

ID#110503

PUBLISHED ON
MARCH 29, 2016

IKEA in the US: From Big to Bigger

BY LEN SHERMAN*

Introduction

By almost any measure, IKEA has achieved considerable success in the US market since its launch in 1985. By 2010, IKEA was the largest furniture retailer, operating 38 stores across 21 states with sales of \$3.4 billion.¹ The United States is now IKEA's second largest country market behind Germany and expects continued growth.

Capitalizing on a unique combination of low price, highly stylized design, a broad range of home and lifestyle products, a unique shopping experience, and effective marketing which reinforce the company's hip image for modern and affordable merchandise, IKEA has built a broad base of highly loyal customers. Store openings have become highly acclaimed, festive events, drawing tens of thousands of customers to celebrate the company's latest geographic expansion.²

Nonetheless, Mike Ward, President of IKEA's US business unit was well aware of the need to explore new business strategies to more fully realize IKEA's business potential in the US market. Despite its strong historical growth and market leading position, IKEA US held only approximately a 2.5% market share in this highly fragmented market.

Moreover, Ward was aware that the unique IKEA shopping experience, prized by loyal customers, remained a drawback to a stubbornly large bloc of non-IKEA fans. Given the strategic imperative to expand the base of IKEA's addressable market, Ward was weighing which additional in-store services, investments in specific areas of the business, or e-commerce enhancements might better appeal to segments not currently well served by IKEA's big box stores.

Then too, proprietary market research suggested that many IKEA customers perceived the brand to be a transitory solution to their home furnishing needs. Too many customers reported outgrowing the brand, as their lifestyle needs changed over time. Ward wondered what

Author affiliation

*Adjunct Professor, Columbia Business School

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changes in the products line and related IKEA services might extend the relevance of the IKEA brand over a customer's lifetime.

Finally, Ward thought through IKEA's recent sustainability initiatives in product design and store operations. While the company was already highly committed to corporate social responsibility, Ward wondered whether IKEA US could benefit by placing even greater emphasis on sustainability in its marketing, communications, and branding.

Ward was well aware that the company's core strategy had historically served IKEA extremely well in the United States and worldwide. The issue going forward was how to adapt to current market realities to take IKEA to the next level of market leadership, while not compromising IKEA's distinctive legacy strengths.

Company Background

IKEA was founded in Sweden in 1943 by a seventeen-year-old entrepreneur named Ingvar Kamprad.³

Kamprad began his entrepreneurial endeavors as a young boy selling matches purchased in bulk to neighboring households in his home Agunnaryd. As his business grew, he expanded to selling fish, seeds, Christmas decorations, and eventually, pencils and ball-point pens, which were a new phenomenon in 1935. In 1943, with a gift from his father, Kamprad expanded and renamed his business, using his initials, I.K., the initial of the name of the farm on which he was born, Elmtaryd, and the initial of the village Agunnaryd for the acronym IKEA. At this time, he was selling a wide variety of merchandise, including pens, wallets, watches, and nylon stockings by going door-to-door and selling directly to consumers. By 1945, the first advertisements for IKEA began showing up in local newspapers, and he had developed a rudimentary catalog.

Locally manufactured furniture first showed up in the IKEA product range in 1947 and was received positively by its customers. It wasn't until 1951, however, that Kamprad began to focus only on furniture and discontinued all other products from the IKEA product range. The first IKEA furniture catalog was published that same year and two years later, the company opened its first furniture showroom in the village of Älmhult, Sweden, to demonstrate the quality of its products. Established furniture retailers retaliated by putting pressure on common suppliers to boycott IKEA. In response, Kamprad made a critical strategic decision for IKEA to design its own furniture and source from new suppliers beginning in 1955.

This shift in strategy turned out to be pivotally important to the company's development. Designing furniture for their own stores allowed IKEA to develop a highly differentiated product line featuring low prices, modern design, and improved functionality. Around this time, an employee removed the legs of a popular table design in order to fit it into the trunk of a car to avoid transportation damage, which led Kamprad to think about designing "flat packed" furniture. In 1956, IKEA began testing the concept of flat pack designs to significantly reduce operating costs by lowering shipping expenses, storage space requirements, transportation damage, and assembly labor costs.

The first full IKEA store opened in Älmhult, Sweden in 1958. With 6700 square meters (72,118 square feet), it was the largest furniture retailer in Scandinavia. In 1963, IKEA opened its first store outside Sweden near Oslo in Norway, followed by the flagship store in Stockholm—a sizeable 45,800 square meter (492,987 square foot) circular showroom inspired by the Guggenheim Museum in New York City. Despite its large size, the overwhelming success of the Stockholm store created supply chain and store merchandising difficulties in meeting customer demand. In response, IKEA implemented the open warehouse concept that is key to the current operating model and shopping experience of IKEA stores as described further below.

In 1973, the first store outside Scandinavia was opened near Zurich, Switzerland, followed by rapid expansion in Germany starting with IKEA Munich in 1974. Germany remains IKEA's largest market today. In 1975, IKEA entered the Australian market, and it opened IKEA Canada in 1976, bringing IKEA's big box stores to two new continents in two years. IKEA opened its first US store in 1985 near Philadelphia and launched in the UK in 1987.

As of August 2010, the IKEA Group operated 280 stores in 26 countries and is the world's largest furniture retailer. Sales of the IKEA Group companies have grown at a compound annual growth rate of 9.7% over the past decade, reaching €23.7 billion in 2010 (see Exhibits 1–4).

IKEA's Distinctive Business Strategy

From its founding, IKEA has been singularly focused on delivering stylish furniture at competitively low prices as exemplified by the company's two corporate mantras: "Low Price with Meaning" and "A Better Everyday Life."

IKEA articulates its business approach below—part business strategy, part broader societal intent: ⁴

A better everyday life

The IKEA business idea is to offer a wide range of home furnishings with good design and function at prices so low that as many people as possible will be able to afford them.

Most of the time, beautifully designed home furnishings are usually created for the few who can afford them. From the beginning, IKEA has taken a different path. We have decided to side with the many. That means responding to the home furnishing needs of people around the world: people with many different needs, tastes, dreams, aspirations and wallet sizes; people who want to improve their homes and their everyday lives.

It's not difficult to manufacture expensive fine furniture: just spend the money and let the customers pay. To manufacture beautiful, durable furniture at low prices is not so easy - it requires a different approach. It is all about finding

simple solutions and saving on every method, process or approach adopted - but not on ideas.

We can't do it alone

Our business idea is based on a partnership with the customer. First we do our part, which starts with our designers working with manufacturers to find smart ways to make furniture using existing production processes. Then our buyers look all over the world for good suppliers with the most suitable raw materials. Next, we buy in bulk, on a global scale, so that we can get the best deals, and you can get the lowest price.

Then you (the customer) do your part

Using the IKEA catalog and visiting the store, you choose your furniture and pick it up at the self-serve warehouse. Because most items are flat-packed you can get them home easily, and assemble them yourself. This means we don't charge you for things you can easily do on your own. So together, we save money for a better everyday life.

To achieve its business objectives, IKEA tightly controls all aspects of its value chain, from product design, to sourcing, manufacturing, marketing, and retailing.

PRODUCT DESIGN, SOURCING, AND MANUFACTURING

At IKEA, new product development is overseen by a product-strategy council, which consists of senior managers who establish design priorities. The company continuously monitors global consumer trends and seeks to respond to lifestyle needs with innovative home furnishings, accessories, and storage solutions.⁵

No design—no matter how stylish—makes its way into the showroom if it cannot be made affordable. The company's 12 full-time designers at Älmhult, Sweden, along with 80 freelancers, work closely with in-house production teams to identify the appropriate materials and lowest cost suppliers—an iterative, collaborative process that can take as long as three years. Ultimately, IKEA's product decisions reflect the company's concern for price, quality, sustainability, and design.

Once a product priority is established, a product developer sets the product's target retail price. Each product is assigned to a category that defines IKEA's product range across four style groups: Scandinavian Modern, Popular Modern, Popular Traditional, and Scandinavian Traditional. These groups embody IKEA's identity, which is decidedly skewed towards modern styling. Within each style group, IKEA surveys competitive entries and sets its price target considerably below competitive levels for comparable products. Price leadership is a hallmark of IKEA's strategy.

With a network of 1,100 suppliers in 55 countries, IKEA strives to find the right manufacturer for each product (see Exhibit 5). IKEA typically circulates a description of a proposed product's specifications and target cost to its suppliers (including its own manufacturing facilities) and encourages them to compete for the production package. In some cases different product

components are sourced from different suppliers. For example, a supplier in Poland might produce a chair's cushion while a Chinese supplier might produce its frame. The two pieces would only come together in the store, when a consumer would select each piece individually.

IKEA's focus on low cost production is consistent with the company's commitment to promote sustainability across its product line and store operations. For example, in designing its PS product line of housewares and furniture, IKEA challenged designers to find innovative uses for discarded, recyclable materials. The results: a table and storage system fashioned from recycled milk cartons. More recently, IKEA introduced its PLUGGIS wastebasket, made entirely from recycled PET plastic.

Even after a new product arrives in IKEA's showrooms, the design process is not finished. IKEA strives to reduce cost and maintain or improve functionality on an ongoing basis. This obsessive focus on cost reduction has allowed the company to continuously reduce prices and stimulate demand—a strategy more commonly seen in the consumer electronics sector than in furniture retailing.

For example, in 2008 IKEA was selling over 500,000 units of its popular and stylish LACK side table in the US market for a competitively low price of \$12.99 (see Exhibit 6). But working with its designers and suppliers in Poland, IKEA developed changes in the materials used in the product, which allowed it to reduce the retail price in 2010 to \$7.99 while maintaining attractive margins. Demand for the LACK table at the reduced price nearly tripled, yielding higher net revenues and profit for IKEA.

MARKETING

IKEA has been ranked within the top 30 most valuable global brands by Interbrand—higher than Amazon, Sony, or Starbucks.⁶ A key to IKEA's success in building the value of its brand is its ability to leverage the advantages of global resources to deliver “low cost products with meaning” while tailoring its marketing and merchandising to meet the varied local needs of customers in the 26 countries in which it operates retail facilities.

Key elements of IKEA's marketing efforts include extensive catalogue distribution, online store presence, “twinkle in the eye” advertising, guerilla marketing, tactical promotions, and public relations surrounding new store openings. Also, as noted in the next section, IKEA's unique retail shopping experience (including its acclaimed in-store restaurants) play a pivotal role in generating positive word-of-mouth referrals.

From its inception, catalogues have played a major role in IKEA's business. Given the breadth of its product range and the frequent changes in merchandise and pricing, catalogue distribution keeps current and prospective customers abreast of the latest IKEA offerings. In 2010, IKEA distributed 197 million catalogues in 29 languages, bringing the showroom into millions of customer households.

IKEA's online store supplements catalogue distribution by providing timely information on all its 9,500 products and by offering the opportunity to buy select products online. Moreover, the website plays an important role in preparing shoppers with tools to get the most out of a store visit (e.g., shopping lists, local store promos, etc.)

IKEA's advertising has generally communicated four key themes over the last decade in many of its country markets:

1. Conventional wisdom about furniture ownership—long-lasting, functional, but boring products—is outdated. This theme was intended to aggressively redefine how consumers think about home furnishings, beginning with IKEA's mid-1990's "chuck out your chintz" campaign in the UK. This campaign was adapted to the US market in 2002 with the award winning "Lamp" commercial. [CLICK HERE TO VIEW](#).
2. IKEA furniture design is an exciting, "unboring" alternative to dreary furniture and dreary lives. [CLICK HERE TO VIEW FOR A US EXAMPLE](#). [CLICK HERE TO VIEW AN AUSTRALIAN EXAMPLE](#).
3. Shopping at IKEA is a great value. [CLICK HERE TO VIEW](#).
4. IKEA can be your partner in fashioning lifestyle improvements, the current advertising theme in the US market. [CLICK HERE TO VIEW](#).

A common underpinning of the first three commercials noted above is an edgy sense of humor that reinforced IKEA's image as a distinctive brand sharply differentiated from traditional competitors. More recently, IKEA US has sought an approach that emphasizes being a "lifestyle partner" theme in an attempt to broaden its customer appeal.

To further promote its brand image, IKEA has also made effective use of "guerilla marketing" throughout many of its country markets. Guerilla marketing is defined as a low budget tactic in which companies use imaginative, unconventional, and often jarring product displays to generate intense public awareness and viral word-of-mouth promotion. Examples of IKEA's guerilla marketing include IKEA furniture makeovers of New York City bus stops and Paris Metro rail stations (see Exhibit 7).

A variant of guerilla marketing is IKEA's approach to store openings, which have been orchestrated as highly publicized media and publicity events. Prizes are given for first-in line customers, some of whom have been known to camp out at the store weeks in advance. In a recent store opening in Atlanta for example, customers competed to become "Ambassadors of Kul," which required winning contestants to sleep in the bedding department of the store for three nights prior to the opening. Throughout the opening day, IKEA typically arranges for band music, face painting, and free food. Such festivities attract thousands of customers and intense media coverage which helps extend IKEA's image as a fun-loving, unconventional retail brand.

RETAILING/CONSUMER SHOPPING EXPERIENCE

The heart and soul of IKEA's distinctive market positioning is the breadth and depth of its product range and its unique shopping experience.

IKEA's range of 9,500 products spans furniture for every room of the home, office and workspace furnishings and accessories, bedding supplies, full bathroom and kitchen designs including appliances, storage solutions, textiles and rugs, art objects, and housewares.

Specialty retailers compete with IKEA in each of these categories, but none offer the breadth of IKEA's full product range.

To accommodate this broad product range, the typical IKEA store is over 300,000 square feet, the equivalent of five football fields under one roof. The shopping experience has several distinctive characteristics aimed at showcasing attractive lifestyle solutions for every room of the house. In addition, IKEA's operating model and high scale help control costs, reinforcing the company's mission to provide "low cost with meaning:"

1. The store layout is organized by room or major product category with a flow pattern that encourages customers to flow through every showroom in a prescribed one-way direction.
2. Each showroom area features full room solutions aimed at different price points, needs, and tastes (see Exhibit 8).
3. The overall store environment is open, bright, and colorful, unlike many low-priced furniture outlets.
4. While customer support personnel are available at designated information kiosks, the store is designed to promote customer self-choice (e.g., tape measures, paper, and pencils are available near the store entrance; ubiquitous signage, clearly marked product specifications, and pricing information is available at each display).
5. Given the store scale and time required to browse the broad IKEA product range, amenities are provided to encourage customers to spend many hours in the store. Each store offers babysitting services, a Swedish-style restaurant, and snack bars.
6. Once customers complete their shopping selection, they are responsible for picking up their own flat-packed merchandise from the self-service, in-store warehouse.
7. After checkout, customers are responsible for transporting their purchases to their home and assembling the flat-packed furniture items.⁷

The heavy reliance on self-service throughout the IKEA shopping process exemplifies the customer "partnership" noted in the company's mission statement that helps keep costs and prices down. However, recognizing that some customers find self-service burdensome, IKEA recently piloted a program in the United States to introduce "pick and deliver" services for a flat rate of \$99.

SUMMARY: INTEGRATED STRATEGY AND CONTROL OF THE ENTIRE VALUE CHAIN

In summary, IKEA maintains tight control over its entire value chain, from product design to sourcing, manufacturing, marketing, and retailing. This fully integrated approach allows IKEA to deliver an attractive customer value proposition and to sustain a differentiated, competitively advantaged business strategy.

Anders Dahlvig, ex-CEO of IKEA summarized the company's competitive advantage as follows:

Many competitors could try to copy one or two of [our strengths]. The difficulty is when you try to create the totality of what we have. You might be able to copy our low prices, but you need our volumes and global sourcing

presence. You have to be able to copy our Scandinavian design, which is not easy without a Scandinavian heritage. You have to be able to copy our distribution concept with the flat-pack. And you have to be able to copy our interior competence—the way we set out our stores and catalogues.⁸

Market and Competitive Characteristics of the US Furniture Sector

US furniture retailing is an \$82.5 billion industry (2010) whose fortunes are tied to the health of the housing sector. Furniture sales in the United States began contracting in 2006, as home sales declined, before finally showing some signs of recovery in 2010 (see Exhibit 9).

The furniture retail sector is highly fragmented, with the largest chain store group accounting for less than 3% of total sales (see Exhibit 10). IKEA, the second largest furniture retailer in the United States, has been gaining share, but still commands only 2.5% of the total market. The top ten furniture retail chains combined account for 15% of the total furniture market. All furniture stores combined generated \$42.4 billion in sales in 2010, roughly half the total market.

The balance of US furniture sales (49%) occurred in general merchandise stores, including Wal-Mart, Costco, Target Stores, Office Depot, etc., which provide considerable price competition, particularly at the low end of the market. General merchandise chains have a considerable market coverage advantage in the furniture market; for example, Wal-Mart currently has more than 2,500 retail outlets in the United States, compared to IKEA's 38.

Within the furniture store category, IKEA faces competition from a wide variety of specialty and conventional furniture stores. The specialty retailers tend to focus on products for a particular room (e.g., bedding specialist Sleepy's or cookware retailer Williams-Sonoma). Conventional furniture store competitors offer a wider range of home furnishings, and include chains such as Ashley Furniture Homestores, Raymour & Flanigan, and Bob's Discount Furniture.

Competition within the conventional furniture store category spans a considerable price range. Historically, low-end furniture stores have tended to offer cheaper quality merchandise with uninspired styling to price-sensitive customers. The shopping environment in these stores often reflects their low-cost focus, with dreary and dingy showrooms, haphazard merchandise displays, and poor or non-existent sales assistance.

In contrast, high-end, specialty, and general furniture retailers tend to offer luxurious store environments designed to inspire aspirational images of class, affluence, and comfort. These stores include both single-brand retailers such as Ethan Allen and Thomasville as well as multiple-brand retailers such as Jordan's and American Signature. High-end stores typically offer "high-touch" sales consultants who assist with design advice and product selection. Salespeople are trained to educate customers about subtle design markers such as wood grains, upholstery fabric options, and construction techniques, aimed at reinforcing a product image of quality and durability.

Home delivery of fully assembled furniture from these stores is often included in the sales price, either from warehouse stock inventory or on special order from the furniture manufacturer.

Because general furniture retailers compete heavily on selection, they tend to boast huge showroom inventories. For example, Jordan's Furniture carries well over 150 distinct styles of sofas, spanning contemporary, traditional, country, and transitional styles with price tags ranging from \$379 to over \$3,000.

The overall emphasis by most higher-end furniture retailers on product style, quality, and durability reflects a general perception that US consumers are extremely reluctant to shop for new furniture. Commenting on this conventional wisdom, an ex-IKEA executive noted that consumers in the United States "change their spouse as often as their dining room table, about 1.5 times in a lifetime."⁹

IKEA's US Market Entry

From its inception in the US market, IKEA's approach has challenged conventional wisdom on furniture retailing. In this respect, IKEA's business approach sets them uniquely apart from both low- and high-end competitors in this space:

Conventional Furniture Retailers	IKEA
Tout the durability and timeless design of the product range	Challenges US consumers to update their home furnishings to match evolving lifestyle needs
Emphasize a wide range of furniture styles to meet diverse consumer tastes	Focuses on a decidedly contemporary, Swedish design motif
Low-price competitors under-invest in showroom amenities, with spotty attention to merchandising and store display	Operates bright, colorful big box stores featuring full-room solutions across all functional areas of the home
High-price competitors emphasize the "high-touch" services which coddle customers	Promotes a partnership wherein customers perform product selection, warehouse pickup, shipping and assembly on their own
Develop a dense network of stores to attract local customers	Exploits its unique shopping advantages to draw from larger regional markets in its served territories
Emphasize one or more merchandise categories	Provides a uniquely broad range of furnishing and home accessory products

IKEA entered the US market in 1985 in a suburb of Philadelphia and within 10 years expanded to 11 additional locations. The company is well known for the similarity of its operations, from the signature blue and yellow Swedish national colors that adorn its stores to the unique design and scope of its product range. But the company soon discovered the need to adapt many of its products to fit customer preferences unique to the US market.

“We got our clocks cleaned in the early 1990s because we really didn’t listen to the consumer,” recounted one ex-IKEA executive. Stores weren’t big enough to offer the full IKEA experience, and many were in poor locations. Prices were too high. Beds were measured in centimeters, not king, queen, and twin. Sofas weren’t deep enough, curtains were too short, and kitchen designs didn’t fit US-sized appliances. “American customers were buying vases to drink from because the glasses were too small,” recalls Goran Carstedt, the former head of IKEA North America, who helped engineer a turnaround. Parts of the product line were adapted (no more metric measurements), new and bigger store locations chosen, prices slashed, and service improved.¹⁰

US managers are now paying close attention to the tiniest details across the entire product range, including more comfortable sofas, higher-quality textiles, bigger glasses, and more spacious entertainment units. The company has also pursued aggressive pricing in target categories such as bedding, kitchens, and media storage as part of an integrated strategy of enhanced merchandising, marketing, and personnel training.

IKEA US has even enhanced its traditional cash-and-carry business model by becoming one of the first countries in IKEA’s global enterprise to offer picking and delivery services. Customers in the US are given the option to pay a \$99 flat fee at an IKEA store for company personnel to pick and deliver merchandise from a shopping list to the customer’s home.

IKEA’s strategy to adapt its signature global business approach to the local needs of US customers has yielded impressive, profitable growth. Over the past decade, IKEA’s US furniture, bedding, and accessory sales have grown at a compound annual growth rate of 14.3%, significantly outpacing the market as a whole.¹¹

IKEA’s Future Challenges and Opportunities in the US Market

Although IKEA has been outperforming competitors and gaining share in the United States, Mike Ward believed that the company might not be fully achieving its business potential. To begin with, despite its rapid growth, IKEA currently commanded less than 3% of the US retail furniture market. Clearly, there was room for further penetration.

But Ward also recognized that to get to the next level of market share leadership, IKEA US would have to contemplate even more far reaching strategic changes than the new store openings and retailing tactics the company had successfully implemented over the past few years.

Ward’s key concern was how to broaden and retain the base of appeal for IKEA’s unique approach to furniture retailing. Market research conducted by the company and others identified three key challenges that constrained IKEA’s US growth prospects:

1. A troublingly large segment of IKEA’s potential customer base finds some aspects of the IKEA shopping experience unappealing. Unless IKEA removes perceived barriers associated with the shopping experience, this segment of customers is unlikely to shop at an IKEA store.

Research suggested¹² that nearly 80% of potential shoppers in IKEA's served markets had not shopped at an IKEA store within the past 12 months (if ever). Relative to other countries, IKEA achieved lower customer top-of-mind awareness, driven in part by a perceived lack of brand relevancy to many consumers' lifestyles. Although IKEA US enjoys strong and sometimes even fanatical shopper loyalty amongst its core customer base, perceived shortcomings in the brand's value proposition appear to be more intense and widespread than in IKEA's other national markets.

The main drawbacks as seen by non-customers are related to perceived shortcomings in IKEA's shopping experience (see Exhibit 11) and product line (see Exhibit 12). Representative customer concerns with IKEA's shopping experience include:

- "It is just too big for me; it is overwhelming; I got lost and I did not know how to get out."
- "The first time I came, I could not find a parking space; it was so crowded, I could not see the entrance and I did not know where to go. I turned around and left, it was too much already."
- "I did not like how we were not approached at all."
- "I like the way Jordan's does things; you just tell them what you want and they do everything for you. This is too confusing for me."

Those with a negative reaction to aspects of IKEA's product line express concerns with the perceived quality, design, and self-assembly:

- "It does not have to last long which is a good thing because it probably won't."
- "It's just too much hassle to put it together. The instructions are so hard to understand."
- "I always thought IKEA was like Wal-Mart, I like something better for my house."
- "Because of the style, the price, and the people I see in the store, I always get the feeling that it is for college kids."
- "IKEA furniture, you can't really make it a focal point of any of your rooms, because once you put it there, you can tell that it is from IKEA."

2. A number of IKEA's current customers tend to associate the company's product offerings as relevant only during their young, transitional life stages. As such, these customers see themselves as outgrowing IKEA, preferring to move to more traditional furniture retailers later in life. IKEA's US customer base skews younger than in other countries (see Exhibit 13). The reason appears to be that many customers "outgrow" the IKEA brand as their lifestyle needs and values change. Representative comments on this age-related loss of customer loyalty include:

- "I was happy to close the door on IKEA because I feel I have matured to the next level: been there, done that. It would be like taking a step back."
- "Since I got married, my wife and I want to buy more expensive furniture; IKEA was for when we were in college."

- “The trigger for me was when my wife and I moved in together about three years ago and going from being single and having my own generic stuff and becoming sort of permanent, so we want stuff that is more permanent.”
3. IKEA’s customers frequently complain that the company’s online store does not provide the same convenience and value that they typically find on other ecommerce sites. Common complaints include spotty product availability, expensive delivery, confusing navigation tools, poor graphics, and an inability to arrange for assembly services online..

In fact, IKEA’s website came in last in a recent survey of six major retailers analyzed by QuBit, an ecommerce consulting firm. QuBit used 80 industry best practice criteria to evaluate company websites. According to the study, IKEA failed to meet several including offering:

- Drop-down menus to help users navigate the online store
- Multiple images of the same product
- Clear call to actions — or CTA’s — defined buttons that tell a shopper what to do next to complete a purchase.¹³

Although IKEA’s ecommerce revenues have recently outpaced traditional store sales growth, Ward recognized that the company was not yet tapping its full potential for online business growth.

Despite these challenges, a large base of IKEA’s customers continued to relish the company’s commitment to “low cost with meaning” and the excitement and inspiration associated with a shopping expedition to IKEA big box stores. So the challenge in finding ways to accelerate profitable growth was to find the right balance between enhancements to IKEA’s current brand proposition that could broaden and extend the company’s customer base over time, without undermining IKEA’s current competitive advantages or alienating its core customer base.

There were a number of options on the table to consider in enhancing IKEA’s product, market and operating strategy in the United States, including:

1. Additional in-store services to mitigate some of the perceived shortcomings with the IKEA shopping experience (e.g., additional sales assistance using store personnel and/or mobile shopping apps).
2. Heavier focus on different areas of the home (e.g. kitchen renovation merchandise and design services, mattresses and bedding solutions).
3. Expansion of IKEA’s product range, catering to customers preferring higher quality at higher price points
4. Comprehensive overhaul of IKEA’s ecommerce capabilities, including new pick and pack warehouse systems and facilities and a complete redesign of IKEA’s webstore to reflect best industry practice.
5. Greater emphasis on product design to broaden the basis of the IKEA’s brand appeal, without fundamentally changing IKEA’s commitment to “low prices with meaning”:

- Eco-friendly products (e.g. induction cooktops, raw materials sourced exclusively from suppliers employing sustainable business practices)
 - Additional focus on “breathtaking” product design to deliver a higher style ethic, greater comfort or innovative functionality (e.g. wireless mobile device chargers, smart bulbs)
 - Circular design concepts to promote a longer product life (e.g. additional solutions for repair, re-use or upgrades to higher quality) or to facilitate recycling and secondary market transactions for used merchandise
6. Additional store formats and locations to enhance IKEA’s market reach, including
 - City center big box store formats (such as recently implemented in Hamburg, Germany) to appeal to the growth in urban population dwellers who lack personal transportation options to reach IKEA’s sprawling suburban locations
 - Smaller footprint stores offering a limited product, but provide access to the full range of IKEA services (e.g. assembly assistance) and merchandise pickup from online purchases at reduced shipping cost
 7. Additional programs to make IKEA a “Great Place to Work,” including more predictable employee scheduling policies, decreased reliance on temporary personnel, and more competitive wages and benefits.¹⁴

In preparation for ongoing strategy and business review meetings, Ward tasked his staff to stretch its thinking in identifying business strategies with the greatest potential to increase IKEA’s US market growth and profitability. He was looking for out-of-the-box thinking—literally and figuratively—to expand IKEA’s market reach, while maintaining the company’s commitment to its core values. Creative thinking was encouraged, with the only caveat that each proposed idea address three questions:

- How and why would the proposed idea be expected to drive accelerated, profitable growth in the US?
- What are the downside risks, including potential adverse impacts on IKEA’s core business franchise?
- What are the key uncertainties that require investigation and what additional information would you need to know in order to recommend a particular strategic option?

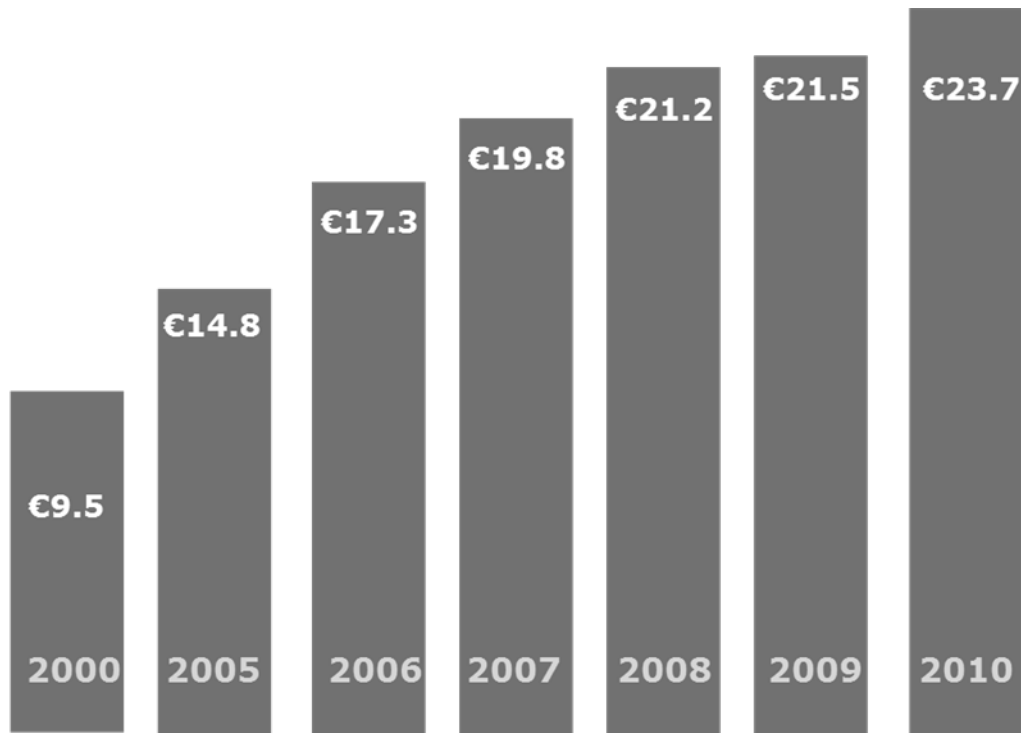
Questions for Discussion

1. How would you characterize IKEA's value proposition?
2. What accounts for the historical success of IKEA?
3. What are some of the downsides of shopping at IKEA? How does IKEA's appeal vary by customer segment?
4. The case identifies 7 strategic options intended to improve IKEA's US profits and growth. Which three of these options do you think appears to have the most potential in effectively addressing key shortcomings in IKEA's current value proposition without compromising the brand's core values? Explain your reasoning.
5. Which of these options would you likely NOT recommend and why?
6. The seventh strategic option is unique in addressing HR policies, rather than product or market strategies. For this option, briefly answer the following questions
 - a. Under what circumstances could this option help accelerate profitable growth in the United States?
 - b. What are the downside risks?
 - c. What are the key uncertainties that would require additional investigation and what additional information would you need to know in order to judge the value of this option?

Exhibits

Exhibit 1

IKEA Group Global Sales Growth (in billions)



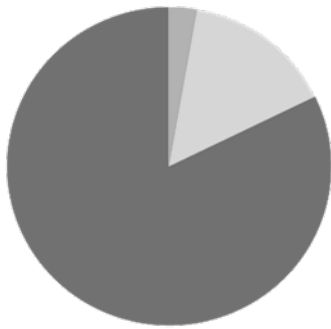
Memo: Net income in FY 2009 and 2010 are €2.5 billion and €2.7 billion respectively.

Note: Fiscal years end August 31.

Source: "Facts and Figures," IKEA, 2010,
http://www.ikea.com/ms/en_US/about_ikea/facts_and_figures/index.html.

Exhibit 2

IKEA Sales by Region



Sales by region

- Asia & Australia 5%
- North America 15%
- Europe 80%

Top five sales countries

Germany	16%
USA	11%
France	10%
UK	7%
Italy	7%

Source: "Facts and Figures," IKEA, 2010,
http://www.ikea.com/ms/en_US/about_ikea/facts_and_figures/index.html.

Exhibit 3

IKEA Stores by Region: 280 Stores in 26 Countries



Source: "Facts and Figures," IKEA, 2010,
http://www.ikea.com/ms/en_US/about_ikea/facts_and_figures/index.html.

Exhibit 4

Financial Statements FY2009–FY2010

Income Statement
Fiscal years end 8/31

(in millions of Euro)	2010	2009
Revenue	23539	21846
Cost of Sales	12454	11878
Gross profit	11085	9968
Operating cost	7888	7202
Operating income	3197	2766
Total financial income and expense	76	143
Income before minority interests and taxes	3273	2909
Tax	577	384
Income before minority interests	2696	2525
Minority interests	8	9
Net income	2688	2534

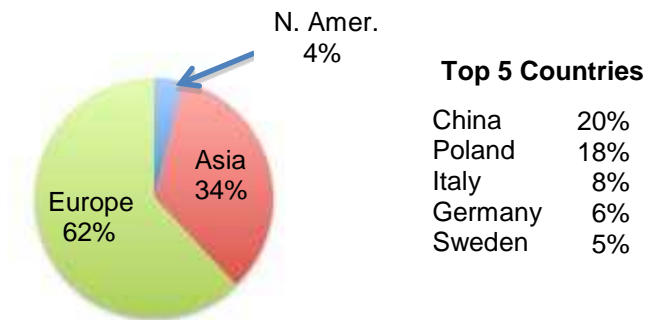
Balance Sheet as of 8/31/2010

Property, plant and equipment	15982	14206
Other fixed assets	2683	2652
Total fixed assets	18665	16858
Inventory	3415	3116
Receivables	2238	2797
Cash and securities	16955	14334
Total current assets	22608	20247
Total assets	41273	37105

Source: "Facts and Figures," IKEA, 2010,
http://www.ikea.com/ms/en_US/about_ikea/facts_and_figures/index.html.

Exhibit 5

IKEA Purchasing by Region and Country



Source: "Facts and Figures," IKEA, 2010,
http://www.ikea.com/ms/en_US/about_ikea/facts_and_figures/index.html.

Exhibit 6

Example of product cost reduction: LACK side table, US Market

Year	Price	Volume	Revenue
	\$	(thousands)	\$, millions
2008	\$12.99	507	\$6.50
2009	\$12.99	558	\$7.20
2010	\$7.99	1520	\$12.10



Source: IKEA company data.

Exhibit 7

Examples of IKEA Guerilla Marketing

NY Bus Stop Makeover



Paris Metro Makeover



Source: Ryan Lum, "IKEA's Parisian Guerrilla Marketing Campaign Examples," *Creative Guerrilla Marketing* (blog), <http://www.creativeguerrillamarketing.com/guerrilla-marketing/ikeas-parisian-guerrilla-marketing-campaign-examples/>.

Exhibit 8

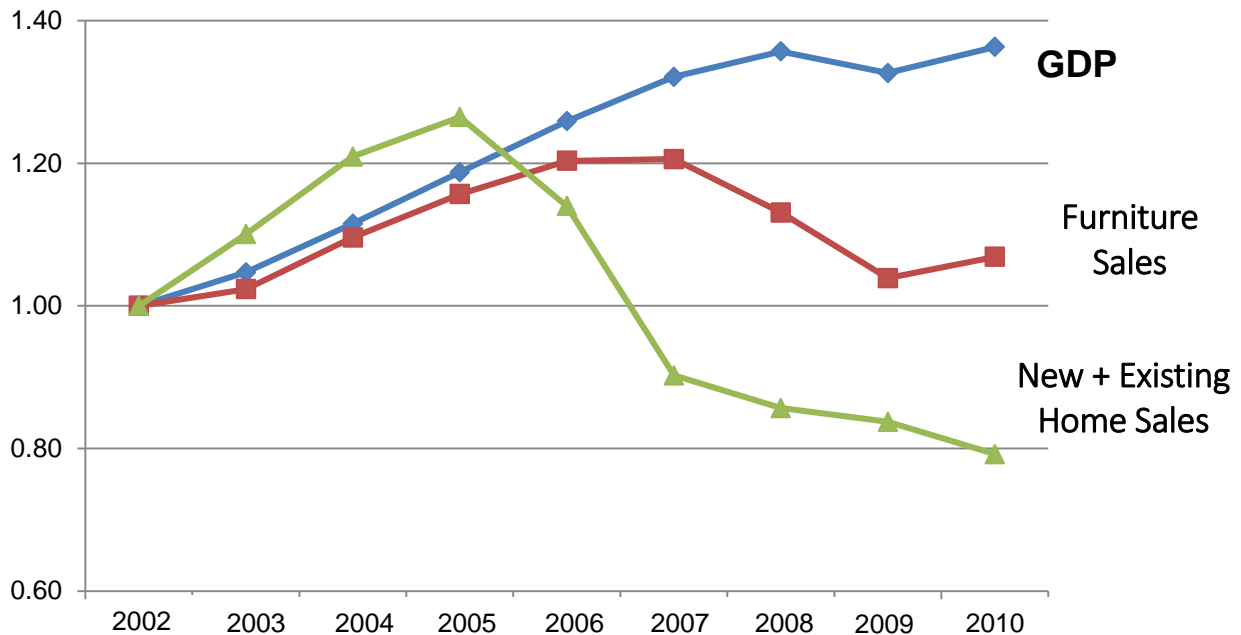
Examples of IKEA Showroom Display



Source: IKEA store display, New Haven, CT, August 2010.

Exhibit 9

US Furniture Market Sales vs GDP and Home Sales: 2002-2010



Source: Dana French, "Retail Sales Forecast," *Furniture Today* (blog), January 6, 2011, http://www.furnituretoday.com/blog/Research_Says/41750-Retail_sales_forecast.php. US Bureau of Economic Analysis, <http://www.bea.gov/itable/>. National Association of Homebuilders, "New and Existing Home Sales, U.S.," http://www.nahb.com/fileUpload_details.aspx?contentID=55761.

Exhibit 10

Market Shares: US Furniture Market



Source: Furniture Today, "2011 Survey of U.S. Furniture Stores."

Exhibit 11

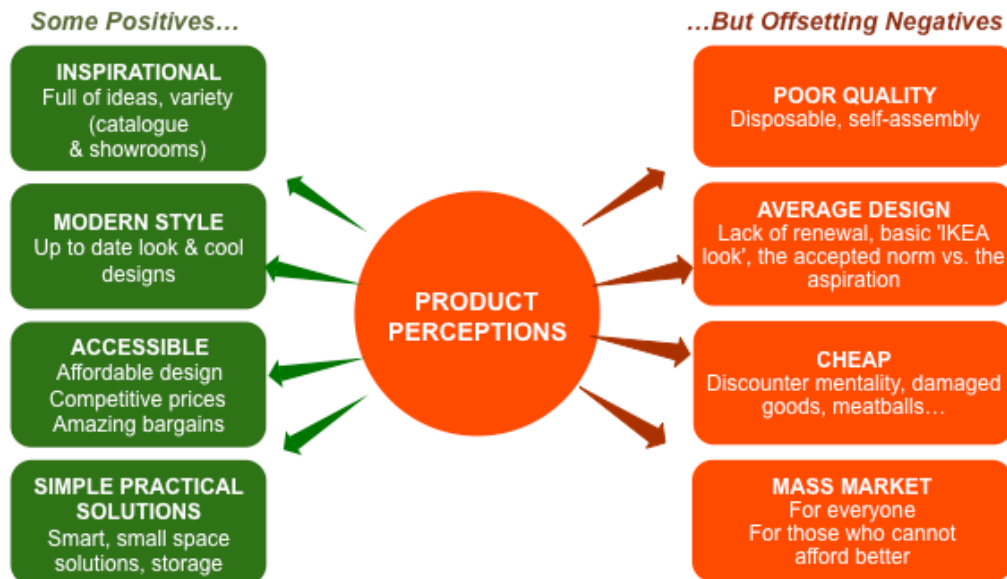
Perceived Customer Reactions to IKEA's US Shopping Experience



Source: Proprietary IKEA Market Research, 2008.

Exhibit 12

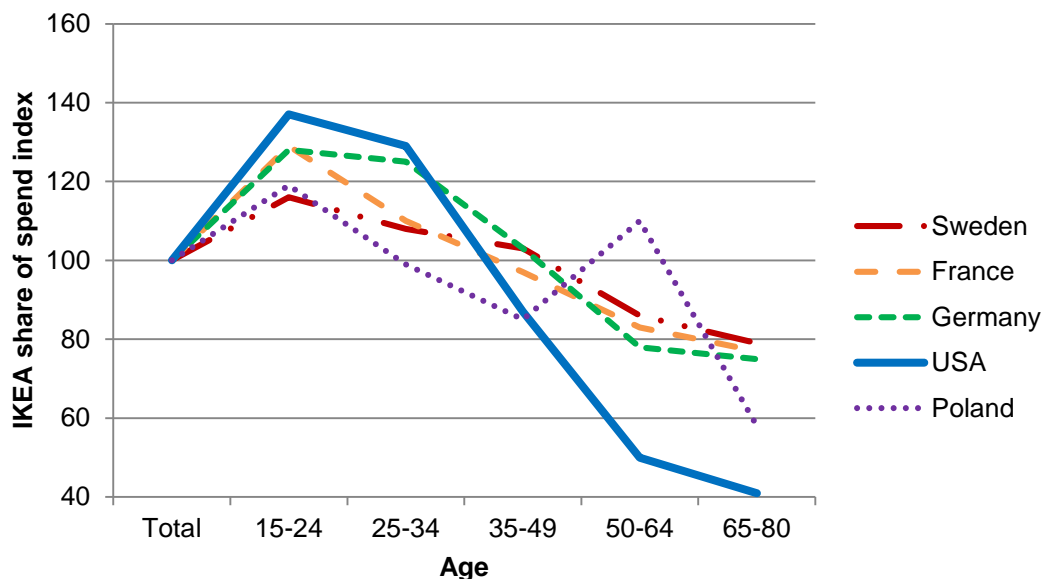
Perceived Customer Reactions to IKEA's US Product Line



Source: Proprietary IKEA Market Research, 2008.

Exhibit 13

Percent of Spending in IKEA Stores by Age Group in Five Countries



Source: Proprietary IKEA Market Research, 2008.

Endnotes

¹ Furniture Today, “2011 Survey of U.S. Furniture Stores.” IKEA’s 2010 total revenue of \$3.4 billion was the largest of any US furniture retail chain. If only core categories of furniture, bedding, and accessories are counted, IKEA ranks second in sales behind Ashley Furniture HomeStores.

² Justin T. Hilley, “Carnival-Like Atmosphere Marks Opening of Centennial IKEA,” *Denver Post*, July 27, 2011, http://www.denverpost.com/breakingnews/ci_18558598.

³ Company background is based on information from company-furnished data and <http://www.ikeafans.com/ikea/ikea-history/ikea-history.html>.

⁴ “A Better Everyday Life,” IKEA, http://www.ikea.com/ms/en_US/about_ikea/the_ikea_way/our_business_idea/a_better_everyday_life.html.

⁵ Kerry Capell, Ariane Sains, Cristina Lindblad, Ann Therese Palmer, Jason Bush, Dexter Roberts, and Kenji Hall, “IKEA—How the Swedish Retailer Became a Global Cult Brand,” *Business Week*, Nov. 14, 2005. Youngme Moon, “IKEA Invades America,” Harvard Business School Case 9-504-094, September 14, 2004. Material in this section is adapted from company records and the two referenced publications.

⁶ “Best Global Brands 2010,” report, Interbrand, 2010. Interbrand methodology is based on the financial performance of branded products or services, the role of brand in the purchase decision process, and the strength of the brand.

⁷ IKEA has recently expanded its store-assisted picking, delivery, and home assembly services. But the vast majority of customers still use the self-serve format.

⁸ “Sweden Retail: An Empire Built on a Flat-Pack,” Economist Intelligence Unit, *The Economist*, November 24, 2003.

⁹ John Leland, “How the Disposable Sofa Conquered America,” *New York Times*, December 1, 2002.

¹⁰ Capell et al., “IKEA—How the Swedish Retailer Became a Global Cult Brand.”

¹¹ Furniture Today, “2001 Survey of U.S. Furniture Stores.” Furniture Today, “2011 Survey of U.S. Furniture Stores.”

¹² Proprietary market research conducted by IKEA in 2008.

¹³ David Moth, “Ikea comes last in website usability study,” *Econsultancy Blog*, March 26, 2013, <http://econsultancy.com/us/blog/62410-ikea-comes-last-in-website-usability-study>.

¹⁴ IKEA continuously evaluates its HR policies with the intent of striking the best balance between its business and people needs. A review of current initiatives can be found in http://www.ikea.com/ms/en_CN/pdf/yearly_summary/IKEA_Group_Yearly_Summary_FY15.pdf, pg. 20-24