

**Case 14**                      **IKEA**

*Michael D. Hartline, Florida State University, prepared this teaching note for classroom discussion rather than to illustrate effective or ineffective handling of an administrative situation.*

**Case Summary**

IKEA is one of the most popular and iconic brands in the world. From the beginning, IKEA was founded on different principles—namely, frugality and low cost. Most furniture companies offer service and advice in settings where salespeople compete for sales commissions. However, IKEA founder Ingvar Kamprad recognized that customers were willing to trade off typical amenities to save money. Today, the no-frills frugality is the cornerstone of the IKEA cache and the reason for its immense popularity. IKEA's marketing strategy is based on building customer relationships. IKEA's positioning statement reflects this philosophy: "Your partner in better living. We do our part, you do yours. Together we save money." For IKEA's part, the company provides stylish, functional, low-cost home furnishings that customers must assemble themselves. This enables IKEA to save money on manufacturing and distribution, which they then pass on to customers in the form of lower prices at retail. To compensate for the customer having to do-it-themselves, IKEA offers other services that make this proposition a little more attractive. These extra services include in-store child-care and play areas, restaurants, and longer hours of operations.

IKEA is now Sweden's best-known export. There are more than 226 IKEA stores in thirty-three countries, with 200 of these stores belonging to the IKEA Group. The remaining stores are owned and operated by franchisees. There are currently twenty-eight U.S. stores with plans to have fifty stores open by 2010. IKEA has solidified the United States as a key to its expansion. The standard of living is higher than most countries; however, most American consumers actively buy into the cost-conscious mentality. The value of the U.S. dollar is stable and not prone to wide exchange rate fluctuations. Another factor that makes the United States favorable to IKEA is its melting pot of cultures. There are different lifestyles and ways of life that IKEA would like to appeal to.

However, an important issue for IKEA to address is the overwhelming individuality of U.S. consumers. American consumers are very demanding and tend to reward marketers that go out of their way to address individual tastes and needs. Expansion into the U.S. market will require IKEA to adapt its offerings and stores to local tastes—a marketing strategy that is much more expensive to deliver and contrary to IKEA's cost-conscious design. IKEA's franchised structure is well suited to this task. This allows IKEA to get closer to customers by hiring local employees that represent the same values, cultures, and lifestyles of the local area. IKEA's U.S. expansion is expected to move fairly slowly. The company does not have the financial resources and marketing experience to roll out a large number of products and stores simultaneously. In addition, IKEA will slowly adapt its promotional strategy to U.S. standards. For example, most of IKEA's current commercials are considered too "edgy" for American television. Despite any adaptations it might make in its marketing program, the IKEA vision is consistent throughout the world.

## Teaching Overview

Virtually all students have heard of IKEA, but only a few will have ever visited an IKEA store. For that reason, it is a good idea to direct students to the IKEA website or an IKEA catalog prior to discussing the case. It is important that students understand that every aspect of IKEA's strategy is based on maintaining a downward pressure on costs and operating expenses. Along with the clean, frugal styling that IKEA uses in its product design, the company's cost control measures are vital to its low retail prices.

As the case points out, IKEA's frugality will be challenged as it expands its store operations in the United States. This is an excellent example of the challenges associated with the marketing adaptation approach to international expansion. The key challenge in this case is how IKEA can maintain its cost-conscious strategy while simultaneously adapting to the highly individualistic nature of the U.S. consumer. Also, how can IKEA balance its limited service offerings with the higher service needs of U.S. consumers?

## SWOT Analysis

### Internal Strengths

- IKEA's low-cost structure has been the very essence of its success. Being that low-cost measures are ingrained into IKEA's corporate DNA, the company does not have a hard time tailoring its operations around this business model.
- IKEA treats all of its employees the same. The company's antibureaucracy weeks help maintain a strong corporate culture and its low-cost business model.
- IKEA's do-it-yourself approach maintains a low-cost business model by creating a different furniture-shopping experience.
- Although IKEA is not set up as a traditional furniture store, the company is willing to provide added amenities for customers when necessary.

### Internal Weaknesses

- IKEA's do-it-yourself approach is not favored by many customers, especially those in the United States.
- IKEA's business model trades service for cost. This trade-off may not be appealing to some customers who are accustomed to traditional furniture shopping.
- IKEA does not spend an enormous amount of money on promotion. Instead, the company depends on word of mouth and catalogs to generate a buzz among customers.

### External Opportunities

- In most major metropolitan areas, residents continue to move away from the city center into outlying areas. Many of these residents are young, educated, and value conscious. IKEA's strategy ties well into this geographic/demographic trend.

- Most American consumers still ascribe to a value-dominant logic when it comes to purchasing goods and services. However, these customers want not only high quality at a good price but also convenient access and time-saving services.
- In many ways, Swedish design has always been highly regarded. However, the trend is accelerating.

### **External Threats**

- The do-it-yourself market is declining in the U.S. due to shrinking discretionary time. IKEA's target customers may not have the time to wrestle with assembly of their furniture once they get it home. Customers who feel that this is an unnecessary step may continue to buy furniture from traditional retailers.
- IKEA's business model is easily copied by rival firms. In the United States, Target maintains a growing image with respect to low-cost, stylish design.
- Customer demand constantly changes. At some point, customer interest in Swedish design and do-it-yourself furniture will wane.
- Overall, there are relatively fewer younger customers when compared to baby boomers.

### **Problem/Decision Statement**

If IKEA is set on U.S. expansion, the company must find a way to meet customers' needs and wants at the lowest possible cost. U.S. consumers are accustomed to traditional furniture stores that offer delivery and financing. Most U.S. consumers are not accustomed to assembling furniture, and may not be willing to do so to save money.

### **Strategy Alternatives**

1. Proceed with U.S. Expansion, But Expand Service Offerings – IKEA could proceed as planned while offering additional services for the U.S. market. This might necessitate offering pre-assembled furniture, regular home delivery, financing, as well as accepting personal checks (which the company currently does not do). This strategy would raise IKEA's costs, but would make its stores more like traditional U.S. furniture retailers. The company could impose extra charges for most of its added services. IKEA's franchise structure is perfect for this strategy; however, stores should be located near major metropolitan areas.
2. Partner with a U.S. Retailer to Handle Distribution – This option would allow IKEA to further penetrate the U.S. market without added costs. IKEA's furniture could be shipped directly to the partner firm. It would then be up to the partner to decide issues such as delivery, financing, or assembly. The most likely partners would be Target, national or regional furniture retailers, or even category killers such as Best Buy, Home Depot, or Lowe's.
3. Pursue U.S. Expansion with Minimal Stores, But Maximum Catalog Distribution – This approach would position IKEA as a niche player in the U.S. furniture industry. A similar

approach is used successfully by Bass Pro Shops, Cabella's, Lands End, and L.L. Bean. The idea would be to target a narrowly defined segment of the U.S. population that enjoys IKEA's hip design, low costs, and do-it-yourself mentality. This strategy greatly reduces the company's costs while preserving the uniqueness of existing IKEA stores.

### **Strategy Recommendations**

IKEA could pursue any one of these strategies, as each has a different set of advantages and disadvantages. Many students will argue against the first option because it simply doesn't match IKEA's branding or experience. The second option is extremely viable, but could dilute some of the cache associated with the IKEA brand. The third option is really just an extension of IKEA's current strategy. However, one might argue that the company's strategy is not broken, so why fix it? Regardless of the option chosen, students should be able to defend their choice and discuss the pros and cons of the strategy.

### **Implementation Issues**

The overriding implementation issue is IKEA's lack of experience in the U.S. market. If the company were to pursue aggressive store expansion, it might want to hire a brand consultant that is familiar with the U.S. market. Also, some of the potential added services (delivery, financing, and assembly) might have to be handled by third parties if IKEA does not want to handle them. Locating reputable third parties would be another key implementation issue.

### **Teaching Questions**

1. Why are the styling and design of IKEA products so popular (for photographs, go to <http://www.ikea.com>)? Does IKEA's blend of style and pricing have appeal to mainstream U.S. consumers?

This question depends on one's personal style and tastes in furniture. Many students do not like the IKEA style. However, its popularity is likely based on its uniqueness and trendy image. Most students will argue that IKEA's style will appeal to only a portion of the U.S. market—notably younger, urban consumers. Astute students, however, will point out that the bulk of the U.S. furniture market lies with young families and baby boomers, at least for now.

2. How do you account for IKEA's growth and popularity: value or image? What can IKEA do to sustain growth after it loses some cache?

While value and image are certainly both responsible for IKEA's growth and popularity, image is clearly the key driver. Students will note that do-it-yourself furniture has been around for some time (well-known brands include Bush and Sauder) and is sold by virtually all retailers. However, most consumers tend to view do-it-yourself furniture as cheap, inferior products that are purchased mostly by college students and low-income consumers. To maintain its cache, IKEA must ensure that its brand and products do not become so ubiquitous that they are available everywhere. This would necessitate a selective or exclusive distribution strategy.

3. Speculate on what will happen at IKEA stores as they are tailored to fit local tastes. Is the company's trade-off of service for low cost sustainable in the long term?

This question provides an excellent discussion point about the "wheel of retailing" concept. Many retailers begin their lifecycles with low prices and few services (i.e., IKEA). Over time, these firms add additional services (financing, delivery, support staff, higher end products, and so on) to attract new customers. At this point, the retailer becomes a full-service store with higher prices (i.e., traditional U.S. furniture stores). Inevitably, an innovative company then enters the picture, begins to attract customers, and takes sales away from these full-service stores.

One could argue that IKEA runs the risk of losing its image if it tailors its offerings to fit local tastes. It is certainly true that IKEA's costs will increase, which could lead to higher prices and additional offerings to attract more customers (hence, the wheel begins to turn). IKEA's tradeoff of service for low cost is sustainable within a certain segment of the U.S. furniture market. However, the bulk of the U.S. market clearly prefers to buy furniture from full-service stores.