

CASE STUDY

IKEA looks to the future¹³

For decades, IKEA has been one of the most successful retail operations in the world, with much of its success founded on how it organises its design, supply and retail service operations. With over 400 giant stores in 49 countries, IKEA has managed to develop its own standardised way of selling furniture. Its so-called 'big box' formula has driven IKEA to the global No. 1 position in furniture retailing. 'Big box' because the traditional IKEA store is a vast blue-and-yellow maze of a showroom (on average around 25,000 square metres) where customers often spend around two hours – far longer than in rival furniture retailers. This is because of the way it organises its store operations. IKEA's philosophy goes back to the original business, started in the 1950s in Sweden by the late Ingvar Kamprad. He was selling furniture, through a catalogue operation, and because customers wanted to see some of his furniture, he built a showroom on the outskirts of Stockholm and set the furniture out as it would be in a domestic setting. Also, instead of moving the furniture from the warehouse to the showroom area, he asked customers to pick the furniture up themselves from the warehouse, an approach that became fundamental to IKEA's ethos; what has been called the 'we do our part, you do yours' approach.

IKEA's 'big box' stores

IKEA offers a wide range of Scandinavian designs at affordable prices, usually stored and sold as a 'flat pack', which the customer assembles at home. *'It was an entirely new concept, and it drove the firm's success'*, says Patrick O'Brien, Retail Research Director at retail consultancy GlobalData. *'But it wasn't just what IKEA was selling that was different, but how it was selling it'*. The stores were located and designed around one simple idea – that finding the store, parking, moving through the store itself, and ordering and picking up goods should be simple, smooth and problem-free. Catalogues are available at the entrance to each store showing product details and illustrations. For young children, there is a supervised children's play area, a small cinema, a parent and baby room, and toilets, so parents can leave their children in the supervised play area for a time. Parents are recalled via the loudspeaker system if the child has any problems. Customers may also borrow pushchairs to keep their children with them.

Parts of the showroom are set out in 'room settings', while other parts show similar products together, so that customers can make comparisons. Given the volume of customers, there are relatively few staff in the stores. IKEA say it likes to allow customers to make up their own minds. If advice is needed, 'information points' have staff who can help. Every piece of furniture carries a ticket indicating its



location in the warehouse from where it can be collected. Customers then pass into an area where smaller items are displayed that can be picked directly, after which they pass through the self-service warehouse where they can pick up the items they viewed in the showroom. Finally, customers pay at the checkouts, where a conveyor belt moves purchases up to the checkout staff. The exit area has service points and a large loading area allowing customers to bring their cars from the car park and load their purchases. Within the store, a restaurant serves, among other things, IKEA's famous Swedish meatballs. IKEA's fans say they can make a visit to the store a real 'day out'.

But not everyone is a fan

Yet not all customers (even those who come back time after time) are entirely happy with the traditional IKEA retail experience. Complaints include:

- ▶ It can be a long drive to reach one of their stores (unless you are 'lucky' enough to live near one).
- ▶ The long 'maze-like' journey that customers are 'encouraged' to take through the store is too prescriptive.
- ▶ There are too few customer-facing staff in the store.
- ▶ There are long queues at some points in the store, especially at checkouts and at busy times such as weekends.
- ▶ Customers have to locate, pick off the shelves and transport, sometimes heavy, products to the checkouts.
- ▶ IKEA designs can be 'bland' (or 'clean and aesthetically pleasing', depending on your taste).
- ▶ The furniture has to be assembled once you get it home, and the instructions are confusing.

Although many are

However, the impressive growth and success of IKEA over the years indicates that the company is doing many things right. The reasons customers give for shopping at IKEA include the following.

- ▶ Everything is available under one roof (albeit a very big roof).
- ▶ The range of furniture is far greater than at other stores.
- ▶ The products are displayed both by category (e.g. all chairs together) and in a room setting.
- ▶ Availability is immediate (competitors often quote several weeks for delivery).
- ▶ There is a kids' area and a restaurant so visiting the store is 'an event for all the family'.
- ▶ The design of furniture is 'modern, clean and inoffensive' – they fit anywhere.
- ▶ For the quality and design, the products are very good 'value for money'.

Was a new approach needed?

For decades, IKEA's unique retailing operations, combined with an excellent supply network and a customer-focused design philosophy, was an effective driver of healthy growth. However, there were indications that the company was starting to ask itself how it could solve some of the criticisms of its retail operations. *'We had to move away from conversations that began, "I love IKEA, but shopping at an IKEA store is not how I want to spend my time"'* (Gillian Drakeford, IKEA's UK boss). It needed to counter the complaints by some customers that its stores were understaffed, that the navigation of stores was too prescriptive, and that queues were too long. *'We have had a great proposition for 60 years, but the customer had to fit around it. But the world has changed and to remain relevant we need to have a proposition that fits around the customer'* (Gillian Drakeford).

IKEA was also realising that its 'big box' stores were under threat from a decline in car ownership (in 1994, 75 per cent of 21–29-year-olds held driving licences in the United Kingdom; by 2017 that had dropped to 66 per cent). Also, customers were increasingly wanting their flat-pack furniture to be delivered, rather than having to drive to an IKEA store to collect it. Ideally, they also wanted to order it online. IKEA did have an online presence, but compared with its competitors it was relatively underdeveloped. Not only that, but not all customers wanted to assemble their own furniture.

'The entire premise that IKEA developed was that consumers would be willing to drive their cars 50 kilometres to save some money on something that looks amazing', said Ray Gaul, a retail analyst at Kantar Retail. *'Young people like IKEA, but they can't or don't want to drive to IKEA'*. However, the traditional 'big box' strategy was still popular with many customers, and sales from its stores continued to grow. Yet, in most markets, there were plenty of potential customers who could not reach an IKEA store within a reasonable drive

(assumed to be around two-and-a-half hours). And some degree of rethinking IKEA's operating model seemed to be required. Torbjörn Lööf, CEO of Inter IKEA (who manage the IKEA concept), summarised their commitment to a rethink. *'We have been successful on a long journey. But it is clear that one era is ending and another beginning'*.

Smaller stores to complement the larger ones

From 2015, IKEA opened several smaller-footprint stores in Europe, Canada, China and Japan. But not all were the same. As a deliberate strategy, each was slightly different. This allowed the company to test alternative ways of locating, designing and managing its new ventures. Should they have cafés? How big should they be? Should they carry a range of products, or focus on a single category? Should they be located in shopping malls or on the high street? So, a 'pop-up' IKEA store in central Madrid offered only bedroom furnishings. A store in Stockholm focused on kitchens. It allowed customers to cook in the store, and book a 90-minute consultation to plan their kitchen. A small store in London stocked a range of product categories, but had no café (only a coffee machine), and in place of a supervised kids' play area, computer games were provided. Other new stores were, in some ways, similar to traditional stores, but smaller, with fewer car parking spaces and less inventory, and acted as order-and-collection points. In some, customers could get expert advice on larger purchases, such as kitchens or bathrooms. Often in the smaller stores, only a few items could be purchased and taken home instantly. Rather, customers could use touch screens to order products and arrange for delivery or pickup at a convenient time. *'For me, it's a test lab for penetrating city centres'*, said one senior IKEA executive. *'About 70 per cent of the people shopping there wouldn't go to a [traditional IKEA] store'*.

TaskRabbit

In 2017 IKEA bought TaskRabbit, whose app was one of the leaders in what was becoming known as the **'gig' economy**. Using its app, over 60,000 independent workers or 'taskers' (at the time of acquisition) offered their services to customers wanting to hire someone to do tasks such as moving or assembling furniture. *'In a fast-changing retail environment, we continuously strive to develop new and improved products and services to make our customers' lives a little bit easier. Entering the on-demand, sharing economy enables us to support that'*, IKEA chief Jesper Brodin said in a statement. *'We will be able to learn from TaskRabbit's digital expertise, while also providing IKEA customers additional ways to access flexible and affordable service solutions to meet the needs of today's customer'*.

Web-based retailing

Arguably, the most significant retailing development in this period was the growth in online shopping. However, IKEA was slow to move online. Partly, this was because there was internal reluctance to interfere with its successful 'big box'

retail operations that encouraged customers to spend a long time in store and make impulse purchases. However, it became clear that the company needed to become fully committed to 'multichannel' retail operations, including online sales. But it was also clear that there would not be a total shift to online sales. The idea was to offer both physical and digital options for customers who wanted to use both channels, and to win new customers online who would never make the journey to its 'big box' superstores. Some retail experts warned that the new strategy carried the same risks faced by all firms going online. According to Marc-André Kamel of consultants Bain & Company, *'customers are not shifting entirely to e-commerce, but wish to mix and match channels'*. And, although IKEA had little choice but to invest in online channels, the danger was that it could raise costs, especially as the company was also planning significant bricks-and-mortar expansion in new markets such as India, South America and South-East Asia.

Third-party sales

Another break with traditional IKEA practice came when it announced that it would consider selling its products through independent 'third-party' online retailers. Torbjörn Lööf, CEO of Inter IKEA, said the decision to supply online retailers was an important part of the broader overhaul of their operations. *'[It] is the biggest development in how consumers meet Ikea since the concept was founded'*, he told the *Financial Times*.

Sustainability

IKEA was among the world's biggest users of wood (estimated as around 1 per cent of all wood used), and some environmental groups condemned what they saw as the 'disposable' nature of its furniture. Responding to this criticism, IKEA appointed a chief sustainability officer – the first time that sustainability was directly represented in the senior management team, and a recognition of the growing role of sustainability in determining how IKEA was perceived. It also recognised the ability of sustainability to drive business innovation. IKEA, like an increasing number of companies, accepted that it lived in a world of finite resources and

recognised that consumption needed to reflect this. Because of this realisation, IKEA was seeking new ways to meet people's needs and aspirations while staying within the limits of our planet. It saw the emerging circular economy business model as a great opportunity to develop its business further. This was preferable to viewing sustainability as a risk to the business. Sooner or later, other companies would start creating business models that disrupted the IKEA way of selling home furnishings. In one initiative in Belgium IKEA offered its customers five options to give furniture a second life: selling old IKEA-furniture in the store (at the price paid to the customer who supplied it), renewing it by repainting or reassembling, repairing by offering replacement parts, returning old furniture through its transport service, and donating it to social organisations. Some commentators questioned the idea of selling longer-lasting products and trading pre-owned items without a mark-up as being bad for business. However, IKEA disagreed on the grounds that people may sometimes come to IKEA with a bit of a guilty conscience, wanting to buy stuff, but unable to completely forget the consequences. In fact, it believed that they actively welcomed the move. When it started buying back our furniture at Aalborg, it actually saw an increase in revenue.

QUESTIONS

- 1 In the traditional IKEA 'big box' stores, what is the relative importance of the operational performance objectives (quality, speed, dependability, flexibility, cost), compared with a conventional high-street furniture store?
- 2 What trade-offs are customers who go to these big stores making?
- 3 How does the strategy of increasing IKEA's online presence impact on these trade-offs?
- 4 An IKEA executive was reported as saying that in some parts of the world *'we have reached the point of "peak stuff"'*. It was interpreted by some as a warning that consumer appetite for home furnishings had reached a crucial turning point. What are the implications of this for IKEA?