

remained at 50 cents, shipping costs have been reduced by 60 percent, which is a significant savings, given that IKEA sells about 25 million of the mugs each year. Even better, the cost of production at IKEA's Romanian factory also has fallen because the more compact mugs require less space in the kiln.

When you ship 25 million cubic meters of goods all over the globe, flat-pack frugality adds up. IKEA now uses a 65 percent average fill-rate target for all the containers it ships, and it hopes to increase that to 75 percent. Meeting that goal will require further design changes and sometimes even sucking the air out of items (like IKEA's shrink-wrapped pillows, which look like giant crackers on store shelves). And, of course, flat packing shifts the cost of product assembly to the customer, saving even more.

As IKEA has shifted more of its buying from Europe to the Far East, shipping time and costs have become an even more critical concern. Last year, China tied Sweden atop IKEA's list of supplier countries. The company has responded by creating a global network of distribution centers, most of which are near container ports and major truck and rail routes. There are 18 IKEA distribution centers worldwide—which handle about 70 percent of IKEA's total product line—and 4 more are under construction. The other 30 percent of IKEA's products travel directly from supplier to store.

Sometimes, however, product components actually come together for the first time in the store. In the case of the Pöäng chair, the cushion comes from Poland and the frame from China. The two pieces are united only when the customer pulls each one off the shelf.

Step 5. Sell It

IKEA sells a lot of expensive furniture, and in a traditional store this is relatively easy: Put a piece in a lush setting, let the customer fall prey to visions of wealth and comfort, then offer plenty of easy credit. But to keep prices low, IKEA needs to sell furniture and other products such as the mug without salespeople or conspicuous price reductions. The company asks customers to assemble their furniture themselves. And IKEA doesn't want to ship it to you either. By any conventional measure, these are formidable hurdles to overcome. Yet they also explain why IKEA has worked so hard to create a separate world inside its stores—a kind of theme park masquerading as a furniture outlet—where normal rules and expectations don't apply.

The Trofé mugs arrive at IKEA stores packed on pallets. Any transportation packaging is collected for recycling. Price tags have already been placed on the mugs at the suppliers. In-store display is important. It's not just a question of displaying mugs and other products. It's also about providing inspiration for smart interior solutions. Customers contribute to the low prices at IKEA by selecting and collecting the products from the self-serve area,

taking them home, and using the instructions enclosed to assemble them. Many will have already chosen the products from the IKEA catalog, of which 110 million copies are printed in 34 different language versions.

When you walk through the door of an IKEA store, you enter a meticulously constructed virtual Sweden. The first thing you encounter is a company-sponsored child-care facility. Hungry? Have some of those Swedish meatballs and lingonberries. The layout of an IKEA store guides shoppers in a predetermined path past several realistic model homes, which convey an eerily lived-in impression but are open for customers to sit in. Information kiosks provide advice on home decor. Color-coordinated cards offer plenty of suggestions on offbeat uses for products.

But the emphasis is always on price. Low-priced products that IKEA calls BTIs ("breathtaking items") are often perched on risers, framed by a huge yellow price tag. Nearby, shoppers will find other products—pricier, more design-oriented—as substitutes for the BTI.

The model homes suggest cheerful young people throwing dinner parties in hallways, using mismatched office chairs and narrow side tables. These aren't the aspirational images you'll find at Pottery Barn or Crate & Barrel. These are people who are living well in modest circumstances—frugal folks who know the value of a comfortable place to sit.

IKEA says its biggest selling point is the price tag, but it can't hurt that getting through one of IKEA's huge stores takes a lot of time. The layout is blatantly manipulative—though in a friendly, knowing way, not unlike at Disneyland—but when customers finally arrive at the checkout counter, they've had plenty of time to fully consider their purchases.

IKEA products broadcast an ethos for living in the modern world: Don't buy an ugly pitcher if you can get a stylish one for the same price. If you organize your plastic bags, you'll feel more in control of your life. It's left-brain logic applied to the right-brain art of living well. And if happiness involves dragging a cumbersome flat package off the shelf, standing in line at the checkout, hauling the box home, and spending hours assembling a kitchen cabinet, well, 260 million customers a year are willing to make that trade-off.

And, of course, next year it will be even cheaper.

Questions

1. What are IKEA's competitive priorities?
2. Describe IKEA's process for developing a new product.
3. What are additional features of the IKEA concept (beyond its design process) that contribute to creating exceptional value for the customer?
4. What would be important criteria for selecting a site for an IKEA store?