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INTRODUCTION

IKEA is a privately-held, international home products retailer that sells flat pack furniture, accessories, bathrooms and kitchens at retail stores around the world. The company, which pioneered flat-pack design furniture at affordable prices, is now the world's largest furniture manufacturer

IKEA distributes its products through its retail outlets. The chain has 276 stores in 36 countries, most of them in Europe, the United States, Canada, Asia and Australia. 2006 saw the opening of 16 new stores. At least 30 openings or relocations are planned for 2008. IKEA is one of the few store chains to have locations both in Israel and in other Middle Eastern nations.

IKEA is generally pronounced /i'ke.a/ but in many English-speaking regions, it is pronounced /ai'ki:a/, rhyming with the word idea. As such, IKEA brought action in the Supreme Court of British Columbia successfully preventing a competitor in Victoria from using the name Idea. It is generally pronounced /i'ki.a/ in China, Singapore and Taiwan. Its Chinese name is Yījīa (宜家), which literally means fit for home in written Chinese and resembles the phrase right now in Cantonese pronunciation.

The IKEA Website contains about 12,000 products and is the closest representation of the entire IKEA range. In 2005 IKEA reported over 275 million visitors to their websites.

HISTORY

1943 - Founded by Ingvar Kamprad in 1943 when he was 17. His father gave him a gift for succeeding in his studies and was used to establish his own business. The name IKEA was formed from the founder's initials (I.K.) plus the first letters of Elmtaryd and Agunnaryd, the farm and village where he grew up. IKEA originally sold pens, wallets, picture frames, table runners, watches, jewellery and nylon stockings - whatever Ingvar found a need for that he could fill with a product at a reduced price

1945 - The first IKEA advertisements appear in local newspapers

1953 - The furniture showroom is opened in Älmhult. The IKEA range focused to home furnishing products. For the first time customers could see and touch the furnishings before ordering

1955 - IKEA begins designing its own furniture. Then, by lucky inspiration, one early IKEA employee decided to remove a table's legs so it would fit into a car, and to avoid transport damage. From that point on, IKEA began to think in terms of design for flat packaging which led to even further reductions in price for the customers

1965 - The IKEA store in Stockholm is opened

1963 - Marian Grabinski, consul and architect, designs the MTP bookcase. It was a contemporary classic, and spawned numerous imitators over the years

1973 - The first store outside Scandinavia is opened outside Zurich, Switzerland. Its success paved the way for a quick expansion in Germany, which is the largest IKEA market today

1974 – SKOPA modern plastic chair is designed by Olle Gjerlöv-Knudsen and Torben Lind

1985 - The first IKEA store opens in the USA

1985 - MOMENT sofa is designed by Niels Gammelgaard. It is a created stylish, comfortable and low-priced sofa with a modern look. It won the Excellent Swedish Design prize

1997 - IKEA introduces Children's IKEA. IKEA has always provided furnishings for the entire family. IKEA worked with two groups of experts to develop products. Child psychologists and professors in playing helped to develop things that are good for kids' motor skills, social development and creativity

1994 - KUBIST storage units appear. This was one of the first IKEA products built with board-on-frame construction. It used a technique for door manufacturing to create inexpensive, sturdy and lightweight storage units

2001 - IKEA establishes IKEA Rail AB. Railways were always an important part of the company's early transport strategy. Now IKEA has re-established links between these early traditions and the more advanced logistical and environmental thinking of today. From suppliers and central warehouses in Germany, Belgium, the Netherlands and Sweden, IKEA Rail provides door-to-door transport of IKEA materials and furnishings, with IKEA trains conveying the goods for most of the journey. By reducing the reliance on other transport methods such as large trucks, carbon dioxide emissions have been lowered by around 70%, particle emissions have more than halved, while hydrocarbon emissions have been slashed by around 80%

2002 - The third IKEA PS collection launches. PS stands for POST SCRIPTUM, or the latest additions to the world of IKEA design. The PS collection is one way of sharing our design values – form, function and a low price. The goal is the same as always: to make top-of-the-line design available to the many people

BUSINESS IDEA

In IKEA, we have systematically reduced our prices every year so that we will always be on the side of the customer. This has been made possible mainly because we use the full strength of the IKEA concept and the IKEA organization to purchase in large numbers, using the best supply chain methods to keep prices low. In the store, we request that the customer, do their part to shop on their own, and together, we save.

VISION

Ikea Vision is to create a better everyday life for the many people. We make this possible by offering 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.

MISSION

IKEA targets the customer who is looking for value and is willing to do a little bit of work serving themselves, transporting the items home and assembling the furniture for a better price. The typical Ikea customer is young low to middle income family.

OBJECTIVES

Specifically IKEA's key objectives are to:

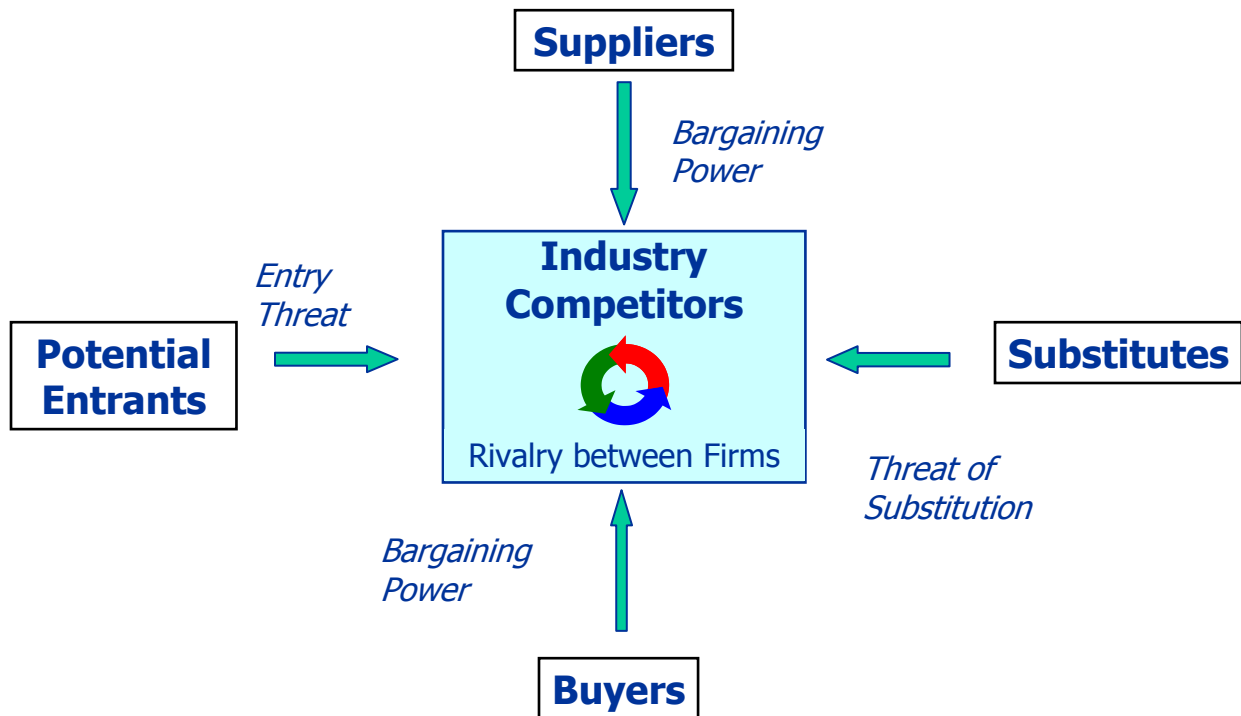
- Identify target consumer types and geographic areas for distribution of catalogue
- Identify types and areas with poor sales potential
- Increase sales return on catalogue expenditure
- Develop business strategy

CONCEPT

The IKEA Concept is based on offering 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. Rather than selling expensive home furnishings that only a few can buy, the IKEA Concept makes it possible to serve the many by providing low-priced products that contribute to helping more people live a better life at home.

The IKEA Concept guides the way IKEA products are designed, manufactured, transported, sold and assembled. All of these factors contribute to transforming the IKEA Concept into a reality.

Porter's 5-Forces Model



Supplier Power



Power of suppliers relative to buyers is similar to relationship between 'producers' and buyers - see below

Industry Rivalry

- No / size / concentration
- Diversity of competition
- Excess capacity
- Exit barriers
- Cost structure
- Distribution channels

Entry Threat



- Scale economies
- Cost advantages
- Capital requirements
- Access to customers / distribution channels
- Legal and regulatory barriers
- Potential for retaliation

Threat of Substitutes



- Buyer propensity to substitute
- Relative price performance of substitutes
- Additional benefits offered by substitutes



Buyer Power

Price Sensitivity

- Product cost vs. total cost
- Product differentiation
- Competition between buyers

Bargaining Power

- No./ size / concentration of buyers & suppliers
- Switching costs
- Information available
- Ability to backward integrate

Porter's 5 Forces Analysis

Buyer Bargaining Power

- Little buyer bargaining power because there are not many other low-price options. As a retail chain, IKEA sells to a fragmented group of individuals
- For kitchen wares and smaller items, buyers have many alternatives; for furniture, the consumers have limited alternative choices because IKEA's furniture is unique.
- It would take organized resistance, lower prices of another chain, or clearly better alternatives, to get IKEA to lower furniture prices in response to buyers' needs.

Supplier Bargaining Power

- IKEA contracts with thousands of suppliers to make its product. Internal suppliers, such as Swedwood, set standards for contracted suppliers. These contracted suppliers have no independent brand names.
- For some products, IKEA takes bids, while for others, it contracts with multiple companies to make the same products.
- Because suppliers work mostly for IKEA and compete with other suppliers, they have little bargaining power.
- As a low-cost furniture retailer, IKEA's profit margin would be more affected by prices in raw materials than by prices in labor compared to its high cost competitors.
- IKEA managers have mentioned supply issues as limiting factors for expansion. Better management of its supply chain must be investigated, because their raw materials (wood, etc) are commodities which are widely available.

Rivalry

Furniture:

- Conrin's
- Target – new low cost furniture line.
- Crate & Barrel – furniture in a box, but at much higher prices.
- Ethan Allen and independents – higher prices, quality customer service and generally aimed at a more upscale market.
- Office Depot, OfficeMax, Staples – office furniture

House wares:

- Wal-Mart, Target, etc – big box/general store types have items, but don't have as much style.
- No other store offers the complete package of IKEA in furniture and housewares at least, not for the same low prices.
- IKEA's market does not have intense rivalries, because IKEA has a large cult following, and high demand for its unique products.

Substitutes

- No practical product substitute for furniture.
- IKEA has to keep up with the latest trends, to avoid becoming out of style.
- IKEA could copy any new style fairly easily, and move the new product into its stores.
- Used furniture is a major low-price substitute for new furniture.

New Entrants

- Target is rolling out a new low-cost furniture line.
- Any new entrant would have to compete with IKEA's universal brand name and excellent availability of furniture and house wares.
- IKEA's stores do not reach into many small towns. An entrant could move into small and midsize cities with smaller stores and less selection. By not immediately moving into the same city as IKEA, a new entrant could establish itself before entering into direct competition.
- Entrants would have to build a vast supply chain, and a powerful brand name.
- Companies like Wal-Mart, with its incredible infrastructure, could enter and pose a sizeable threat, but Wal-Mart may not have IKEA's style or cult appeal.

SWOT Analysis

Internal Analysis

Strengths

- IKEA's flat packaging reduces costs and makes it easier for customers to transport
- The company culture matches its external image – pragmatic, cost-saving sensibilities
- Product design – sleek and minimalist design
- Strong in-store experience – unique, experiential, “modern theme parks”
- Brand reputation – in most countries, people lined to get into newly opened stores
- Wide range of products & styles at low affordable prices
- Global Outsourcing

- Trustworthy suppliers
- Advertising (catalogue, website, radio, word of mouth)
- Well communicated catalogues
- Good online presence
- Globalize marketing Mix working well
- Global buying power at low costs
- Self-Serve area
- One-stop shopping
- Model rooms
- A typical IKEA has a Restaurant, Grocery Store, Supervised play area & Baby care room

Weaknesses

- IKEA trying to sell to an foreign audience – it's difficult to understand foreign attitudes and tastes if you're not from the country
- Niche market – the minimalist design doesn't appeal to everyone
- Too strong of an emphasis on cost-saving could lead to cutting corners and negatively affecting safety
- Product and style selection is limited. Failure to establish well in some markets
- Assemble products yourself
- Few locations
- Store layout (store too big for some)
- Global marketing mix did not quite work well

External Analysis

Opportunities

- The budget shopper market is growing, especially among college students and in metropolitan areas
- In-store restaurants are popular, having grown to be the nation's 15th largest food chain in America
- Now that product design has been tailored to other foreign country preferences, there is an opportunity to add "bonus" services to increase customer service and satisfaction Have some assembled furniture
- More stores
- Sell some of their furniture in other retail stores
- Consider adopting a joint venture approach
- Adapted marketing mix

Threats

- Plenty of competition. The furniture retail segment is highly fragmented and IKEA is flanked by competitors in high-end specialty retailers and low-end discount retailers.
- Discount retailers sell on the basis of price, bringing down margins and making it difficult to stay profitable.

MODE OF ENTRY: THE INTERNATIONALIZATION OF IKEA

Ikea has applied a conservative policy to internationalization. As a general rule, the firm never enters a new potential market by opening a retail outlet. This is a strategic risk reducing approach in which local suppliers can provide valuable input on political and legal, cultural, financial and other issues which provides for opportunities and/or threats to the Ikea Concept. Ikea has concentrated its international expansion in Europe and in North America mainly through company-owned subsidiaries. Franchising, on the other hand, has been extensively utilized in expanding to other areas of the world

FULLY OWNED SUBSIDIARIES

- IKEA establishes subsidiaries in stable markets which are identical to the Scandinavian market. These subsidiaries are set-up by an expansion team from the central expansion group located in Sweden. This group is responsible for store location and layout, training, logistics and marketing. All capital requirements are sourced from the headquarters. The primary purpose of the expansion group is to ensure standardization, operational control and provide a smooth entry into to a new market. When everything is properly set-up and functioning, the local operational team will take over the responsibility for running the store. The expansion team, on the other hand, will move on towards new expansion projects.

EXPANSION BY FRANCHISING

- Ikea approaches unknown, relatively small, and high risk markets by franchising. The expansion group is active in this field as well, as it provides the same pre-opening activities as in opening firm-owned subsidiaries. Franchisees have to carry basic items, but have the freedom to design the rest of the product mix to fit local market needs. The centralized head office is actively involved in the

selection processes and provides advice. In addition, all products have to be purchased from Ikea's product lines. In order to maintain service, quality and logistic standards, individual franchisees are periodically audited and compared to overall corporate performance. Extensive training and operational support is provided from the headquarters. All franchisees pay franchise fees to Ikea holdings. All catalogues and promotional advertising is the responsibility of the headquarters. Franchising has been used as a vehicle to the company's generic focus strategy.

SUPPORTING ORGANIZATIONAL STRUCTURE

- The present organizational structure can be defined as highly functional with a global market strategy. In such a structure, Ikea is able to maintain centralized control over functional activities and at the same time take advantage of low cost and enhanced quality from international suppliers. In addition, control over strategic direction is enhanced and functional redundancies are minimized. In order to ensure efficiency in the logistics process, the organization has integrated purchasing and distribution processes under one umbrella function referred to as "Wholesale".

BALANCE OF AUTONOMY AND STRATEGIC DIRECTION

- As Ikea continues to expand overseas, the significance of centralized strategic direction will increase. Naturally, rapid internationalization will trigger a range of challenges imposed on the headquarters in Sweden:
- Such challenges include:
 1. The complexity of the logistics system will increase.

2. It will be more difficult to respond to national needs and cultural sensitivity issues.
3. Franchisees may demand more control over operations.
4. Emerging demographic trends will force the organization to broaden its focus strategy to respond to varying nation-level consumer groups.

With all these challenges emerging, it will be very difficult to maintain a global organizational structure. The best approach to meet these challenges is to find the proper balance between country level autonomy and centralized intervention. Likewise, intensifying and responding to local rivalry requires increased subsidiary/franchisee autonomy.

With reference to Ikea's long-term relationship and control over its suppliers in exchange for quality assurance, technology transfers and economies of scale factors may trigger potential suppliers to integrate forward and produce competitive products for Ikea's local competitors. With logistics complications and long lead times, Ikea is forced to maintain high control levels over its suppliers. For instance, if the supplier responsible for the screws component to a table cannot deliver on time, the supplier of the table-top has to adapt its production to the new scenario. Without Ikea's centralized logistics system, this example could lead to severe store shortages, leading to losses in sales.

Global Marketing Strategies

- i. The IKEA concept is solely based on the market positioning statement as stated above where “We do our part” emphasizes on IKEA’s commitment to product design, customer value and clever solutions. Their customers would gain low

prices in products by using economical materials in a new way and reducing the production distribution and retail costs.

- ii. The IKEA product range where they offer a wide range of products and they manufacture creative products that are practical for daily usage.
- iii. IKEA is the home furnishing specialist. IKEA products are attractive and appealing, where it fits the purpose of customers to improve their home life through useful solutions to everyday problems.
- iv. IKEA offer low price is that comes with good quality products and worthy of money spent. They have a good relationship with their suppliers where they are able to purchase good quality, economically produced designs that are bought in bulk to keep costs low. They also cut down cost by making all of their furniture flat packed where it saves on transportation and assembly costs.
- v. Their products are functional designed where, not just they are appealing but as well as practical, easy to use without pointless or useless features.
- vi. IKEA's products are at the right quality where they are appropriate and fit for their intended purposes. IKEA perform rigorous tests on their products to ensure high quality and so that they will meet the international safety standards.
- vii. They offer one-stop store where you can find everything under one roof with every product is available immediately take-away. They offer convenient shopping where they have a simple returns policy.
- viii. IKEA encourage their customers to plan for their needs where shopping products at their store should be planned as a day out for the whole family. IKEA have new

products arriving all the time, seasonal themes, and play areas for children, special events and a great value family restaurant.

- ix. Ikea does not have its own manufacturing facilities. Instead, it is using subcontracted manufacturers all over the world for supplies. All research and development activities are, however, centralized in Sweden.
- x. To facilitate shopping, Ikea provides catalogs, tape measures, shopping lists and pencils for writing notes and measurements. Car roof racks are available for purchase at cost and Ikea pick-up vans/mini trucks are available for rental
- xi. Effective marketing through catalogues usually attracts the customer at first, what keeps customers coming back is good service.
- xii. Ikea believes that a strong in-stock position in which the most popular style and design trends are correctly anticipated is crucial to keep satisfied customers. For that, Ikea depends on leading-edge technology.
- xiii. According to Ikea's logistics manager, "there are a lot of [Just-In-Time concepts](#) built into how we're trying to do business". Ikea has developed its own global distribution network.
- xiv. By utilizing control points in the distribution cycle, the firm is able to insure timely deliver of products to retail stores all over the world.

CREATING VALUE

Cost Leadership

The main objective of IKEA is to produce high quality products at a low price. It is furnishing the customers with a quality product with components derived all over the world utilizing multi-level competitive advantages, low-cost logistics, large simple retail outlets in suburban areas.

Furthermore, cost-leadership has been effectively incorporated into the organization's culture through symbols and efficient processes. In return for high sales volume, IKEA accepts low profit margins. Cost reduction does not mean reducing the quality of the variables, but rather do things better and more efficiently. A general low-cost-leadership strategy will only work effectively when the organization can provide products or

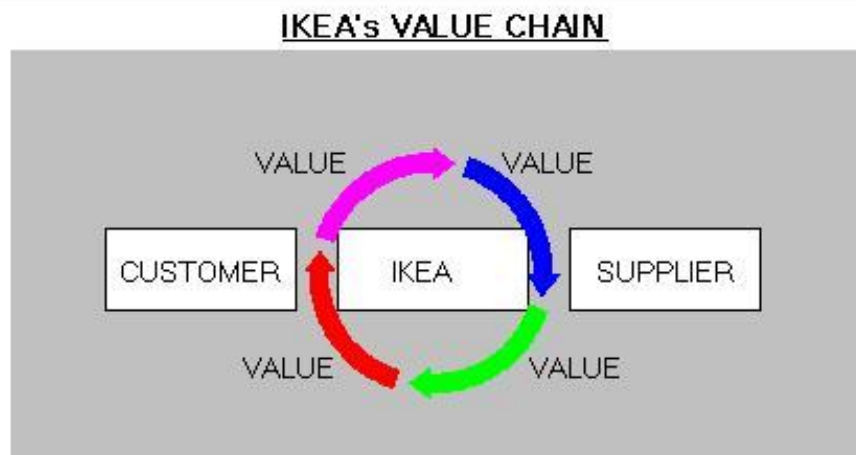
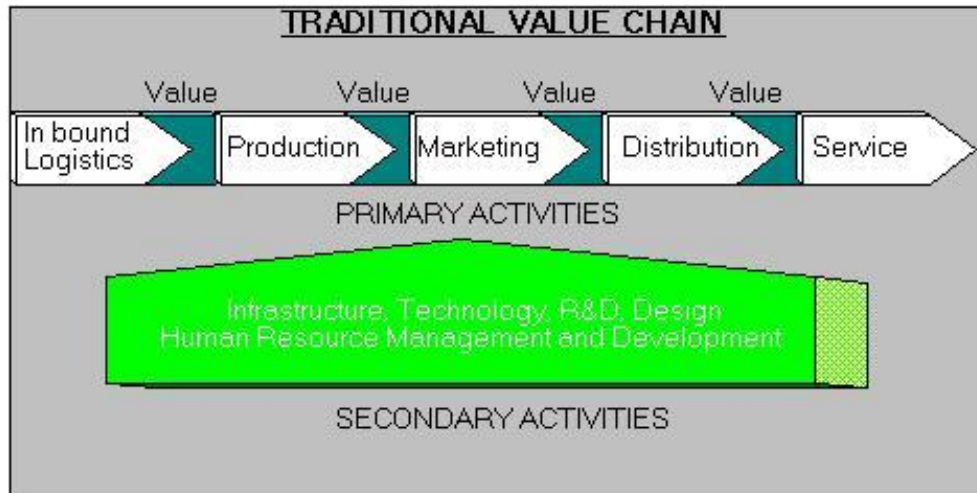
Services at a lower cost than the competition.

Differentiation strategy

In order to furnish customers with good quality items at a low cost, the firm must be able to find suppliers that can deliver high quality items at low cost per unit. This strategy is also aimed at delivering products and services that are different from the product mix of the competition.

Differentiated products are often marketed at premium prices in order to cope with added costs of differentiation, leading to higher profit margins.

IKEA's MODIFICATION OF THE VALUE CHAIN



Ikea has modified the value chain approach by integrating the customer in the process and introducing a two-way value system between customers, suppliers, and Ikea's headquarters. In this global sourcing strategy, the customer is a supplier of time, labor, information, knowledge and transportation. On the other hand, the suppliers are customers, receiving technical assistance from Ikea's corporate technical headquarters through various business services. The company wants customers to understand that their role is not to consume value, but rather to create it. Ikea's role in the value chain is to mobilize suppliers and customer to help them further add value to the system. Customers

are clearly informed in the catalogs of what the firm's business systems provide, and what they are expected to add to the final process.

In order to furnish the customer with good quality products at a low cost, the firm must be able to find suppliers that can deliver high quality items at low cost per unit. The headquarters provides carefully selected suppliers with technical assistance, leased equipment and the necessary skills needed to produce high quality items. This long-term supplier relationship does not only produce superior products, but also add internal value to the suppliers. In addition, this value-chain modification differentiates Ikea from its competition.

Control & Evaluation Mechanism

- Development of the IKEA Code of Conduct that defines IKEA'S requirements regarding social and working conditions, child labor, environment and forestry
- IKEA's development of control and reporting tools to ensure consistent compliance with the IKEA Code of Conduct;
- Participation in the development and training of IKEA's internal auditors in the implementation of the IKEA Code of Conduct.
- Calibration visits to IKEA suppliers - including on-site training at supplier's premises of IKEA's internal auditors.
- Third party monitoring visits to randomly selected IKEA suppliers to ensure suppliers' compliance to IKEA Code of Conduct and provide an overall evaluation of IKEA's compliance system

IKEA & the environment

RESOURCE EFFICIENCY

In the IKEA store itself, we reduce the amount of waste by recycling the five most common waste materials: corrugated cardboard, wood, metal, polyethylene plastic and office paper. By doing this, almost 75% of the total waste amount can be recycled to new materials for energy.

FORESTRY

One of the IKEA identity and is an excellent material from an environmental and quality point of view. It is renewable, recyclable and biodegradable. However, for wood to be a responsible material choice, it must originate from well-managed forests.

Our long-term goal is to source all wood in the IKEA range from well-managed forests that have received recognised forest management certification. Currently, we demand that the solid wood in our products do not come from intact natural forests or forests with high conservation values.

BAN ON CHEMICALS WITH NEGATIVE EFFECTS ON THE ENVIRONMENT

In 1992, IKEA decided to ban ChloroFluoroCarbons (CFC), which in the past was used in the production of polyether for mattresses, cushions, chair pads, sofas etc. Reports from different researchers stating that CFCs cause the thinning of the ozone layer compelled us to look for other methods to produce polyether.

We have also phased out the use of PVC (PolyVinylChloride) as a precaution given some reports of its harmful effects. In our products today, there is PVC only in the isolating plastic of electric cables.

IKEA UK corporate and social responsibility (CSR)

“Is it possible to make traditional business objectives and social and environmental responsibility work together for the benefit of the many? We believe they can work very well together” - Ikea Company

IKEA makes good business while being a good business. We realise that we are only at the beginning and we have a long way to go but we are proud of the results achieved so far.

IKEA CSR activity involves three main areas: children, better living and environmental projects.

Children - why?

Children are our future. IKEA wants to give them the opportunity to learn and grow in:

- Education
- Experiences
- Safety
- Improved environments

better living - why?

Because supporting projects with products and expertise fits directly with IKEA's vision and business idea of improving life for the many.

Environmental projects - why?

Because we care about the environment and we make every effort to preserve it.