CASE STUDY: IKEA

A Swedish Success Story
IKEA design and sell flat-packed furniture, appliances and smaller items such as kitchenware. The company is known for its modern designs, and the company strives to be associated with simplicity and high environmental standards.

Shopping at IKEA involves going through a furniture showroom, where customers make note of any items that are of interest. The customer then proceeds into the “Market Hall” where smaller items can be picked out and added to their trolley, as in a regular shop. Next is the a self-service furniture warehouse where all the showroom items can be found, in a flat-pack form. These can be selected and taken to the checkout, which may be staffed, or may be an automated checkout. IKEA operate a loyalty card scheme that gives regular shoppers a discount, and free beverages.

In the showroom, specialist staff are on hand to assist shoppers with the design of complex installations such as fitted kitchens. Additional IKEA...
services at every branch include a food store that sells Swedish foodstuffs, a restaurant likewise selling Swedish food, and a hot dog stand. Delivery and home assembly services can also be arranged, at extra cost.

**A distinctive business model**

A key feature of the business model is that IKEA furniture is available nowhere else, which has helped to make the furniture distinctive, and to boost sales. Also, for many years, the activities of the company have been centred upon a downward trend in price: a more competitive price means more products sold, and the higher volumes achieved permit buying and manufacturing in bulk, driving down cost.

Another feature of the business model is the way that it encourages impulse buys. Professor Alan Penn [Quoted in Hill, 2011] describes how every IKEA store is a labyrinth where customers follow a yellow line on the floor that takes them past displays of everything that the store has to offer:

“The sinuous route that results is disorienting and confusing, and leads shoppers to put items in their trolley when they first see them because they cannot be certain that they would find them again.”

These ‘impulse buy’ products are inexpensive, and seductive! Come into the store for a kitchen table, and leave with placemats, candlesticks and wineglasses, completing the overall ‘mental picture’ of ownership as lifestyle. Each area in the IKEA showroom offers its own range of add-on purchases.

**Achieving Low Cost**

IKEA uses a number of strategies to ensure competitive pricing, beginning with product design. Products have common components where possible, increasing the volume in which those parts can be ordered, or made. Significantly, IKEA keep control of core processes in-house: it’s easier to change a design or a manufacturing process when you have control of it, and IKEA continue to refine both product and process as they keep on looking for savings.
“To design a desk which may cost $1,000 is easy for a furniture designer, but to design a functional and good desk which shall cost only $50 can only be done by the very best.”

– INGVAR KAMPRAD

Obviously, flat-packed products are inherently cheaper for two reasons: there is a reduction in factory labour because customers perform final assembly, and reduced logistics costs result when storing and moving products that occupy the least possible volume.

The company also offers only a limited variety of products, which further reduces the cost of holding inventory. If something doesn’t sell well, they cease stocking it. Products don’t hang around unsold in IKEA stores or warehouses. Finally, it is worth noting that those warehouses are actually revenue-generating facilities where customers pick out their items.

IKEA and the Internet

Focusing upon the out-of-town retail outlets, IKEA was slow to make use of the Internet, as the company acknowledged when they reported slow growth in 2015.

“We weren’t one of the early adopters, but we’ve matured in our thinking about it,” Peter Agnefjall, Ikea’s chief executive, is reported to have said [Ecommerce news, 2015].

IKEA had been slow to realise that shoppers would use the Internet not just to research or compare prices, but also to buy. Modern customers are using new patterns of shopping such as visiting a store and checking out a piece of furniture, but then using a mobile device to order online, avoiding the need to queue.

IKEA offers a range of 9,500 products, of which 70% were listed online by 2015, with the ultimate goal of offering 90% of products online. By 2015 IKEA had an online presence in about half of the countries where they operated [Tabuchi, 2015] and it was reported that e-commerce sales had increased by 35 percent from 2013 to 2014. Home deliveries increased by 40 percent in the same period but the retailer was still playing catch-up to rivals in the online furniture business.

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The IKEA ‘warehouse’ is actually a retail space, where customers pick up the items that they want to buy.
From 2014, IKEA’s catalogue app for mobile devices employed augmented reality, allowing users to view furniture items as they would look in their own homes. (This worked on Android devices, but the equivalent for Apple users is expected only in 2017.)

One bright spot in the online landscape is an internet-based culture of ‘IKEA hacking’, where products are bought but then treated as raw materials for DIY projects. IKEA hackers are enthusiasts who share their ideas on social media: perhaps this is done in part because IKEA can often sell their finished products at a lower price than ordinary people can buy raw materials.

**IKEA Reinvents the Pallet**

We think of IKEA as a furniture company, but until recently almost half of the company’s consumption of spruce and pine was for the construction of pallets. Like many companies that move a lot of physical products, using shipping containers and rack storage, IKEA needed pallets so that they could employ forklifts, but a standard EPAL pallet is 144mm high. When loading a shipping container with two tiers of product, that means at least 288mm of space is wasted, where additional flat-packed product could have been inserted.

IKEA turned away from conventional pallets in favour of their own solution, which they called the ‘Loading Ledge’. It uses polypropylene ‘feet’, strapped into place beneath a bundle of flat-packed products, doing the same job as a pallet while occupying as little as 45mm of space – and being much more efficient when backhauled for reuse. Soon after, IKEA formed the OptiLedge company to market their solution worldwide – and they designed a new range of storage boxes made from recycled Loading Ledges, too.

**Study Questions**

Several controversies relating to IKEA have been reported in recent years. What are they, and is IKEA doing enough to maintain a good reputation?

What are the other advantages of the OptiLedge System?

What are the barriers for IKEA, in expanding their online presence?

If IKEA is successful in growing its online business, this will drive an expansion in home-delivered goods. Can IKEA use its stores to act as fulfilment centres, providing the goods for home delivery?
IKEA never floated on the stock market: the company is still family-owned. What are the advantages and disadvantages on this approach?

In February 2013 IKEA had to remove a consignment of their KÖTTBULLAR frozen Swedish meatballs from sale, in the midst of the Europe-wide “horsemeat scandal” [Meikle, 2013]. Is this an example of company getting too far away from its core competencies, or some other issue?

Although IKEA wouldn’t admit it, the durability of their products is questionable – but demand remains high. Will customers always want “cheap and cheerful” products?

IKEA were said to be “pretty easygoing” about a joke relating to their furniture in the recent superhero movie ‘Deadpool’: their only condition was that the film would use real product names. Why is IKEA able to be so relaxed about its brand when other giant corporations are much more defensive?

Why isn’t it IKEA’s aim to have 100% of their product range available in their online stores?

References


