



International Business Strategy

IKEA

Fabian Suarez

OCTOBER 2006

IKEA STRATEGY

IKEA follows the focused cost leadership strategy. Young buyers in search of stylish and fashionable furniture and household accessories at a low cost are IKEA's targeted market segment. For these customers, the firm offers home furnishings that combine good design, functionality and acceptable quality at low prices. According to the firm, low cost is always a priority. This applies to every phase of their activities (see Figure 1).

IKEA emphasises several activities to keep its costs low. For example, instead of relying primarily on third party manufacturers, the firm's engineers design low-cost, modular furniture ready for assembly by customers. IKEA also positions its products in domestic settings. Typically, competitors' furniture stores display multiple varieties of a single item in separate rooms, meaning that their customers examine living room sofas in one room, tables in another room, chairs in yet another location, and accessories somewhere else entirely. In contrast, IKEA's customers can view different furniture combinations (complete with sofas, chairs, tables, and so forth) in a single setting, which eliminates the need for sales associates or decorators to help the customer imagine how a furniture arrangement would look when placed in the customer's home. This approach requires fewer sales personnel, allowing IKEA to keep its costs low. A third practice that helps keep IKEA's costs low is expecting customers to transport their own purchases rather than providing a delivery service.

Although a cost leader, IKEA also offers some differentiated features that appeal to its target customers, including in-store playrooms for children, wheelchairs for customer use and extended hours. Stores outside those in the home country have "Sweden Shops" that sell Swedish specialties, such as herring, crisp bread, Swedish caviar and gingerbread biscuits. IKEA believes that these services and products are uniquely aligned with the needs of its customers, who are young, not wealthy, likely to have children, and because they work for a living, need to shop outside of regular hours. Thus, IKEA's focused cost leadership strategy finds the firm offering some differentiated features with its low-cost products.

IKEA customers are actively involved in the shopping experience. The IKEA Concept relies on customers to choose, collect, transport and assemble IKEA products themselves. Customer involvement contributes to IKEA low prices. That is the idea behind: "You do your part. We do our part. Together we save money."

IKEA had been successful in almost all countries, because of public awareness of the IKEA brand. IKEA is far more than a furniture merchant. It sells a lifestyle that customers around the world embrace as a signal that they have arrived, that they have good taste and recognise value.

IKEA STORES

A typical IKEA store is large. It has to be in order to offer a thorough and comprehensive range of products that people can take home immediately and enjoy the same day, as well as to inspire people in realistic room settings and real-life homes.

The IKEA store is where the IKEA range is sold. It is also where the range comes to life. Visitors are encouraged to take their time and get comfortable with IKEA home furnishing solutions and products in realistic room settings and real-life homes – to sit, lie down, open and close drawers, to compare styles, prices and imagine the possibilities!

The goal is that everyone will enjoy their visit to an IKEA store. If the kids don't want to shop, they can play in the supervised play area. It may be hard to get them to leave, but they can be tempted with a treat from the IKEA Restaurant & Café. Visitors can reward themselves for successful shopping with a plate of Swedish meatballs (and buy a bag of meatballs from the unique IKEA Swedish Food Market in the exit area of most IKEA stores).

The IKEA stores are key elements of its strategy (see Figure 1). Smaller downtown stores are not in line with the cost leadership strategy:

- Less space implies no warehousing and therefore IKEA might be required to offer delivery services which would increase costs.
- Less space implies fewer possibilities to present IKEA original ideas in showrooms, therefore more sales representatives would be required to help clients. As a result, costs are likely to increase.
- As real estate is generally more expensive in city centres, downtown stores would require higher investment which will impact prices if IKEA wants to maintain the same level of profitability.

As a conclusion to this, the change in the size and location of IKEA stores will imply a change in the strategic position of IKEA and will impact the brand image of the company. As IKEA is the world leader in its segment and customers are satisfied, there is no need to change the current strategy. Obviously, we can always argue that IKEA should try to enter new segments. In my opinion this is not appropriate, because this will affect the brand image of the company by creating confusion – by entering new segments, people might ask “Is IKEA still the lowest price furnishing manufacturer?”.

RISKS OF IKEA STRATEGY

The risk involved with a focus strategy is that the needs of customers within a narrow competitive segment may become more similar to those of industry-wide customers as a whole. As a result, the advantages of a focus strategy are either reduced or eliminated. At some point, for example, the needs of IKEA's customer for stylish furniture may diminish, although their desire to buy relatively inexpensive furnishings may not. If this change in needs were to happen, IKEA's customers might buy from large chain stores that sell somewhat standardised furniture at low costs.

If this happens, it is clear that IKEA should rethink its entire strategy and therefore reorganise current stores in terms of size, structure and objectives.

BIBLIOGRAPHY

- IKEA web site: www.ikea.com
- HITT, IRELAND, HOSKISSON: "Strategic management – Competitiveness and globalization: concepts", THOMSON (6th edition), pp 123, 126
- PORTER M. (1996): "What is Strategy?", Harvard Business Review

FIGURES

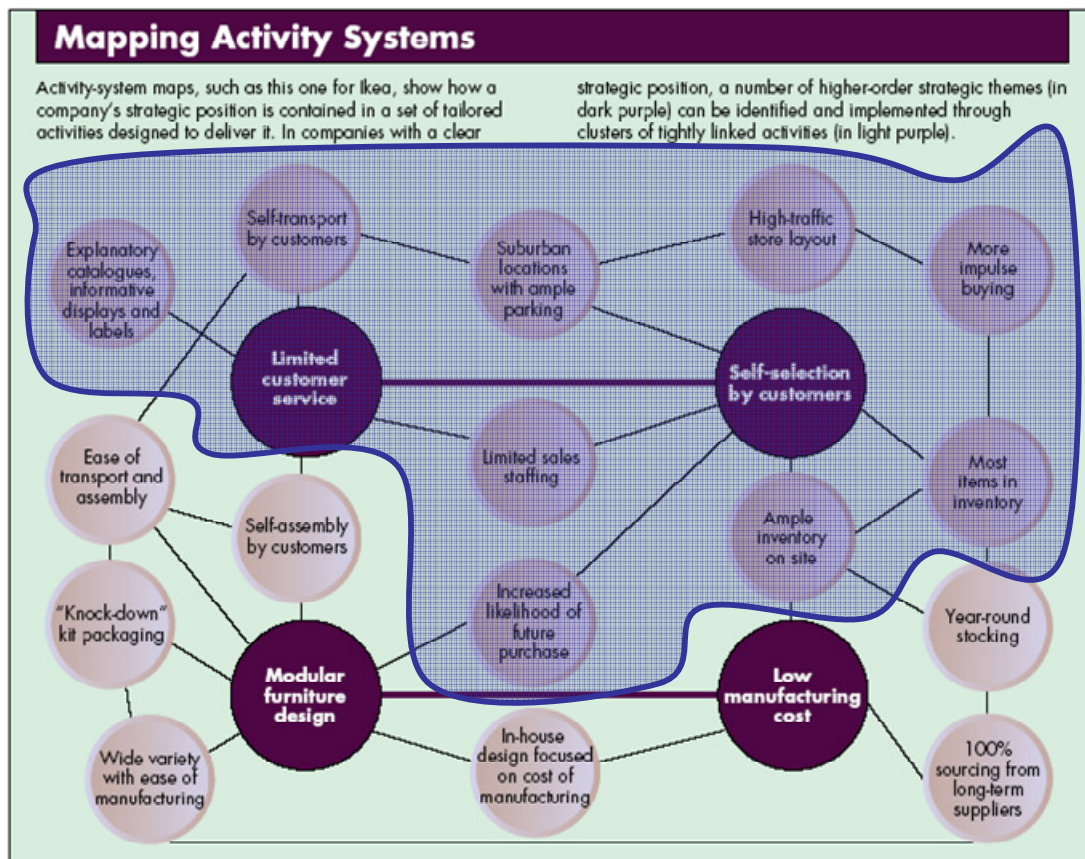


Figure 1: The blue perimeter defines IKEA strategic positions and activities stemming from the current IKEA store concept – Source: Porter M. (1996).