

IKEA Looks to Further Penetrate the U.S. Market

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Synopsis: IKEA is known around the world for its stylish, quality, and low-cost furniture and home furnishings. The company's success is based on a strategy of operational excellence in production, supply chain operations, and marketing. IKEA—wildly popular in Europe—has leveraged its brand reputation to penetrate markets in other countries. However, its penetration of the U.S. market has been hampered by a weakened economy and the inconsistency between the traditional U.S. furniture market and IKEA's low-cost operating philosophy. IKEA must find a balance between its operational excellence strategy and U.S. consumers' demands for customization, good service, convenience, and quality.

Themes: Operational excellence, target marketing, product design, branding strategy, positioning, global marketing, pricing strategy, supply chain strategy, retailing, implementation, customer relationships, SWOT analysis, strategic focus

When 17-year-old Ingvar Kamprad founded IKEA in 1943, he could not have imagined that his company would become one of the world's most popular and iconic brands or the world's largest home furnishings retailer. The IKEA name is a combination of Kamprad's initials (IK) and the first letters of the farm (Elmtaryd) and village (Agunnaryd) in southern Sweden where he grew up. From the beginning, IKEA was founded on different principles—namely, frugality and low cost. Most furniture companies offer personalized service and advice in lavish showrooms where salespeople compete for sales commissions. Kamprad, however, recognized that customers were willing to trade off typical amenities to save money. Today, the no-frills frugality is the cornerstone of the IKEA caché and one of the reasons for its immense popularity.

IKEA operates under a unique corporate structure. When Kamprad founded the company, he wanted to create an independent organization that would be sustainable for the long term. Since 1982, the Stichting INGKA Foundation, a Netherlands-based

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charitable foundation, has owned the IKEA Group. Many estimates peg the foundation as one of the world's wealthiest charities—worth an estimated \$36 billion. INGKA Holding B.V., also based in the Netherlands, is the parent company for all IKEA Group companies. The IKEA Group includes IKEA of Sweden (which designs and develops all IKEA products), Swedwood (which makes all IKEA furniture), the sales companies that operate IKEA stores, and all purchasing and supply chain functions. This type of ownership is unique in that the foundation is a nonprofit organization designed to promote innovation in architectural and interior design. Some criticize IKEA's ownership as an arrangement that leverages the uniqueness of Dutch law to avoid taxes and prevent a hostile takeover attempt.

Today, IKEA is Sweden's best-known export. The company had 2009 worldwide sales totaling \$32 billion and an annual growth rate of 7 percent (down from 14 percent in 2008)—the company's slowest growth rate in more than 10 years. Roughly 80 percent of IKEA's sales come from operations in Europe, with North America and Asia/Australia contributing 15 percent and 5 percent, respectively. The company has 123,000 employees (down more than 5,000 since 2008) and more than 301 IKEA stores in 25 countries, with 267 of these stores belonging to the IKEA Group. The remaining stores are owned and operated by franchisees. There are currently 36 U.S. stores, with plans to open two more. IKEA had originally planned to have 50 stores operating in the United States by 2010, but the recent worldwide economic recession slowed IKEA's plans. Worldwide, the company plans to open 26 additional stores within the next year.

The IKEA Concept

The backbone of IKEA's success is "The IKEA Concept." IKEA's vision statement reflects this core operating philosophy:

Our vision is to create a better everyday life for the many people. Our business idea is to offer a wide range of well-designed, functional, home furnishing products at prices so low that as many people as possible can afford them.

To fulfill its vision, IKEA provides stylish, functional, low-cost home furnishings that customers must assemble themselves. Furniture products are shipped in flat packs to save money on manufacturing and distribution, which IKEA then passes on to customers in the form of lower prices at retail. To compensate for the customer having to "do it yourself," 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 store hours. To help visitors prepare for this experience, IKEA provides its customers with pencils, paper, tape measures, store guides, catalogs, strollers, and shopping bags. IKEA even offers delivery for the bulky items that customers cannot carry themselves. For those who want to carry their own bulky furniture home, IKEA rents car racks for convenience. IKEA stores are designed as a circle so that everything can be seen no matter in what direction the customer is headed. The aisles are wide to

reduce traffic congestion that could occur when customers stop to look at different showrooms and displays.

Production

IKEA's key objective regarding production is to establish and maintain long-term supplier relationships. When designing new products, IKEA actually begins with a target retail price in mind, and then works with roughly 1,400 suppliers in fifty-four countries to find the lowest cost way to manufacture that product. Its oldest suppliers are Swedish; however, other major suppliers are located in China (21 percent), Poland (17 percent), Italy (8 percent), and Germany (6 percent). IKEA accounts for up to 10 percent of the furniture market in each country where its products are manufactured.

One strategy that IKEA has implemented is to place 41 trading offices in 30 countries around the world to localize its operations. This gives IKEA leverage to increase production capacity (that is, labor hours and purchasing materials) when needed. The strategy also allows IKEA to closely monitor manufacturing performance. Producing high-quality products at the lowest possible cost drives IKEA's production mentality. In addition to local trading offices, IKEA also manages production through long-term contractual relationships based on bulk buying. Committing to high-volume purchases over a longer time frame allows IKEA to dramatically cut costs. Additionally, IKEA is in a position to offer its suppliers financial assistance if necessary. This optimization is key to achieving the low-cost business model that IKEA wants to maintain.

Cost consciousness dominates all aspects of IKEA's operations. In land acquisition, IKEA locates stores on property just outside of target cities. In production, the remnants of fabric and wood used for products are used to create more products. IKEA uses natural colors to cut production costs and increase social responsibility to the environment through the manufacturing process. Across its 27 distribution centers in 16 countries, flat packages are used to efficiently transport the large bulk of products from suppliers to IKEA stores. The use of flat packages lowers warehousing and distribution costs and the environmental impact throughout the supply chain.

Marketing

IKEA's marketing program has four focal areas: product design, catalogs, advertising, and public relations/promotions. IKEA's product designs are arguably the most important part of its brand image. Customers love the clean lines, frugal styling, and caché that ownership affords. IKEA admits that creating stylish and inexpensive products is a challenging task. To fulfill its vision, the company's full-time and freelance designers work closely with in-house production teams to pair the appropriate materials with the least costly suppliers. Though the work is tedious, IKEA is well-known for its product innovation.

IKEA's main marketing focus is its printed catalog, where the company spends the majority of its annual marketing budget. The 376-page catalog is produced in 52 different editions in 27 languages. In 2008, 200 million copies were put into circulation. The online catalog and website feature product information and free

downloadable programs to help redesign kitchens, bathrooms, and bedrooms. The website also provides information about each store's local events and promotions, services, and product specials. Because the website offers little online purchasing capabilities, customers are often forced to visit the stores to buy products.

In addition to the catalog, IKEA also uses television, radio, and Internet-based communication to reach its target customers. The company's advertising is intended to increase both brand awareness and store traffic. Some of the company's advertising is controversial, especially ads that portray gay customers or sexually suggestive storylines. Advertising, however, is not a major focus of IKEA's promotional efforts. The company prefers to rely on word-of-mouth communication. This is reflected in its use of social media. For example, IKEA's Facebook page (87,000 fans strong and growing) provides up-to-date information on company activities, sales, and local store events.

Local store events are another key marketing focus for IKEA. The San Diego, California, store offers birthday parties for children on the first Tuesday of every month. The Atlanta, Georgia, store features activities such as culinary tasting events, Tree Hugger celebrations, face painting, and fundraising events for local charities. In a unique promotion prior to the grand opening of the Atlanta store, IKEA managers invited locals to apply for the post of Ambassador of Kul (Swedish for "fun"). The five winners of an essay contest received \$2,000 in vouchers, had to live in the store for three days, sleep in the bedding department, and participate in contests. Finally, the entire IKEA family holds "Antibureaucracy Weeks" on a regular basis. These are times when executives work on the shop floor or stockroom, operate cash registers, and even load trucks and cars for IKEA customers. This simple step goes a long way in upholding the IKEA culture and maintaining employee morale.

IKEA's marketing program is designed to be thrifty but still effective. In fact, all of IKEA's marketing activities are designed to maintain a downward pressure on operating expenses. For example, in most stores, IKEA does not accept checks—only cash or credit cards, including its own "IKEA Card." This helps to reduce IKEA's accounts receivable and eliminates the need to maintain an expensive collections operation. With policies like these, it is not surprising the company's operating margin of 10 percent is among the best in the home furnishings industry. And, despite its low cost and price model, IKEA aims to cut prices by an average of 2 to 3 percent every year.

The Future of IKEA's U.S. Expansion

IKEA considers the United States an important part of its plans for global expansion. The U.S. 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. The United States is number one in the world for Internet usage, and IKEA's sustainability efforts are welcomed by a wide margin of the consuming public. Another factor that makes the United States favorable to IKEA is its melting pot of cultures. The IKEA Concept can appeal to the different lifestyles and ways of life found in the United States.

Despite these advantages, IKEA must address two key issues regarding U.S. expansion. The first 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. Further 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 operating philosophy. 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. Another adaptation issue involves IKEA's promotional strategy, which must be tailored to U.S. standards. For example, most of IKEA's television commercials are considered too “edgy” for American viewers.

The second key issue is quality. Although American consumers are increasingly value-driven, they also demand quality products. In this regard, IKEA's low-cost, do-it-yourself concept misses the mark for many potential furniture consumers. Many Americans view self-assembled furniture as being lower in quality, and similar to the types of furniture one might buy at Walmart or Target.

Facing these challenges, 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. The most recent economic conditions have not helped either. As the company looks toward further expansion into the U.S. market, it must consider a number of relevant issues in both its internal and external environments.

IKEA's Strengths

Low Cost Structure 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. This model also pairs nicely with customers who appreciate IKEA's operating style. Furthermore, IKEA's low cost structure has kept the company profitable while competitors, such as Pier 1 in the United States, are struggling. Despite the state of the economy, IKEA has continued to see positive revenue growth, though President and CEO Anders Dahlvig has admitted that the economy has caused sales to increase more slowly than in recent years. Dahlvig also explains that in reaction to the constricting economy, IKEA has continued to use every possible avenue to maintain its low cost structure and competitiveness without compromising customer value.

Corporate Culture IKEA values antibureaucracy in its operations, and strongly follows worker and environmental protection rules. These tenets are codified in the company's code of conduct known as “The IKEA Way.” The company's culture is based on the core values of togetherness, cost consciousness, respect, and simplicity. Kamprad once said, “Work should always be fun for all colleagues. We all only have one life; a third of life is work. Without desire and fun, work becomes hell.” To ensure the company culture is upheld, the company looks for very specific traits in potential

employees. IKEA's managers look for people who "display a desire to learn, motivation to do things better, common sense, and the ability to lead by example." The company believes in keeping employees happy by engaging in activities throughout the year that promote well-being and job satisfaction. These are all reasons that IKEA has been ranked in *Fortune* magazine's annual list of "100 Best Companies to Work For" three years in a row.

Do-It-Yourself Approach IKEA maintains its low-cost business model by creating a different furniture shopping experience. IKEA supplies customers with all possible materials needed to complete their shopping when they enter the store (that is, measuring tape, paper, and pencils). The floor has showrooms displaying IKEA furniture with multiple accessories that will accentuate the style. With this approach, customers do not have to be bothered with salespeople who work on commission. Customers can pick and choose among the different options of accessories that they would like to use with furniture. Many customers appreciate the feeling of accomplishment that comes from doing things for themselves. For those customers who do not like the DIY approach, IKEA offers assembly services and home delivery options.

Added Amenities Although IKEA is not set up as a traditional furniture store, the company does provide several added amenities. IKEA rents car racks that customers can use to get bulky items to their homes. IKEA also provides child-care services to give parents time to shop. Once their children are in a safe place, parents will delegate more time to browsing and purchasing IKEA furniture and accessories. The company also provides restaurants in some of its stores to encourage customers to stay a little longer. Offering breakfast, lunch, and dinner, the restaurants also generate strong profits for the company each year. Customers can also schedule consultations with professional designers. In sum, the IKEA experience is designed to make the stores destinations in themselves. IKEA wants the customer to feel as if there is not a rush to leave the store and customers can do more than just shop for furniture.

Brand Image There is no denying that brand image is a key strength for IKEA. Even if they have not been in a store, most people around the globe recognize the blue and yellow logo as a symbolic representation of trendy, modern, and fashionable furniture. Customers flock to the furniture giant to experience what *Business Week* has referred to as "IKEA world, a state of mind which revolves around contemporary design, low prices, wacky promotions, and an enthusiasm that few institutions can muster."

Part of IKEA's brand strength comes from its wide array of products that exude a high-quality, low-cost focus. The company offers home furnishings and appliances for the bedroom, bathroom, and kitchen, as well as furniture for business offices. In addition to home furnishings, the company sells accent pieces and everyday products such as rugs, linens, and kitchen utensils. Some of the company's newest ventures include home building materials. Customers can build an IKEA home with reasonably priced, environmentally friendly materials.

Strong Focus on Sustainability IKEA considers the environmental impact of every step in its business processes by making products that are environmentally conscientious and cost-effective. Suppliers are required to comply with strict environmental standards and to use renewable, reusable, and recycled materials as much as possible. With wood as a primary source of material, IKEA also employs field specialists to ensure the wood obtained comes from responsibly managed forests. The company has even paired with the World Wildlife Fund to train cotton farmers in Pakistan and India to use more sustainable cotton practices. From product design to disposal, the organization truly practices what it preaches in terms of its environmental responsibilities.

IKEA's Weaknesses

Do-It-Yourself Approach Some customers may not appreciate IKEA's do-it-yourself approach. IKEA targets young, cost-conscious customers who want stylish furniture. However, these same consumers also like convenience and usually have the money to pay for it. For them, the time and effort involved in shopping for furniture, bringing it home, and assembling it may not be worth it. Furthermore, some customers enjoy having a conversation with a salesperson and getting individual ideas and advice from employees. These customers may continue to buy furniture from traditional retailers.

Limited Customization To ensure alignment with its low cost structure and easy-assembly promise, IKEA's products are very basic and simple in terms of both structure and design. The ability for individualized customization is limited. Many American consumers prefer items with more style, accent, and color options.

Limited Promotional Expenditures 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. Sadly, most U.S. consumers are not highly responsive to catalog marketing, making IKEA's bread-and-butter promotion less efficient and cost-effective for the U.S. market. American consumers also watch television and use the Internet more often than consumers in other countries. However, most of IKEA's television commercials are unknown outside of the United Kingdom. Further, many of the company's ads are controversial and not suitable for a U.S. audience. As a result of these issues, IKEA may be missing out on a larger potential customer base.

Weak Online Support Many aspects of the company's website leave much to be desired. Although product descriptions are available, the majority of the items shown cannot be ordered online. IKEA basically forces consumers to shop at their nearest brick-and-mortar locations. Because IKEA's physical presence in the U.S. market is small, the company is losing valuable sales due to its lack of online buying options.

IKEA's Market Opportunities

Economic Conditions IKEA's low-cost, high-quality strategy fits with the current state of the economy. As many consumers look for ways to cut personal spending, IKEA is well positioned to be a logical choice for home furnishings for the cost-conscious customer. Most American consumers still subscribe 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. IKEA can play into this buying logic but may have to expand its service offerings to increase customer convenience.

Demand for Convenience The number of consumers shopping online continues to rise. With the average schedule getting busier, technically savvy consumers increasingly enjoy the convenience and ease of online shopping. Comparison shopping is also a convenience afforded by the Internet that could allow IKEA to dominate the low-cost, quality furnishing sector. Offering convenient online shopping experiences would fit well with IKEA's low cost structure because it would allow them to sell items using a distribution network instead of a complete reliance on physical stores and their higher overhead costs. Convenience factors within IKEA's stores, such as restaurants and daycare, are already well suited to customer needs.

Popularity of Stylish, but Sustainable, Products Swedish design—the simple, futuristic, edgy, and fashionable designs offered by IKEA—is becoming more popular among consumers overall. For example, Target Stores offers a line of products from Swedish designer Todd Oldham. In addition to style, consumers are also interested in “green” products that enhance the sustainability of natural resources. The recent corporate movement toward “green” practices is becoming more prevalent, and consumers are becoming more aware of a company's carbon footprint. IKEA is well positioned to take advantage of this trend.

IKEA's Market Threats

Competition Several other large retailers are vying for the do-it-yourself furniture segment. As consumers become more cost conscious in today's economy, the offerings of traditional bricks-and-mortar stores such as Home Depot, Target, and Walmart become more acceptable. IKEA also faces online competitors such as BluDot.com and Furniture.com. BluDot is a direct brand competitor that also claims to offer quality, unassembled furniture at low prices. It too offers simply designed and modern furniture. Furniture.com is a product competitor that uses the traditional furniture store concept but offers the ease and convenience of online price and product comparison.

Changing Customer Needs/Tastes Customers' needs and tastes constantly change. At some point, customer interest in Swedish design and do-it-yourself furniture will wane. This is especially true as the U.S. population continues to age. The typical baby-boomer consumer demands quality, values his or her time, and appreciates

convenience more than saving a few dollars. Overall, there are relatively fewer younger customers—IKEA’s main target market—as compared to baby boomers. The end result is a likely decline in demand for trendy, low-cost furniture. IKEA’s low-cost and high-quality designs might appeal to some baby boomers, but the inconveniences associated with the company’s DIY approach would probably send them looking elsewhere.

Mature Market Preferences Most American consumers have preconceived notions of what the “best of the best” is when it comes to specialty furniture and furnishings purchases. For example, the average consumer may not purchase a mattress from IKEA because it is not a Select Comfort, Sealy, or Simmons mattress. Although IKEA focuses strongly on high-quality products, in the U.S. market the company must compete with well-established companies that have earned significant brand awareness.

Questions for Discussion

1. Given the SWOT analysis presented in the case, what are IKEA’s key competitive advantages? What strategic focus should the company take as it looks to further expand into the U.S. market?
2. What factor is the biggest reason for IKEA’s growth and popularity: value or image? What can IKEA do to sustain growth after it loses some caché?
3. What strategic alternatives would you suggest IKEA employ to further penetrate the U.S. market?
4. Speculate on what will happen at IKEA stores as they are adapted to fit local tastes. Is the company’s trade-off of service for low cost sustainable in the long term?

Sources

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