BM4407

**Business Strategy & Innovation**

**A welcome note**

Welcome to the study of Module BM4407 (Business Strategy & Innovation)

This module will introduce to you how organisations plan and implement their activities to achieve competitive advantages in their businesses.

This module introduces the nature of environmental changes and how organisations are affected by them in terms of their strategies, structures, systems, resources and people and competitiveness. Organisations that are successful, developed or found their keys success factors or critical factors. They bring about changes and managing them and the creation of innovations for competitive positioning in the industries they are in.

The study will benefit you in enhancing your understanding in strategic planning and implementation, and in business strategic growth and diversification.

Wishing you all the best in the study of this module.

20/5/2024

**BM4407 (Business Strategy & Innovation)**

**Lesson Plan**

|  |  |  |  |
| --- | --- | --- | --- |
| Week | Topics | TextbookChapter | Tutorial |
| 1 | 1. Introduction Meaning of strategy; strategic fit; strategic choices & emergent strategy | Notes | No tutorial |
| 2. Vision, mission & objectives | Notes | Tutorial |
| 2 | 3.External environment: general and industry environments, and competitor analysis | Notes | Tutorial |
| 4. Industrial environment - Porter’s five forces; KSF; strategic groupings & critical success factors | Notes | TutorialSubmission: Assignment 1 |
| 3 | 5. Internal environment: SWOT analysis, resources, capabilities & core competencies (Resource-Based Theory) and the Value Chain Analysis  | Notes | Tutorial |
| 6. Resources & competences; | Notes | Tutorial |
| 4 | 7. Business level strategy: creating and sustaining competitive advantages, Porter’s generic strategies | Notes | TutorialSubmission 2 |
| 8. Consolidation - Diversification  | Notes | Tutorial |
| 5 | 9. Merger and acquisition: strategic alliances, joint-venture and networks. | Notes | Tutorial |
| 10. Corporate parenting: opportunities and advantages |  | Submission 3 |
| 6 | 11.Corporate performance, governance & business ethics: reasons for its existence and mechanisms | Notes | Tutorial |
| 12. International strategies | Notes | Tutorial |
| 7 | 13. Implementation : structure & control | Notes | No Tutorial |
| 14. Revision |  |  |

The recommended text books:

Hitt, M. A., Ireland, R. D., Hoskisson, R. E. (2014). Strategic Management: concepts and Cases: Competitiveness and Globalization. Cengage learning,

Robert Whittington, Patrick Regner, Duncan Angwin, Gerry Johnson, Kevan Scholes (2019). *Exploring Strategy* (12th edition), Prentice Hall, England.

Gregory Dess, Gerry McNamara, Alan Eisner & Steve Sauerwald (2024). Strategic Management, Text & Cases, 11th edition, McGraw Hill, New York.

**BM4407**

**Assessments:**

1. Coursework 70%

 Three individual assignments:

 1. A case study: Global forces and the Western European Brewing Industry 20%

 2. A case study: South Africa Brewery (SAB) 30%

 3. A case study: IKEA furnishes the World 20%

 70%

2. Final Exam 30%

Total 100%

**Individual Assignment 1**

**Global forces and the Western European Brewing Industry**

In the early years of the 21st century, European brewers faced a surprising paradox. The traditional centre of the best industry worldwide and home to the world’s largest brewing companies, /Europe was turning off beer. Beer consumption was falling in the largest markets of Germany, and the United Kingdom, while burgeoning in emerging markets around the world. In 2008, Europe’s largest market, Germany, ranked only 5th in the world, behind China, the United States, Brazil and Russia. China, with 12% annual growth between 2003 and 2008, had become the largest single market by volume, alone accounting for 23% of world consumption (Euromonitor, 2010).

The decline of beer consumption in Europe has been to several factors:

1. Governments are campaigning strongly against drunken driving, affecting the propensity to drink beer in restaurants, pubs and bars.
2. There is increasing awareness of the effects of alcohol on health and fitness.
3. There is increasing hostility to so-called “binge-drinking’, , excessive alcohol consumption in pubs and clubs.
4. Wines have also become increasingly popular in Northern European markets.
5. Beer consumption per capital varies widely between countries, being four times higher in Germany than in Italy, for example.
6. Some low consumption European markets have been showing good growth.
7. The drive against drunken driving and binge drinking has helped shift sales from the on-trade (beer consumed on the premises, as in pubs or restaurants) to the off trade (retail).
8. Worldwide, the off-trade increased from 63% of volume in 2000 to 67% in 2008.
9. The off-trade is increasingly dominated by supermarket chains such Tesco or Carrefour, who often use cut-price offers on beer in order to lure people into their shops.
10. More than one fifth of beer volume is now sold through supermarkets. German retailers such as Aidi and Lidi have had considerable success with their own private-label (rather than brewery-branded) beers.
11. Pubs have suffered in the United Kingdom, an estimated 50 pubs closed per week during the recessionary year 2009.
12. However, although on-trade volumes are falling in Europe, the sales values are generally rising, as brewers introduce higher-priced premium products such as non-alcoholic beers, extra cold lagers or fruit-flavoured beers.
13. However, a good deal of this increasing demand for premium products is being satisfied by the import of apparently exotic beers from overseas.

Brewers main purchasing costs are packaging (accounting for around half of non-labour costs), raw material such barley, and energy. The European packaging industry is highly concentrated, dominated by international companies such as Crown in cans and Owens Illinois in glass bottles. In the United Kingdom, for example, there are just three can makers: Bail Packaging Europe, Crown Bevcan and REXAM.

Acquisition, licensing and strategic alliances have all occurred as the leading brewers battle to control the market. There are global pressures for consolidation due to over-capacity within the industry, the need to contain costs and benefits of leveraging strong brands. For example, in 2004, Belgian brewer interbrew merged with Am Bev, the Brazilian brewery group, to create the largest brewer in the world, InBev. In 2008, the new Inbev bought the second largest brewer, the American Anheuser-Busch, giving it nearly 20%of the world market. In 2002, South African Breweries acquired the Mi9ller Group (USA) and Pilsner Uruquell in the Czech Republic, becoming SABMiller. SABMiller in turn bought Dutch specialist Grolsch in 2007. Smaller players in the fast-growing Chinese and Latin American markets are being sm\napped up by the large international brewers too: in 20110, Dutch Heineken bought Mexico’s second largest brewery, FEMSA. On the other hand, medium sized Australian brewer Fosters has withdrawn from the European market. The European Commission fined Heineken and Kronenbourg in 2004 for price-fixing in France and Heineken, Grolsch and Bavaria in 2007 for a price-fixing cartel in the Dutch market.

In 2009, 10 companies accounted for about 60% of world beer volume.

|  |  |
| --- | --- |
| 2009 |  |
| CompanyA-B in Bev (Belgium)SABMiller (UK)Heineken (Dutch)Carlsberg (Danish)China Resourcess (China)Tsingian (China)Modelo (Mexico)Moison Coors (US)Beijing Yanjing (China)FEMSA (Mexico) | Share global volume %19.59.56.95.94.53.12.92.82.52.3 |

Three Brewing Companies

The European market contains many very different kinds of competitor: this section introduces the world’s largest brewer and two outliers.

1. Anhesuer-Busch InBev (Belgium)

A-B InBev has roots going back to 1366, but has transformed itself in the last decade with a series of spectacular mergers. First, InBev was created in 2004 from the merger of Belgian InterBrev and Brazilian AmBev. As well as making it the second largest brewing company in the world, this merger gave it a significant position in the Latin American soft drinks market. Then in 2008 InBev acquired the leading American brewer Anheuser-Busch for $52bn, making the company indisputably the world leader. The company now has nearly 300 brands, led by such well-known international beers as Beck’s, Budweiser and Stella Artois. The company has nearly 50% share of the US market, and owns 50% of Mexico’s leading brewer, Modelo, famous for its global Corona brand. In 2008, the new A-N InBev had four of the top ten selling beers in the world, and a number one or number two position in over 20 national markets. However, the company has been reducing its stake in the Chinese market in order to raise funds to pay for the Anheuser-Busch acquisition and to meet local monopoly authority concerns. It also sold its Central and Eastern beer operations in 2009.

The company is frank about its strategy: to transform itself from the biggest brewing company in the world to the best. It aims to do this by building strong global brands and increasing efficiency. Efficiency gains will come from more central coordination of purchasing, including media and IT; from the optimisation of its inherited network of breweries; and form the sharing of best practice across sites internationally. A-B InBev is now emphasising organic growth and improved margins from its existing business. Its declared intention is to be ‘The Best Beer Company in the Better World”.

2. Greene King (United Kingdom)

Established in 1799, Greene King is now the largest domestic British brewer, owner of famour\s brands such as Abbot, IPA and Old Speckled Hen. It has expanded through a series of acquisitions including Ruddles (1995), Morland (1999) and Hardys and Hansons (2006).

Acquisition is typically followed by the closure of the acquired brewery, the termination of minor brands and the transfer of major brand production to its main brewery in Bury St. Edmunds. This strategy has led to critics calling the company “Greedy King”. IPA is the UK’s top cask ale, with over 20% of the on-trade market and Old Speckled Hen is the top premium UK ale with more than one eighth of the multiple retailer market. Greene King is unusual amongst contemporary breweries in operating many of its own pubs, having added to its original chain several acquisitions (notably Laurels with 432 pubs and Belhaven with 271). Greene King now operates nearly 2000 pubs across the United Kingdom with a particulary dominant position in its home region of East Anglia. The company is also active in restaurants. Business is effectively confined to the UK market. In 2009, Greene King raised ₤207 million on the financial markets in order to fund further acquisitions . Greene King explains its success formula in brewing thus : “The Brewing Company’s continued out-performance is driven by a consistent, focused strategy : most importantly, we brew high quality beer from an efficient, single-site brewery; (and) we have a focused brand portfolio, minimising the complexity and cost of a multibrand strategy.”

3. Tsingtao (China)

Tsingtao Brewery was founded in 1903 by German settlers in China. After state ownership under Communism, Tsingtao was privatised in the 1990s and listed on the Hong Kong Stock Exchange in 1993. In 2009, the Japanese Asahi Breweries held 19.9% of the shares, purchased from A-B Inbev (which also sold the remainder of its original stake - 7% - to a Chinese private investor). Tsingtao has 13% market share of its home market but has long had an export orientation, accounting for more than 50% of China’s beer exports. Tsingtao Beer was introduced to the United States in 1972 and is the Chinese brand-leader in the US market. A bottle of Tsingtao appeared in the 1982 science fiction film Blade Runner. Tsingtao set up its European office in 1992 and its beer is now sold in 62 countries. The company has described its ambition thus: “to promote the continuous growth of the sales volume and income to step forward the target of becoming an international great company.”

Questions

1. Using the data from the case (and any other sources available), carry out for the
Western European brewing industry (i) a PESTEL analysis and (ii) a five forces analysis. What do you conclude?
2. For the three breweries outlined above (or breweries of your own choice) explain:

(a) how these trends will impact differently on these different companies, and

(b) the relative strengths and weaknesses of each company.

Instructions

1. Ensure you have the cover page for the individual assignment attached to your report.
2. Use front sixe 12 and the line spacing 1.5.
3. The report must be submitted in the **2nd week.**
4. Any delay in the submission of the report, marks will be deducted at the rated of 10% per day.
5. Plagiarism, if detected will lead to an immediate “fail grade”

 **Marking Sheet**

Student Name: ........................................ Student Number: .......................................

 Lecturer: .....................................................

Topic: Global Forces and the Western European Brewing Industry

Marking Scheme

|  |  |  |  |
| --- | --- | --- | --- |
| No |  Assessment Criteria  |  Comments |  Marks |
| 1 | The extent to which the student has addressed the issues contained within the questions.  (20%) |  |  |
| 2 | Degree of underpinning knowledge of the theories that relate to each of the questions  (20%). |  |  |
| 3 | The use of relevant case study material and other sources of relevant information, data and company examples gathered independently for substantiation purposes  (25%). |  |  |
| 4 | Degree of analysis and evaluation in developing the arguments. (25%). |  |  |
| 5 | Format, structure and readability of the answer’ (10%). |  |  |
|  |  Total marks |  |  |

 ………………………………

**Individual Assignment 2**

**SOUTH AFRICA Brewery (SAB)**

SAB was incorporated in 1895 and was listed in the Johannesburg Stock Exchange in 1897 and then on the London Stock Exchange in 1898. In the period ***1948-1994,*** the South Africa government introduced the racist system of apartheid where the black people were separated from the white people. The rest of the world imposed economic sanction on South Africa where no country could trade with South Africa and no South Africa business could trade in the international market.

During this period of apartheid, SAB focused its business only in South Africa and became fully incorporated in South Africa in 1970. Next the South Africa government imposed heavy tax on beer and the black Africans were prohibited from consuming beer. Subsequent to these developments, SAB was concerned to dominate the domestic beer production by acquiring the competitors and then rationalised the production and distribution facilities.

SAB obtained licenses to brew locally Guinness, Amstel and Carling Black Label.

SAB also diversified into other businesses such as hotels and gambling by acquiring the Sun City casino resort, and through joint-ventures involved in businesses involving food, property, retail, clothing and footwear and manufacturing of safety matches (1987). In 1994 the Government of Tanzania invited Sab to revitalise its brewing industry and this was followed by Zambia, Mozambique and Angola.

By 1997 SAB controlled about 99% of the market in South Africa and held commanding position in the nearby states: Swaziland, Lesotho, Rhodesia and Botswana.

In 2000 SAB dominated the beer market in South Africa and there was no space for local expansion especially in alcoholic beverages. The next strategic expansion was to go into global markets.

Actually, in 1993 SAB acquired the largest brewery, Dreker in Hungry and from here, SAB started to move into the beer markets in central European countries - the emerging economies. By 1994, SAB established operations in China by forming a JV with China Resources Enterprise Ltd to add China’s biggest beer brand, SNOW to its portfolio. In 1995 SAB made acquisitions of beer operations in Eastern European countries like Poland, Romania, Slovakia and the Czech Republic and the central Russia in 1998 through establishing a ‘green field’ brewing near Moscow.

The success of SAB entry into the developing economies in Africa, Asia and Europe was due to the fact that the breweries there were fragmented and small in scale, localised and producing low-quality beer. This situation provided the opportunity for SAB to take a share in a brewery with a local partner and transforming the business while retaining the brand, thereby giving the local drinkers a better quality and consistency beer. SAB helped to improve marketing and distribution and productivity and capacity. The market expanded from regional basis to national level. SAB had applied its k\skills it had acquired over 100 years operating in South Africa. Its management structure was basically decentralised, reflecting the local nature of best branding and distribution. It was able to attain efficiency in operations and distribution of beer and reduced the costs. This approach worked well in developing economies but not in developed countries. SABMiller realised that it has the ability to tap into deep local insights and win over the market. They do it by working alongside with the retailers to help them grow their beer category and creating the beer that meets the local taste.

By 2002, SAB owned more than 100 breweries in 24 countries and accounted for about 14% of annual revenues. Most of the company’s brands were only sold on a local or regional basis but none had reached the global market like Heineken, Amstel or Guinness. Furthermore the South African money, the rank, was quite volatile.

In 2002, SAB acquired Miller Brewery in USA and created SABMiller and became world’s number 3 brewer in terms of production volume. Miller operates 9 breweries in the USA.

 In 2005, SABMiller merged with Grupo Empresarial Bavaria, the second largest brewer in South America. In 2008, SABMiller had a JV with Molson Coors in North America to gain more market share in the US beer industry.

In 2011 SABMiller acquired the Australian Beer Group Fosters and became the second largest brewer by volume and profits in the world.

By 2015, SABMiller’s market share was 12% and its brands portfolio included international brands such as Pilsner Urquell, Peroni Nastro Azzurro, Miller Genuine Draft and Grolsch along with local country brands such as Aguila, Castie Lager, Miller Lite, VB, Snow and Tyskie.

Three of SABMiller’s main global competitors, Anheuser Busch, Interbrew and Ambev had merged in 2008, to form AB InBev, to claim market leadership with a consolidated 25% of global market share. In 2014 SABMiller attempted to takeover Heineken, a Dutch company but its bid was rejected. However in 2015 SABMiller received an offer from AB Inbev and SABMiller had agreed to the deal.

SABMiller, considered their position and re-examined its four strategic priorities that were synthesized from what the company had learnt over its 100 years history and set out in 2010.

SABMiller’s strategic priorities

|  |  |
| --- | --- |
| 1. Creating a balanced and  attractive global spread  of businesses | Our acquisitions in recent years have given us a wide geographical spread with good exposure to emerging markets, without being over-reliant on any single region. This allows us to capture new growth in developing markets.  |
| 2. Developing strong,  relevant brand  portfolios in the local  market | Our aim is to develop an attractive brand portfolio that meets consumers’ needs in each of our markets. In many markets, growth is fastest at the top end, as shown by the increasing popularity of our international premium brands. Another rising consumer trend is the shift towards fragmentation. Affluent consumers are varying their choices and becoming more interested in speciality brands, craft beers, foreign imports and other subdivisions of the premium segment. And a third trend is the growing importance of female consumers. |
| 3. Constantly raising the  performance of local  businesses | In order to raise our performance, we need to become more efficient, especially in our manufacturing processes. Efficiency is part of our day-to-day management and the rise in commodity costs compels us to do whatever we can to counteract the squeeze on our margins. All SABMiller operations strive to improve our products’ route to market, to remove costs and to ensure that the right products reach the right outlets in the right condition. |
| 4. Leveraging our global  scale | As a global organisation we are constantly seeking to use the benefits of our scale while recognising that beer is essentially a local business and that local managers are in the best position to identify and exploit local opportunities. Our aim is to generate maximum value and advantage from our size without becoming over-centralised and losing our relevance and responsiveness in each market. |

 Global beer consumption by region in 2013

|  |  |
| --- | --- |
| Region | Beer Consumption in % |
| Middle East |  0.8 |
| Oceania  |  1.2 |
| Africa |  6.4 |
| North America | 13.9 |
| South America | 16.2 |
| Europe | 27.0 |
| Asia | 34.8 |

 Competitor share of global $33bn profit pool (2014)

|  |  |
| --- | --- |
| Company | Percentage share |
| AB In Bev | 39.0 |
| SABMiller | 17.9 |
| Heineken | 11.6 |
| Carlsberg |  4.6 |
| Asahi |  3.1 |
| Moison Coors |  2.9 |
| Others | 20.0 |

What next?

SABMiller had agreed to the takeover by AB InBev but whether this was the best strategic option for the company was not clear. It was also important to consider other options in case the bid failed to close due to regulatory t\hurdles, of which there was approximately a 27% chance, and SABMiller remained independent. Nevertheless, assuming the bid did close both SABMiller and AB InBev had to consider what a successful bid might mean for the combined business going forwards. How might SABMiller be integrated effectively into the new group? Would the integration strategy destroy valuable SABMiller heritage or enhance its value? How would the new company compete in the future?

Whilst SABMiller and AB InBev wrestled with satisfying regulators and planning for integration, the beer market seemed to have fewer opportunities for expansion; large transformational deals were hard to find and with lower prospects of high financial returns. The other global brewers were increasingly looking for growth from emerging markets as beer sales slowed in more developed consumer markets. Heineken was pursuing growth in Africa and Carlsberg aimed to expand into Asia. Japanese brewers were also becoming increasingly active in the Asian market. The added complication of the economic recession had also impacted on all beer markets, albeit with different degrees of severity. For all companies there were questions about the emphasis placed on local vs. global brands in their portfolios. Should they consider entering more profitable beverage segments? Could there be yet another market changing deal that should be shaped to win the battle in beer?

SABMiller financial summary (US$m) for years ended 31 March

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | 2015 | 2014 | 2013 | 2012 | 2011 |
| Income Statements |  |  |  |  |  |
| Group revenue | 33,558 | 34,087 | 34,487 | 31,388 | 28,311 |
| Revenue | 22,130 | 22,311 | 23,213 | 21,760 | 19,408 |
| Operating profit |  4,384 |  4,242 |  4,192 |  5,013 |  3,127 |
| Net finance costs |  -637 |  -645 |  -726 |  -562 |  -525 |
| Share of associates’ and joint venture’ post tax results |  1,083 |  1,226 |  1,213 |  1,152 |  1,024 |
| Taxation |  -1,273 |  -1,173 |  -1,192 |  -1,126 |  -1,069 |
| Minority interests |  -258 |  -269 |  -237 |  -256 |  --149 |
| Profit for the year |  3,299 |  3,381 |  3,250 |  4,221 |  2,408 |
| Adjusted earnings |  3,835 |  3,865 |  3,772 |  3,400 |  3,018 |
|  |  |  |  |  |  |
| Balance Sheets |  |  |  |  |  |
| Non-current assets | 40,552 | 48,366 | 50,588 | 50,998 | 34,870 |
| Current assets | 4,359 |  5,385 |  5,683 |  4,930 |  4,244 |
| **Total assets** | 44,911 | 53,751 | 56,294 | 55,928 | 39,114 |
|  |  |  |  |  |  |
| Derivative financial instruments | -111 |  -115 |  -86 |  -109 |  -130 |
| Borrowings | -12,544 | -17,047 | -18,158 |  19,226 |  -8460 |
| Other liabilities and provisions | -8,012 |  -9,222 |  -10,286 | -10,554 |  -7,760 |
| **Total liabilities** | -20,556 | -26,269 | -26,834 | -29,896 | -18,355 |
|  |  |  |  |  |  |
| **Net assets** | 24,355 | 27,482 | 27,460 | 28,032 | 22,759 |
| Total shareholders’ equity | 23,172 | 26,319 | 26,372 | 25,073 | 22,008 |
| Minority interests in equity | 1,183 |  1,163 |  1,088 |  950 |  751 |
| **Total equity** | 24,355 | 27,482 | 27,460 | 28,032 | 22,759 |
| **Total number of shares in issue (millions)** | 1,675.7 | 1,672.6 | 1,669.7 | 1,664.30 | 1,659 |

1. Explain the government policy of apartheid in South Africa from 1948 -1994.

2. Critically evaluate how South African Brewery (SAB) sustained its business position during that time. Provide five examples of how SAB reacted to the apartheid situation in upholding its strategic position in South Africa.

3. SAB has started to diversify its business in beer brewery from 1993 and by 2011 it has beer brewery operations in Africa, Europe, Asia and Russia, South America, USA and Australia and attained world number 2 position in beer production volume.

 (a) Explain the opportunities that have enabled SAB to succeed in its diversification in the

 developing countries in Europe, Africa, China and South America.

 (b) What would be the possible reasons that SAB could not penetrate the developed

 markets in Germany, Holland/Netherland, England or France?

4. Identify and evaluate the strategies SABMiller applied to expand into other geographical regions. Provide the countries where the strategies have been applied.

5. Evaluate the financial performance of SABMiller for the 5 years from 2011 to 2015 in terms of profitability, liquidity, gearing and efficiency using at least two financial ratios for each situation.

6. Assess the possible strategic market direction SABMiller can take to expand its market to achieve its strategic intent to become world number one in the beer industry and how you can assess the strategy it will take.

**Instructions**

1. Ensure you have the cover page for the individual assignment attached to your report.
2. Use front sixe 12 and the line spacing 1.5.
3. The report must be submitted in the **4th week.**
4. Any delay in the submission of the report, marks will be deducted at the rated of 10% per day.
5. Plagiarism, if detected will lead to an immediate “fail grade”.

**Marking Scheme**

|  |  |  |  |
| --- | --- | --- | --- |
| No |  Assessment Criteria  |  Comments |  Marks |
| 1 | The extent to which the student has addressed the issues contained within the questions.  (20%) |  |  |
| 2 | Degree of underpinning knowledge of the theories that relate to each of the questions  (20%). |  |  |
| 3 | The use of relevant case study material and other sources of relevant information, data and company examples gathered independently for substantiation purposes  (25%). |  |  |
| 4 | Degree of analysis and evaluation in developing the arguments. (25%). |  |  |
| 5 | Format, structure and readability of the answer’ (10%). |  |  |
|  |  Total marks |  |  |

**GROUP Assignment**

**IKEA furnishes the world**

In 50 years, Ingvar Kamprad has built Ikea into the world’s leading furniture retailer. It operates 150 stores in 29 countries. The average size is 17,250 sq.m. Each, when fully stocked, carries 10,000 separate lines. Allowing for colour and size variations, inventory can exceed 80,000 items. With 100 million copies, the catalogue is among the world’s biggest print runs.

Kamprad’s breakthrough was to encourage suppliers to use line production for flat-packed furniture coupled with self-service in huge stores. When the first IKEA store opened in Imhult in 1958, furnishing a flat could cost five times a new graduate’s annual salary. From IKEA nowadays, the same furniture and fittings would cost less than half a year’s pay.

International operations started with stores in Norway and Denmark (1963). IKEA’s largest current market is Germany (from 1974), followed by the United Kingdom (1987) and the United States (1985).

Although 10 per cent of items come from the Swedwood subsidiary, IKEA has around 1700 closely monitored suppliers in 53 countries. Sweden (17%), China (9%), Poland (9%), Germany (7%), and Italy (7%) are the most important.

Expansion continues. In 2000, IKEA opened 25,000 sq. m. stores in San Francisco, Beijing, Shanghai and Moscow. Thirty-five thousand Muscovites turned up at the Moscow opening to hear Kamprad, who had chosen the city ‘on a hunch’ greet them in elementary Russian. The aim is to double worldwide sales in five years, with up to 70 new stores. In the United Kingdom, plans are to spend almost £800 million over 10 years to expand from 10 to 30 outlets. Glasgow will be followed by Cardiff, Sheffield and Southampton in 2003. There will be a new £40 million distribution centre in Peterborough.

Despite the popularity of the brand, development often meets opposition. United States applications met resistance from local retailers. Now local authorities are concerned with congestion and the environment. Yet they welcome the stores for their several hundred jobs and up to £1 million of local sales taxes. Furthermore, as ‘magnet’ stores, they enhance the prestige of shipping developments and contribute to urban renewal. In the United States, agents find potential sites and conduct the statutory environmental impact reports. In the San Francisco area, they found three 8-hectare sites close to major traffic flows, each capable of holding 25,000 sq.m. building with 1500 parking spaces. Further, they identified a 180,000 sq.m. warehouse to serve the west coast. Meanwhile, Chicago rejected, on traffic grounds, an application for a site near a busy intersection. In Boston, IKEA has searched for 15 years for the right combination of space and location. Boston is attractive for its numbers of college graduates aged 20 to 50.

Questions:

1. List and rank the factors in IKEA’s location strategy. Explain your ranking.

2. How does IKEA offer a wide range of products at low prices? What are the implications

 of scale for retain service?

3. What risks and uncertainties are faced by IKEA in globalising its particular business?

4. How have the location strategy affected IKEA’s global strategies?

**Instructions**

**1. Group Formation – each group is made up of three (3) persons only.**

2. Font size 12 and line spacing 1.5.

3. Complete the feedback form, your name, your student ID number, the lecturer and the date of our submission.

4. You are required to submit your assignment in 6th **week** .

5. Send the completed assignment to jookong@nilai.edu.my.

6. Failure to follow the above instructions may result in our work not being marked.

7. Any detection of plagiarism will lead to an immediate ‘fail grade’.

8. A feedback form is attached for you to take note of the criteria relating to the marking scheme as a guide to your answers to the three questions.

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**Feedback Form**

Module BM4407 (Strategic Management)

Coursework Feedback/Marking Scheme

Student Name: ..................................... Student ID Number .................................

Topic: IKEA furnishes the world

Lecturer: ................................................. Date of Submission: ..............................

 **Marking Scheme**

|  |  |
| --- | --- |
|  Criterion |  Comment |
| 1. Presentation of assignment 10% Grade: |  |
| 2. Clarity of expression 10% Grade: |  |
| 3. Content and range 20% Grade: |  |
| 4. Use of literature/evidence  of reading 10% Grade: |  |
| 5. Knowledge of theory 20% Grade: |  |
| 6. Critical reasoning 20% Grade: |  |
| 7. Reflection/evaluation 10% Grade: |  |
| **Mark awarded:**  | **Marked by:** |

Date: .................................................