

Strategy for IKEA

By

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Introduction

Who We Are

JLTB Consulting, Inc. is a company established in 2000 by founder and Chief Executive Officer Joshua Shaffer. JLTB is based in Atlanta, Georgia, but has offices established in Dallas, San Diego and New York City. JLTB is active in many Georgia communities, contributing to prostate cancer research, breast cancer research, and the Go Green initiative. JLTB Consulting, Inc. is a business consulting firm, which specializes in retail management and entrepreneurship.

Opportunity Statement

IKEA has had an incredible global presence since its inception in 1933 by Ingvar Kamrad. After IKEA entered the United States in 1985 (Philadelphia), many challenges posed potential issues for the company. In 2002, as the world's top furniture retailer, which boasted an annual sales report of twelve billion dollars, IKEA was ready to expand operations in the United States beyond its limited existing stores. In 2012, IKEA was ranked number 28 on the Interbrand Global Top 100 brands list. Although IKEA has an amazing global presence (301 IKEA stores in 37 countries) and a reputable presence in the United States (38 stores), IKEA owns a very small share of the market share for furniture retailers in the United States.

JLTB, Inc. is proposing a viable market-development and market penetration strategy for IKEA's operations in the United States. We recommend this strategy through a two-pronged approach, with emphasis on the following areas of focus:

- Market expansion
- Retail management strategy

SWOT Analysis

<p>SO Strategy Use strengths to take advantage of opportunities</p> <p>WO Strategy Overcome weaknesses by taking advantage of opportunities</p> <p>ST Strategy Use strengths to reduce threats</p> <p>WT Strategy Minimize weaknesses and reduce threats</p>	<p style="text-align: center;">Strengths - S</p> <ol style="list-style-type: none"> 1 Top 100 Global Brands by Interbrand for 2012 (#28) 2 38 “blue” IKEA-owned stores in U.S. 3 \$2.9 billion revenue made in US annually. 4 Employs 11,000 US workers. 	<p style="text-align: center;">Weaknesses - W</p> <ol style="list-style-type: none"> 1 Not meeting customer expectations. 2 Cost of expansion in North America. 3 Available resources in new locations.
<p style="text-align: center;">Opportunities - O</p> <ol style="list-style-type: none"> 1 Market penetration through market development and expansion. 2 Job creation, help local economies, tax breaks. 3 Increase revenue. 	<p style="text-align: center;">SO Strategy</p> <p>Reputation for good employment practices throughout the U.S. will provide easy transition into new cities.</p>	<p style="text-align: center;">WO Strategy</p> <p>Increased revenue/return on investment (ROI) will overcome any additional cost of expansion (long term).</p>
<p style="text-align: center;">Threats - T</p> <ol style="list-style-type: none"> 1 Local furniture retailers. 2 Damage to IKEA brand if new locations fail. 3 Local restrictions. 	<p style="text-align: center;">ST Strategy</p> <p>Brand awareness due to Interbrand Global Top 100 listing will limit damage to brand in case of failure and will give IKEA competitive advantage over local stores.</p>	<p style="text-align: center;">WT Strategy</p> <p>Minimize possibility of not meeting customer expectations, preserve brand equity and limit possibility of new locations failing with a strong advertising campaign focused on local communities and customer service.</p>

Internal Factor Evaluation Matrix
IKEA

Key Internal Factors	Weights	Rating	Weighted Score
<i>Internal Strengths</i>			
1. Top 100 global brands by Interbrand 2012 (#28).	0.18	4	0.72
2. 38 "blue" IKEA-owned stores in the U.S.	0.15	3	0.45
3. \$2.9 billion revenue made in US annually.	0.2	4	0.8
4. Employ 11,000 U.S. workers.	0.14	3	0.42
<i>Internal Weaknesses</i>			
1. Not meeting customer expectations.	0.07	2	0.14
2. Cost of expansion in North America.	0.15	2	0.3
3. Available resources in new locations.	0.11	1	0.11
			0
			0
			0
			0
			0
			0
			0
Totals	1		2.94

External Factor Evaluation Matrix

IKEA

Key External Factors	Weights	Rating	Weighted Score
<i>External Threats</i>			
1. Local furniture retailers.	0.18	2	0.36
2. Damage to IKEA brand if new locations fail.	0.15	2	0.3
3. Local restrictions	0.14	1	0.14
<i>External Opportunities</i>			
1. Market penetration through market development/expansion.	0.15	4	0.6
2. Job creation; help local economies, tax breaks.	0.2	3	0.6
3. Increase revenue.	0.18	4	0.72
			0
			0
			0
			0
			0
			0
Totals	1		2.72

Proposed Actions

IKEA United States Red Store Strategy

Our proposed strategy for market development and expansion begins with a “Red Store Strategy.” Out of the 301 IKEA stores in 37 countries around the world, the IKEA group owns 267 stores in 25 countries. For purposes of distinction, these IKEA group-owned stores are known as “blue” stores. The other 34 stores are owned by franchisees outside of the IKEA group in 16 different countries (ikea.com). In the United States, all IKEA stores are owned and operated by the IKEA group; in other words, all U.S. stores are “blue” stores. Because IKEA has not yet achieved market penetration in the United States, expansion of blue stores is difficult, and often characterized by limitations. For example, in North America, IKEA requires that for a blue store to be opened, the proposed city (including surrounding suburban areas) must exceed a minimum population of one million people. Any fewer people may be considered to pose too much inherent risk for the company, and therefore not viable.

To achieve market expansion without the acceptance of excessive inherent risk, JLTB proposes the following recommended actions:

- Opening of 5 new IKEA “red” stores by qualified franchisees in selected cities.
- Parameters for qualifying cities would include a minimum population of 500,000 people, not to exceed 1,000,000 people.
- Division of “Tier 1” and “Tier 2” cities, based on priority.
- Selected action for expansion would be 1 year for Tier 1 cities and no more than 3 years total for remainder of Tier 2 cities.

Based on market analysis, local economies and population, the following cities are recommended for expansion:

Tier 1 locations:

- Jacksonville, Florida: population 827,908
- Indianapolis, Indiana: population 827,609

Tier 2 locations:

- Milwaukee, Wisconsin: population 597,867
- Oklahoma City, Oklahoma: population 591,967
- Nashville, Tennessee: population 590,807

IKEA U.S. Red Store Expansion Strategy



Figure 1: Proposed new “red store” locations for IKEA United States

IKEA Limited Stores Retailing Strategy

Our second recommended action entails a slightly different approach for IKEA in which IKEA, Inc. offers a brand extension of its already highly global brand, to be known as IKEA Limited. Creation of IKEA Limited stores will focus on achieving market penetration by gaining competitors' customers, attracting non-users of the IKEA brand, and by enticing IKEA brand-loyal customers to shop at IKEA more. IKEA will be able to accomplish this market penetration by infiltrating smaller areas which may not normally be affected by IKEA. The following constraints are suggested for IKEA Limited stores:

- Select cities with populations between 300,000 and 499,999.
- IKEA Limited stores will be IKEA-group owned.
- Exact same retail layout as full-sized IKEA stores.
- 75% of product offerings of normal IKEA stores (remaining 25% will be available for online-to-store delivery).
- 75% of square footage of normal IKEA "blue" stores.
- Specific locations decided at the discretion of IKEA group.

Summary of Benefits to Strategy

Short Term

- Market expansion
- Increased brand awareness/brand equity
- Broadened customer base
- Stimulate local economies
- Tax breaks

Long Term

- Market penetration in the United States
- Increased market share
- Exponential revenue increases in the United States
- Conversion of red stores to IKEA owned blue stores
- Expansion of distribution channels

Please feel free to contact us if you have any questions.

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