

GLOBAL RISK MANAGEMENT INSTITUTE

CREATING  
**RISK**  
INTELLIGENT  
PROFESSIONALS



**GRMI**

**IKEA**

**GLOBAL RISK  
MANAGEMENT  
INSTITUTE**

**Presented by**  
Suraparaju Deepthi  
Sanandita Mukherjee

PROGRAMME  
ENDORSED BY



ASSOCIATE  
PARTNER



STRATEGIC  
PARTNER



ASSOCIATE  
MEMBER



STRATEGIC  
PARTNER





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## About the Company:-

- IKEA is one of the biggest furniture companies in the world founded by a carpenter named **Ingvar Kamprad**, in Sweden in 1943.
- It has more than 9500 Products and has more than 350 stores in 35 countries. Ikea has invested 800 crores in India for procuring sites.
- IKEA works on no profit. Because of tax rules for non-profits, IKEA pays about 33 times fewer taxes than their for-profit competitors.
- The Ikea trademark and the concept is owned by another private company named Inter Ikea Systems.
- IKEA Group is one of Sweden's best-known companies. IKEA designs, manufactures, and supplies quality furniture at low prices to make it accessible to the majority of people. IKEA's furniture products are designed to be sleek and minimalist, and manufactured to be easy to assemble and maintain.

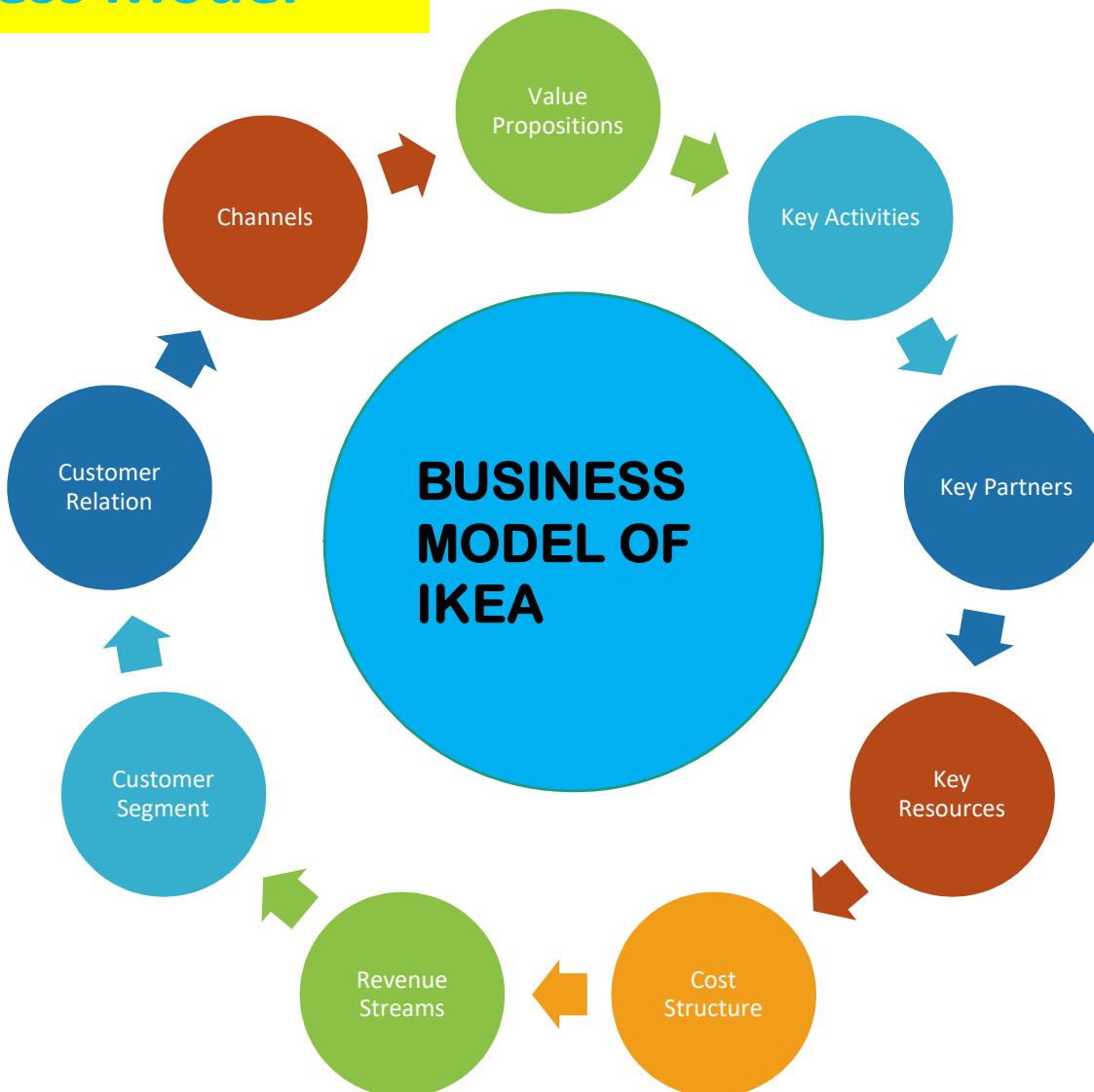
# Becoming more accessible for the many people

**30**  
openings in FY20

- IKEA stores
- IKEA store relocations
- IKEA planning studios
- IKEA shops
- Ecommerce launches
- Customer Support Centres
- Fulfilment units

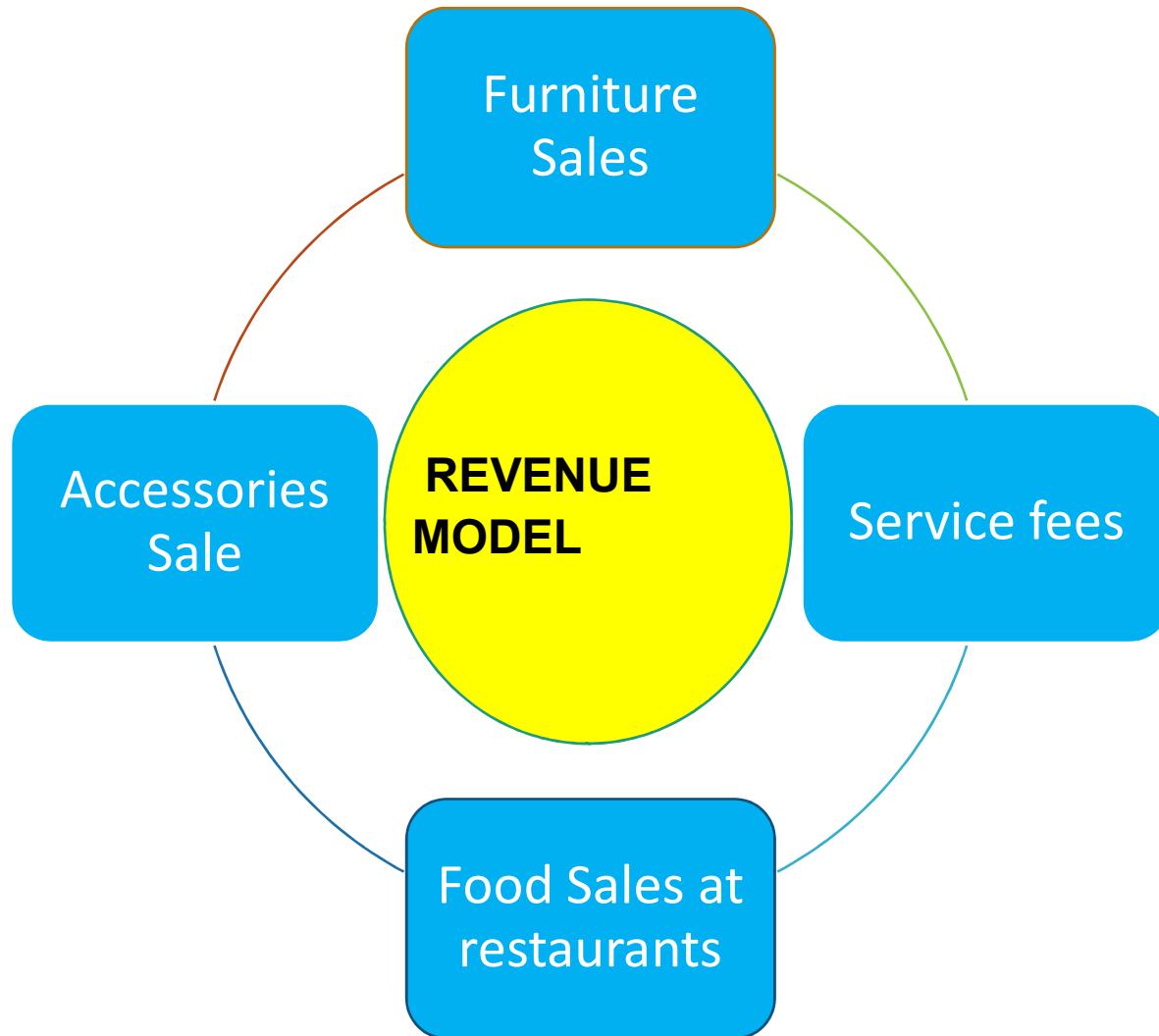


## Business Model



<p><b>Key Partners</b></p> <ul style="list-style-type: none"> <li>• Wood makers / harvesters</li> <li>• Manufacturing Firms</li> <li>• Transport and Trucking Firms</li> <li>• Delivery Companies</li> </ul>	<p><b>Key Activities</b></p> <ul style="list-style-type: none"> <li>• Designing Modular Furniture</li> <li>• Manufacturing Modular Furniture</li> <li>• Advertising and Marketing</li> <li>• Service</li> </ul>	<p><b>Value Propositions</b></p> <ul style="list-style-type: none"> <li>• Affordable (Cheap) Home Furniture</li> <li>DIY easy to assemble, easy to transport furniture</li> <li>• The Ikea Experience</li> <li>childcare on site, dining options</li> </ul>	<p><b>Customer Relationship</b></p> <ul style="list-style-type: none"> <li>• <b>Ikea Family</b></li> <li>special discounts and offers for loyalty</li> <li>• <b>Limited in Store Associates</b></li> <li>lower cost</li> <li>• <b>Assembly and Delivery</b></li> <li>for a fee</li> <li>• <b>Restaurant</b></li> <li>• <b>Childcare</b></li> </ul>	<p><b>Customer Segments</b></p> <ul style="list-style-type: none"> <li>• <b>Cost Conscious Consumers</b></li> <li>• <b>College Students</b></li> <li>• <b>Small Businesses</b></li> </ul>
<p><b>Key Resources</b></p> <ul style="list-style-type: none"> <li>• <b>Physical Infrastructure:</b> megastores, Trucks, Tools</li> <li>• <b>Labor</b> Skilled Personnel</li> </ul>			<p><b>Channels</b></p> <ul style="list-style-type: none"> <li>• <b>Ikea Superstores</b></li> <li>• <b>Ikea Catalogs</b></li> <li>• <b>Ikea family Email Subscriptions</b></li> <li>• <b>Ikea stores website</b></li> </ul>	
<p><b>Cost Structure</b></p> <ul style="list-style-type: none"> <li>• <b>Raw Material Costs</b></li> <li>• <b>Manufacturing Costs</b></li> <li>• <b>Advertising Costs</b></li> </ul>	<ul style="list-style-type: none"> <li>• <b>Labor Costs</b></li> <li>• <b>Transportation Costs</b></li> </ul>		<p><b>Revenue Streams</b></p> <ul style="list-style-type: none"> <li>• <b>Furniture Sales</b></li> <li>• <b>Food sales at Restaurant</b></li> <li>• <b>Service fees</b> Delivery, assembly</li> <li>• <b>Accessories sale</b> Yarn, Tools, Towing equipment</li> </ul>	

## How IKEA earns?



# **The Secret behind Low Prices**

**Entry into the food industry**

**Savings in packaging and marketing**

**Saving in Shipping Costs**

**The type of material used**

**Assemble-it-yourself**

**Economies of Scale due to bulk production**

**IKEA designers work around the price of a product**

## Top 3 Value Concerns of IKEA

- **Cost Consciousness**

Their first priority is to make their product affordable to as many people as possible. They challenge themselves constantly to make the product more affordable without compromising on quality.

- **Renew and Improve**

They always challenge themselves to try something new and to find a better way out.

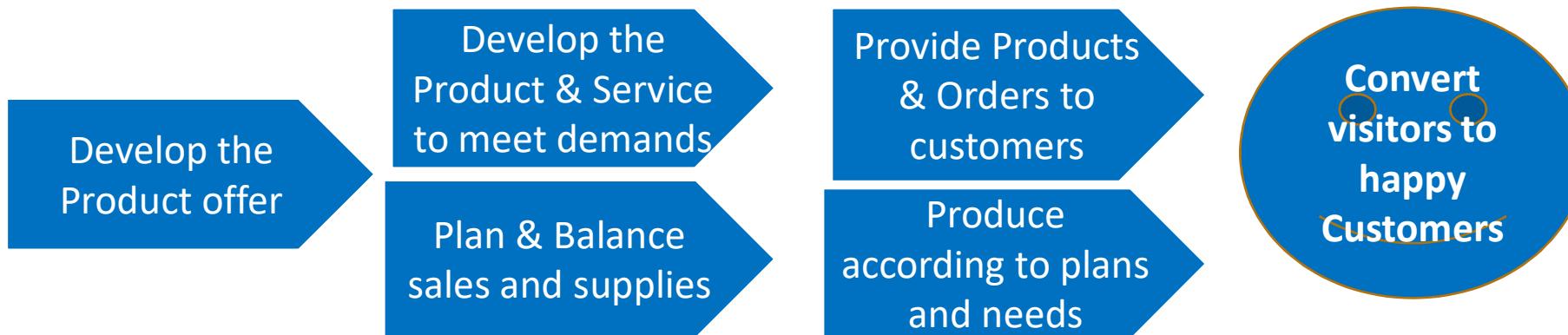
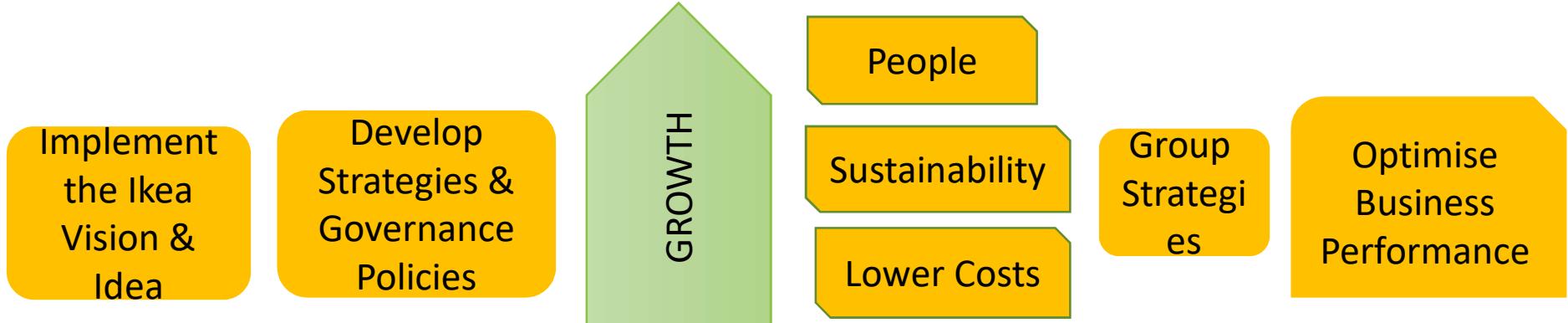
- **Caring for people and planet**

They believe in caring for people as well as for the environment. They act as a force for a positive change.

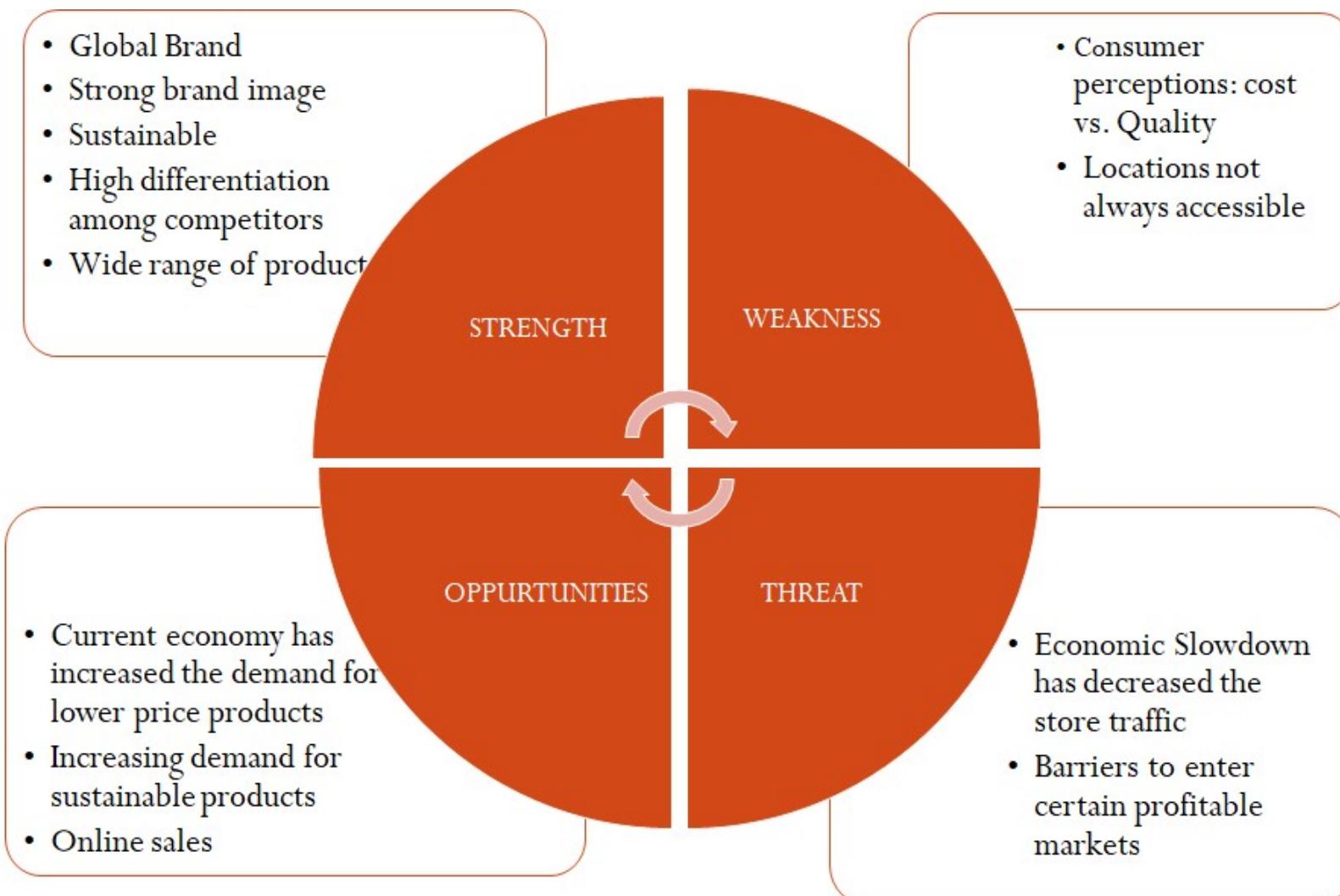


IKEA's Value chain-  
How it Works?

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# SWOT ANALYSIS



## IKEA Competitors

IKEA was founded in 1943 by Swedish businessman Ingvar Kamprad as a mail-order catalog business. The company is best known for selling affordable flat-pack furniture, but it also sells home accessories and kitchen appliances. Today, IKEA offers approximately 9,500 products across 445 stores in 52 countries. With such broad reach, IKEA is not immune to competition.



# Risks faced by IKEA in international Environment

## **Supply chain& Logistics Risks**

Since Ikea is having stores across the globe, the shipping and logistics cost bared by the company would be very higher. For example- Shipping from Europe to other countries like USA or UK may take 1-2 months and shipping cost is way too expansive and there is a chance of goods getting damaged while shipping.

## **Cross- cultural risks**

Language barriers

Regulations

Compromising on Ethical practices

CONTD.,

## **Geographical risks**

At first, IKEA was reluctant to customize their products according to the customer needs. When IKEA entered into Japan they were unable to sustain because of lack of understanding of customers and finally shut down their store in 1986. Same happened in case of China, in 1998 it started its operations and after 8 years it has opened only 4 stores and the sales portion is less than 10% of its outlets.

## **Strategy to mitigate this risk**

For Instance - Chinese apartments are smaller, so the size of the furniture has to fit in the room. Likewise, US customers demanded bigger beds and bigger closets. IKEA started understanding its customers and made slight modifications to its furniture to meet the local needs of customers in different countries.

## CONTD.,

### **Economic Risk**

Main problem for IKEA was that its prices were considered low in Europe and North America but higher in China. Prices of furniture made by local stores were lower as they had access to cheaper labour and raw materials and also their design costs were usually negligible.

### **Strategy to mitigate this risk**

IKEA built a number of factories in China and increased local sourcing of materials. These local factories resolved the problem of high import taxes in China. The company then started performing local quality inspections closer to manufacturing to save repair costs. It also started mass production and trimming supply chain costs which paves way to reduce the prices.

**CONTD.,**

### **Failure in Market strategies**

In most of the markets, the company uses its product catalogue as a major marketing tool. But in China, the catalogue provided opportunities for competitors to imitate the company's products, local competitors copied IKEA's designs and then offered similar products at lower prices.

### **Strategy to mitigate this risk**

IKEA started using Chinese social media and micro-blogging website Weibo to target the urban youth.



**CONTD.,**

## **Ethical risk**

IKEA's most ethical risks are with suppliers. Since much of IKEA's business involves purchasing products, materials and services and they also deal with suppliers across the globe.

## **Strategy to mitigate this risk**

IKEA adopted a strong code of ethics called the **IKEA Way** or **IWAY** in its supplier code of conduct.

- Supplier cannot use forced or child labour
- Supplier should assign at least one person to ensure that the supplier is complying with IWAY expectations.
- Supplier must also agree to an internal compliance audit in every 12 months.

# Challenges faced by IKEA in India

## Returns on Investments

IKEA spent \$1.5 billion in India and it will take several years to start seeing significant returns on that investment. It has already spent \$750 dollars procuring Indian sites for four stores.

## Local furniture makers

Indians are dependent on local furniture makers as they visit home and then build furniture from scratch based on specific furnishing needs. Attracting customers will be more difficult and take time.

## 'DIY' culture

As India is having abundant supply of cheap labour, it will be difficult for people to adopt this DIY culture. To overcome this IKEA had partnered with UrbanClap that helps to connect handymen with consumers. But absence of UrbanClap in lower tier cities could again be a problem.

## Strategy Followed by IKEA to minimize Supply chain cost

### Supply chain at other companies

### Supply Chain at IKEA

At IKEA the furniture is not assembled, instead it comes in boxes and packed in such a way that it could fit in a car.



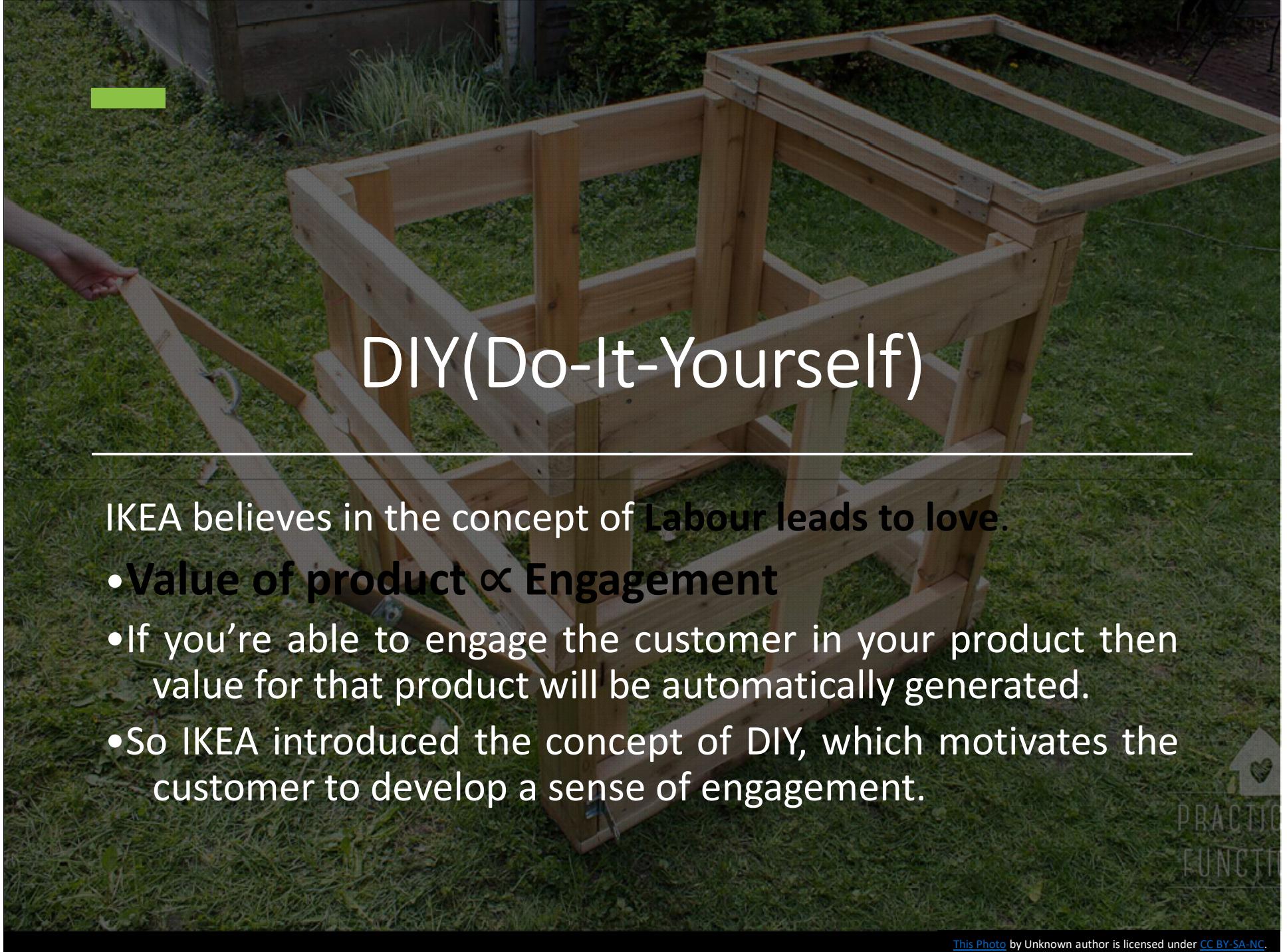
## Contd.,

Important factors that results in cost cutting and increase in efficiency is maximizing the volume occupancy of a truck while transporting.

As IKEA delivers furniture in boxes, we can stack the boxes one over the other which results in maximum volume occupancy and we can ship more items at a time.

IKEA's supply chain was so efficient which paved way for cost reduction and IKEA was able to provide premium furniture at very low costs.

And this is the reason behind their "**Low price+ High value**" strategy.



# DIY(Do-It-Yourself)

IKEA believes in the concept of **Labour leads to love**.

- **Value of product & Engagement**
- If you're able to engage the customer in your product then value for that product will be automatically generated.
- So IKEA introduced the concept of DIY, which motivates the customer to develop a sense of engagement.

PRACTICE  
FUNCTION

# Controversies on IKEA

## Violation of Human Rights

IKEA, widely known for its strong corporate responsibility, especially in terms of human rights admitted that once it had used East German political prisoners to build some of the components of its furniture. Prisoner's that refused to do were punished.

## Spying on Employees

IKEA was allegedly conducting private investigations on certain employees in France. Further investigations revealed that it had been using investigators to investigate potential job applicants, employee misconduct. Although IKEA has not publicly commented on the scandal, an internal investigation was launched and several key executives were terminated.

## Product quality

Another scandal that occurred at IKEA involved product quality. The company was accused of selling meatballs that contained horsemeat. IKEA launched an investigation and claimed that the problem originated from a Swedish supplier. The company immediately pulled the meatballs off the shelves throughout Europe, apologized to customers.

## **Interesting Facts about IKEA**

One Billy bookcase piece of furniture is being sold every 10 seconds and an IKEA furniture assembly company is booked every half an hour.

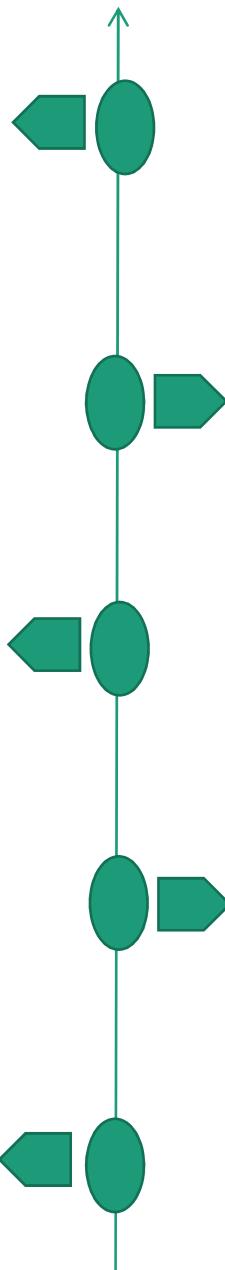
Billy recently celebrated its 40th anniversary

In IKEA, The I & K stand for Ingvar Kamprad's initials, while the E & A represent where he grew up along with his hometown – Agunnaryd and Elmatryd

It manages to lower its home furnishing products prices by 2% on a yearly basis

It consumes so many resources it is not that surprising that they offer more than 12,000 items. Which makes IKEA is among the largest consumers of wood in the world.

All products named after actual Swedish words. Since Kamprad was dyslexic, he named products using proper names and words. IKEA's curtains are given mathematical geometrical terms and bathroom products are named after lakes, rivers and bays



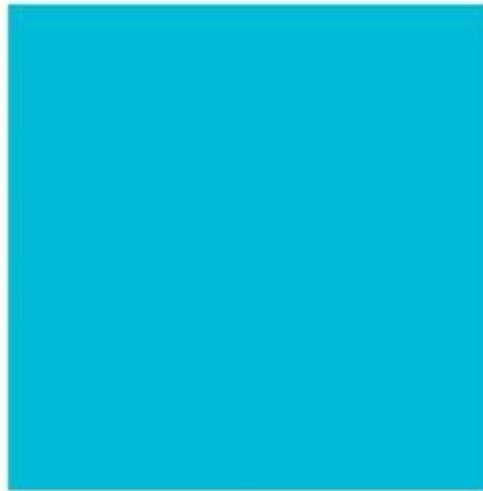
**There is a children's playground in every store!**  
When on the hunt for new flat pack furniture parents could drop off their kids at the Ikea playground

More than 80% of all units, items and inventory in general, stay the same in all IKEA home furnishing shops around the world.

They employ in excess of 147,000 people. They call them co-workers. It is one of the most nurturing companies to encourage career progression for all it's co-worker.

IKEA 's food industry has a huge amount of meatball fans. More than 11.6 billion Swedish meatballs are sold in the UK alone.

The average size of an IKEA store is 300,000 sq. Feet, that is the equivalent of 42 tennis courts. The world's largest Ikea is in Stockholm and covers a whopping 594,000 sq ft.



## CONTACT US

[www.grm.institute](http://www.grm.institute)

Email :  
[admissions@grm.institute](mailto:admissions@grm.institute)

Thank you!

