Private & Confidential

FACULTY OF BUSINESS

FINAL EXAMINATION

Student ID (in Figures)	:
Student ID (in Words)	:

Course Code & Name	:	**MGT3114 Corporate Strategy**
Semester & Year	:	September – December 2023
Lecturer/Examiner	:	Wan Ahmad Asrar Nik @ Wan Yahya
Duration	:	3 Hours

INSTRUCTIONS TO CANDIDATES

1. **This question paper consists of 2 parts:**

   PART A (40 marks) : FOUR (4) case study questions. Answers are to be written in the Answer Booklet provided.

   PART B (60 marks) : THREE (3) structured-type questions. Answers are to be written in the Answer Booklet provided.
2. **Candidates are not allowed to bring any unauthorized materials except writing equipment into the Examination Hall. Electronic dictionaries are strictly prohibited.**
3. **This question paper must be submitted along with all used and/or unused rough papers and/or graph paper (if any). Candidates are NOT allowed to take any examination materials out of the examination hall.**
4. **Only ballpoint pens are allowed to be used in answering the questions, with the exception of multiple-choice questions, where 2B pencils are to be used.**

WARNING: The University Examination Board (UEB) of BERJAYA University College regards cheating as a most serious offence and will not hesitate to mete out the appropriate punitive actions according to the severity of the offence committed, and in accordance with the clauses stipulated in the Students' Handbook, up to and including expulsion from BERJAYA University College.

Total Number of pages = 5 (Including the cover page)

PART A : **CASE STUDY QUESTIONS (40 MARKS)**
INSTRUCTION (S) : Read the case study and Answer all **FOUR (4)** case study questions. Write your answers in the Answer Booklet (s) provided.

Case Study: The IKEA Approach

Ikea's business model 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. IKEA continued to be the world's largest home furnishings company with some 9500 products in 375 stores in 28 countries. The company had 172,000 co-workers (of which 40,000 were in production and distribution).

By the late 2000s home furnishings was a huge market worldwide with retail sales in excess of USD 600 billion in items such as furniture, household textiles and floor coverings. More than 50 per cent of these sales were in furniture stores.

The home furnishings market was highly fragmented with competition occurring locally rather than globally and included competitors of several types:
• Multinational furniture retailers (like IKEA) all of whom were considerably smaller than IKEA. These included, for example, the Danish company Jysk (turnover GBP2.9 billion).
• Companies specializing in just part of the furniture product range and operating in several countries – such as Alno from Germany in kitchens.
• Multi-branch retail furniture outlets whose sales were mainly in one country, such as DFS in the UK. The US market was dominated by such players (e.g. Bed, Bath & Beyond Inc. with revenues of some USD12 billion).
•Non-specialist companies that carried furniture as part of a wider product range. In the UK, the largest operator was the Home Retail Group whose subsidiary Argos offered some 53,000 general merchandise products through its network of 840 stores and online sales. It was number one in UK furniture retailing. General DIY companies such as Kingfisher (through B & Q in the UK and Castorama in France) were attempting to capture more of the bottom end of the furniture market.
• Small and/or specialized retailers and/or manufacturers. These accounted for the biggest share of the market in Europe.
In 2014, it was estimated that the UK market was about GBP10.2 billion of which IKEA had GBP1.7 billion share (16.7 per cent).

IKEA had been founded by Ingvar Kamprad in 1943 in the small Swedish town of Älmhult and opened its
first furniture store 1958. The company's success had been achieved through the now legendary IKEA business approach – revolutionary in the furnishing industry of its early years. The guiding business philosophy of Kamprad was that of improving the everyday life of people by making products more affordable. This was achieved by massive (more than 20 per cent) reductions in sales prices vs competitors which, in turn, required aggressive reductions in IKEA's costs.

The guiding business philosophy of Kamprad was that of improving the everyday life of people by making products more affordable. This was achieved by massive (more than 20 per cent) reductions in sales prices vs competitors which, in turn, required aggressive reductions in IKEA's costs. IKEA had five success criteria:
1. Design, function, and quality at low prices;
2. Unique (Scandinavian) design;
3. Inspiration, ideas, and complete solutions;
4. Everything in one place;
5. "A Day out", the shopping experience.

They are similar to those of most companies. The difference is that IKEA is much better at delivering on these customer needs than are other retailers. Most competitors focus on one or at most two of these customer needs. High-street shops focus on design and inspiration. Out-of-town low-cost retailers focus on price. Department stores focus on choice. The real strength of IKEA lies in the combination of all five.

IKEA has chosen to shift the market's preference toward its own range and style. By doing this, the company can maintain a unique and distinct profile. This is, however, a more difficult path to follow. A significant understanding of the customer's situation at home is the basis for IKEA's product development. For most competitors, having the lowest price seems to mean being five to ten per cent cheaper than the competition on comparable products. At IKEA, this means being a minimum 20 per cent cheaper and often up to 50 per cent cheaper than the competition.'

The secret is the control and coordination of the whole value chain from raw material, production, and range development, to distribution into stores. Most other companies working in the retail sector have control either of the retail end (stores and distribution) or the product design and production end. IKEA's vertical integration makes it a complex company compared to most, since it owns both production, range development, distribution, and stores. This included backward integration by extending the activities of Swedwood (IKEA's manufacturing arm) beyond furniture factories, into control over the raw materials, saw mills, board suppliers, and component factories.
The competition had been very fragmented and local in nature. However, many of the very big retail companies were shifting strategy. From being local, they were looking to a global expansion, not least in the emerging markets like China, Russia, and Eastern Europe, broadening their product range, with much more muscle than IKEA's traditional competitors. One way to dissuade them from entering into the home furnishing arena was to aggressively reduce prices and increase the company's presence with more stores in all local markets in the countries where IKEA was operating. Another reason for the shift in strategy was cost efficiency. Growing sales in existing stores is the most cost-efficient way to grow the company.'

Around 70 per cent of IKEA stores are still in Europe and expansion into Asia was crucial, but the company had come to realize that emerging markets could be particularly challenging. As head of research Mikael Ydholm remarked: The more far away it goes from their culture, the more it needs to understand, learn, and adapt.

IKEA first opened in China in 1998 and today it is the company's fastest growing market. They now have eight of its ten biggest stores there. The Chinese market was extremely challenging for a company that had built global success through standardization. The main problems were that in emerging markets IKEA products were expensive relative to local competitors and the consumer shopping expectations were centred on small, local shops and personal service. IKEA thus had to be flexible and presented an image as exclusive Western European interior design specialists – popular with younger, affluent, city dwellers. Their shops were smaller than usual for IKEA and typically nearer city centres. Because DIY was not well developed in China, they offered home delivery and assembly services. Catalogues were only available in store. Crucially, stores were allowed to source almost 50 per cent locally (against company average of about 25 per cent) in order to keep prices competitive.

The Chinese experience would be useful when IKEA entered India. It was announced in 2012 that IKEA was to invest GBP1.5 billion opening 25 stores over 15 to 20 years19 with the first store opened in Hyderabad 2017. However, India also proved challenging as a third of a retailer chains' merchandise had to be produced locally. IKEA had huge problems to find producers that could live up to their strict corporate social responsibility requirements.

Ikea wants to be even more accessible to the many people. This means working hard to ensure it makes it easier for customers to shop with it, wherever and whenever they want to visit its stores and shopping centres, or its website and apps. Ikea now operate 40 shopping centres and 25 retail parks in 14 countries, and it had 20 projects in the pipeline across several markets. These family-friendly shopping centres have an IKEA store as one of the main attractions. Its three new pick-up and order points in Spain, Norway and Finland enable customers to see and buy selected products from its range, as well as collect pre-ordered purchases.'

Source: Adapted from Scholes (2016) in Johnson, G., Whittington, R., Scholes, K., Angwin, D. & Regner, P. (2017). Exploring strategy: text and cases 11th Ed. UK. Pearson, p. 237-240.

Question 1

Describe **FOUR (4)** capabilities of Ikea. (10 marks)

Question 2

Discuss **FOUR (4)** positions of IKEA's competitors in the industry. (10 marks)

Question 3

Propose **TWO (2)** ways Ikea achieved cost leadership. (10 marks)

Question 4

Explain how Ikea adapted with political, economic, technological and social-cultural forces in China. (10 marks)

END OF PART A

PART B : **STRUCTURED-TYPE QUESTION (60 MARKS)**
INSTRUCTION (S) : Answer all **THREE (3)** structured-type questions.
Write your answers in the Answer Booklet (s) provided.

Question 1

a) Define strategic management. (2 marks)

b) Describe **THREE (3)** levels of strategy. (6 marks)

c) Examine **FOUR (4)** barriers to entry by new entrance into an industry. (12 marks)

[Total: 20 marks]

Question 2

a) Define strategic business unit (SBU). (2 marks)

b) Describe **THREE (3)** corporate strategy directions. (6 marks)

c) Analyze **FOUR (4)** benefits of strategic alliances. (12 marks)

[Total: 20 marks]

Question 3

a) Define organizational configuration. (2 marks)

b) Describe **THREE (3)** types of strategic change. (6 marks)

c) Evaluate **FOUR (4)** types of control system. (12 marks)

[Total: 20 marks]

END OF EXAM PAPER