off effects, expenses as a percentage of total revenue decreased by 2.3% compared to FY09, reflecting an improvement in cost structure. This improved efficiency will be invested in lower prices for our customers.

Financial net decreased due to lower net interest income, partly compensated by higher currency results.

The effective tax rate increased from 13.2% in FY09 to 17.6% in FY10. The increase in effective tax is primarily due to higher taxable profits in countries with higher nominal tax rates. Corporate income taxes amounted to 577 million EURO in FY10. In addition, property taxes of 150 million EURO were incurred.

Net income increased by 6.1% to 2.7 billion EURO.

Strong financial position:

Total assets increased from 37.1 billion EURO to 41.3 billion EURO, mainly due to investments in properties and a further increase in cash and securities.

The increase in property, plant and equipment is related to the establishment of 12 new stores and additional investments in IKEA stores and factories. We have also invested an amount of 66 million EURO in wind farms in accordance with our strategy on renewable energy. The total

investment in tangible fixed assets amounted to 2.1 billion EURO, staying flat compared to the previous year.

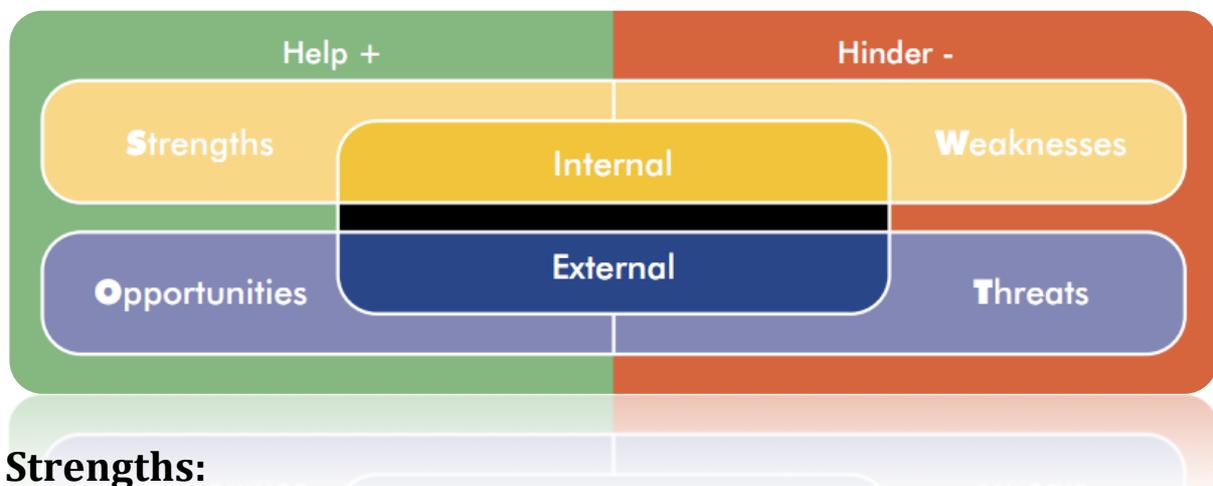
Our securities portfolio grew by 2.5 billion EURO during fY10 to 15.2 billion EURO. No credit losses were incurred during this period.

The assets are for a significant part funded through equity, with the equity ratio increasing to 55% by August 31, 2010. Total equity amounted to 22.8 billion EURO on August 31, 2010. No dividend was paid to the Stichting INGKA foundation during the year.

We reduced our long-term debt by 213 million EURO during fY10.

We are pleased that during fY10 we were able to further grow our business in accordance with our financial principles, and we have thereby strengthened our financial base for the future.

SWOT Analysis



Strengths:

- Powerful brand image.
- Wide range of products and styles.
- Hip, Swedish designs.
- Cheap and affordable.
- Furniture is easy to assemble and ship.
- One stop shopping.
- Friendly atmosphere/store layout.
- Facilities: restaurant/daycare center.
- Strong global sourcing capabilities

Weaknesses:

- Assembling furniture yourself may be unappealing to certain groups of consumers.
- Relatively few locations.
- Store layout – a hassle for those who want a particular item only.
- Swedish designs may not appeal to all American markets.
- Advertising doesn't appeal enough to target market (young people).
- Furniture is not built to last a lifetime.

Opportunities:

- Untapped markets (Midwest, Corporate...etc.).
- Educate consumers on IKEA thru advertisements.
- Different type of stores such as outlets or high-end labels.
- Increase online sales and Internet presence.
- IKEA can expand into many more cities in the world.
- Use the popularity among young people to expand to college markets.
- Existing stores are few and large, new stores could be many and smaller.

Threats:

- Indirect threats from Wal-Mart, home depot, pier.
- The global economic crisis.
- Social trends – such as the slowdown in first time buyers entering the housing market. This is a core market segment for IKEA products.
- Market forces – more competitors entering the low price household and furnishings markets. IKEA needs to reinforce its unique qualities to compete with these.
- Economic factors –the recession slows down consumer spending and disposable income reduces.

Major issues that face or may face IKEA:

Problem #1:

The high flow of visitors at one-time leads to many problems resulted from the lack of manpower who can meet this climax.

Solution:

Since its December 2004, IKEA has used **Beonic's** Traffic Insight visitor flow system to ensure its checkouts are never short-staffed.



Highly accurate Beonic sensors at each IKEA entrance track the number of people entering the 26,000 square meter store, ensuring that its checkout sales attendants are in position by the time customers reach the exit.

Problem #2:

IKEA suffers from a lack of innovation and faces the possibility of offering a very similar product base. This is due in part to the lack of fresh blood in the organization. IKEA's policy of hiring the same genre of people leads to inhibiting diversity and innovation to meet change in new markets.

Recommendation:

IKEA should broaden its selection base of hiring people. Whilst not changing the core competencies required of key staff, a new emphasis should be placed on the hiring of people from a mix of backgrounds and personalities. This will promote diversity, infusion of new ideas and ensure the richness of the culture.

Limitation:

This diversity may however lead to lack of goal congruence and a distraction from the common goals. There may be a waste of resources to get such a diverse group to agree to a common viewpoint.

Problem #3:

Not enough like-minded managers (Swedes) to manage stores.

Recommendation:

There are two options to solve this issue. Firstly, a solution would be to hire more Swedes with similar work ethos and cultural similarities. Secondly, another option is to promote successful managers from various countries to expatriate jobs in other geographies. This would not only achieve strong transplantation of talent but also build strong and committed global managers.

Limitation:

There may not be enough capable candidates in the overseas pool of Scandinavian expats. Additionally, looking at the second option of transplanting foreign managers in businesses outside their home countries may foster feelings of resentment of locals, inhibiting individual advancement.

Strategies Used by IKEA:

1- Low-cost leadership strategy:

IKEA has a unique business model that connects the needs of our customers with the possibilities on the factory floor. With a deep knowledge about life at home and the challenges most of us have with limited space and wallets on one hand and big dreams on the other, IKEA often develops its products directly on the factory floor. The starting point for product

developers and designers is always the price. Together with our very skilled suppliers, we make sure to get the most out of the possibilities in the production plants. We adapt the sizes and constructions of our products so we can produce, package and transport them in the most efficient way. We also put a lot of effort into developing materials, to improve them and save resources.

A limited range of articles and big sales volumes make it possible for us to keep costs and prices down. On top of this, our customers contribute to the low prices by collecting, taking home and assembling the products themselves. Today, they can even design their kitchen or wardrobe themselves using our computerized planner tools. We do our part, you do yours – together we save money.

2- Product strategy:

- Wide range of products according to the need of consumers.
- Products available for different sections of the society.
- Products adaptation according to the need of different market.
- Diversify product line and product depth.
- Low priced furniture store provides reassemble furniture and casual furniture.
- Most of IKEA's product are stylish that makes the company unique.
- Concept of Flat packaging, which makes it easier to consumers to transport the furniture.
- IKEA designs its own furniture.
- IKEA offers a variety of style for interested consumers to choose from.

3- Promotion strategy:

- High Profile advertisement campaigns.
- (Spending 70% of annual marketing budget in printing catalogs.)
- Upon entry to IKEA store shoppers are guided properly.
- Online shopping.
- IKEA providing home delivery service to its customers.
- After sale service to the customers.
- Online advertisements.

4- Market Development strategy:

Target new segments and enter new markets with existing products. The Potential benefits of international expansion are increased market share, revenues, profit, and buyer awareness.

- ▶ IN EUROPE:
 - IKEA is planning to open 10 new stores in Europe.
 - Russia is a potential market for IKEA because the economy of Russia is expanding.
 - Germany is a largest market of IKEA.

- ▶ IN NORTH AMERICAS:
 - America market can be tough for IKEA as there.
 - Are big competitors like FORTUNE BRANDS, JARDEN, MASCO exists?
 - IKEA planning to open 5 new stores in USA.

- ▶ IN ASIA:
 - Asia is a large potential market for IKEA.
 - IKEA is planning to enter in INDIA.
 - In 2011 IKEA is opened its store in MALAYSIA.
 - CHINA, JAPAN and SINGAPORE are profitable market to expand.

- ▶ IN AUSTRALIA:
 - AUSTRALIA is a big market for IKEA, there is always demand for ready to assemble furniture.
 - IKEA planning to increase employees in there stores
 - IKEA is currently operating in all the states of AUSTRALIA and planning to open more of stores.

- ▶ Potential market of IKEA:
 - Currently IKEA is not operating in LATIN AMERICA. (MEXICO, BRAZIL, CHILE, ECUDOR).
 - AFRICA can be a profitable market for IKEA (SOUTH AFRICA).
 - In ASIA, INDIA is a big potential market.
 - IKEA is planning to open new store is china.

Competitive Advantage:

There is so much knowledge about IKEA from the web, the interview, and especially follow the history of IKEA; we can find many methods, which IKEA used to improve the competitive advantage. According to the theory of “competitive advantage”.

1. Low price and good quality more than competitors.
2. Good service
3. High quality of design.
4. Wide varieties.

5. Good brand image in consumer's brains.
6. IKEA has a special team develops new products, updating technology, promoting technological development.
7. Most of IKEA's product are stylish that makes the company unique.

Conclusion:

- There are so many reasons that make IKEA so popular, for example, cooperating with the suppliers from all over the world, high-efficiently of logics, using "life system" to find what customer need, and so on. Follow the concept, IKEA try their best to give the customers what they promised: low price, well-design, creating a better everyday life for many people.
- As a world famous international company, IKEA is like a fresh air in to new target markets such as: Middle East Australia and China market. It not only brings new strategy and model to their competitors, but also brings the new life style and service to the customers.
- For the dilemma of IKEA in China market right now, IKEA should try to change the supply base to "supply- product- sale" base. Though the centralized procurement, flat-package, and more cooperation with local suppliers, IKEA can get more cost leadership. So IKEA can reduce the price and get the virtuous circle of "reduce price-increase demand-scale effect- reduce price".
- IKEA already understand Middle East Australia and China markets more than before. With accelerating the speeds of expand, IKEA will get more customers; the success of IKEA in these markets is only the problem of time.

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