Ikea: General Characteristic

There is a total of 433 IKEA stores in 52 countries operating in countries like Australia, Austria, Belgium, Canada, China, Czech Republic, Denmark, Egypt, Finland, France, Germany, Hungary, Italy, Japan, Netherlands, Norway, Poland, Portugal, Russia, Slovakia, Spain, Sweden, Switzerland, United Kingdom, Ireland and USA and they are planning on opening in other countries like Slovenia and Ukraine. Ethnocentric pricing policy allows companies to set the price of an item at the same price, not taking into account the location of the buyer in the world, but polycentric pricing ensures that independent, subsidiary or affiliated distributors and managers have the much-needed discretion to set prices that they consider appropriate and profitable for the country's market from their perspective to the country’s market, therefore, IKEA uses a polycentric strategy as it firmly believes that the market located in countries all around the world is special, which ensures that its goods are adapted to the country's present culture. IKEA paved her way to global existence through franchising as all partners are motivated to cooperate to achieve an overall gain. The first IKEA shop outside Scandinavia was opened in Switzerland, and then they opened many stores in Germany. The growth and international expansion have called for a complement to face-to-face communication of the IKEA spirit and values. In the early 1980s, IKEA 's founder Ingvar Kamprad also realized that to secure international expansion and ensure customers aligned brand experience, he needed to further develop and protect his unique and fast-growing business. An important challenge is to strike a balance in keeping the concept consistent without limiting the innovative spirit or hindering it. It is important to have the best possible conditions for both business acumen and entrepreneurship. To retain these different positions of autonomous business organizations working under a franchise scheme, the idea was to distinguish ownership of the retail company from ownership of the design and the IKEA name. Therefore, Ingvar Kamprad donated a significant number of the operating companies to a Dutch Foundation, the INGKA Foundation, which operates many of the IKEA franchisees today. The business model of a franchise, with both franchisors owned by the INGKA Foundation and franchisees owned by other companies, allows for global expansion. And that, in turn, meets the business idea of IKEA. As mentioned earlier, IKEA is operating globally and has 433 stores in 52 countries. Such impressive world wide existence demands to shed a light on their key success factors. So, how did IKEA succeed globally? First of all, we need to highlight the fact that global expansion was a part of IKEA’s strategy from the very beginning. Even though they have decided from an early stage that they are going to operate globally, they have been extremely patient. IKEA does not open new stores just for the sake of opening. They take their time when it comes to planning and decision making, so when they open a store, they get everything right from the start, unlike other retailers who “just” open a store, then figure out how they are going to nail their operations. For instance, IKEA opened a store in the U.S. in 1985 and it took them a couple of years to open another one. So, IKEA does not make decisions haphazardly. In addition to this, IKEA is extremely flexible and can adapt easily. Despite the fact that IKEA's products are considered country-neutral due to its simple basic designs, they still require some changes and IKEA handles these changes perfectly. For example, when IKEA started operating in the U.S., it presumed that the bed sheets' sizes must change to bigger sizes to fit the american ones. On the contrary, in China, the products needed to be smaller in size and much more functional to complement the small apartments there. So, this gives us the indication that IKEA adapts easily and makes decisions swiftly wherever it operates. Hence, the huge success of IKEA.

IKEA has a concentration strategy as they increase their markets all over the world in different countries besides having a wide range of products. As for the SWOT analysis first, the internal analysis starting with strengths, IKEA is a global brand, has a strong brand name, is sustainable and has a wide range of products, as for the weaknesses, the locations are not always accessible and consumer perceptions cost vs the quality. Moving on to the external analysis, IKEA has many opportunities like online sales and the increasing demand for sustainable products, and two of the threats facing the company are the barriers to enter certain profitable markets and also due to economic slowdown the store traffic has decreased.

The value chain is a model that includes all the activities that add value to the final product in each step starting from the raw material to the production. In the case of IKEA, it is divided into three main operations: Franchise, Property, and Finance divisions, with Franchise Division being the core of the business. One of IKEA’s obstacles is transportation as they import their materials like wood from abroad so they always try to reduce their transportation costs therefore around 20% of IKEA products are shipped directly from the suppliers to the stores. Also, the cultural attitude may be one of IKEA's obstacles as it is an international company that has many stores all over the world so they adapt their products to each country because one product may be suitable for a country but considered inappropriate in another one.