CASE STUDY

Will we still love IKEA?

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IKEA revolutionised the furniture market in many countries by making 'flat pack' furniture chic. But how did the company manage to stave off competition both from cheaper competitors and from traditionally built furniture? Importantly, is this a sustainable competitive model during or following a global recession?

'Despite my best efforts, IKEA's growth has faltered. Flat sales may look pretty respectable given the collapse in furniture markets around the world. Yet IKEA should be benefiting from trading down, the elimination of smaller rivals and new store openings'.

This was Anders Dahlvig, then President and CEO of the IKEA Group speaking to *The Times* in June 2009[i] reflecting on the challenges of the global recession. He was head of the world's biggest furnishings retailer with sales of £20.6 billion (€22.7 bn/$30.8 bn) in 2009 – more than three times the sales of 10 years earlier. But he had recently slashed 5000 jobs (out of a workforce of 120,000) and the company sales grew only 1.4 per cent in the year ending August 2009 despite 15 new store openings. The sector had experienced some spectacular failures in that year – for example, the closure in November 2008 of MFI, one of IKEA's largest rivals in the UK with 111 stores (compared with IKEA's 17 – much bigger – stores[1]).

Source: Press Association Images/Heribert Proepper/AP.

IKEA's closest rivals were US companies led by Bed, Bath and Beyond (with about 1 per cent share).

The home furnishings market[ii]

By 2009 home furnishings was a huge market worldwide with retail sales in 2007 in excess of $US600 billion in items such as furniture, household textiles and floor coverings. More than 50 per cent of these sales were in furniture stores (including IKEA). IKEA had about 2.5 per cent of world sales through its 250+ stores in 24 countries and sales in excess of €20 billion (more details of IKEA's operations are summarised in Figures 1–4). Table 1 compares the geographical spread of the market and IKEA sales by region. Table 2 shows the date of each country's first IKEA stores.

IKEA's competitors

Home furnishings was a highly fragmented market with competition occurring locally rather than globally. In each region that IKEA had stores it would typically face competitors of several types:

- Multinational furniture retailers (like IKEA) all of whom were considerably smaller than IKEA. These included the Danish company Jysk (turnover ~ €1bn).

Table 1 The geographical spread of the market and of IKEA sales by region

	Europe	Americas	Asia/Pacific
% of global market (2007)	52	29	19
% of IKEA sales (2008)	82	15	3

[1] See *The Times* article referenced below in the text for more details of the UK competitors.

Table 2 **Countries' first stores**

1958	**Sweden** – Älmhult
1963	**Norway** – Oslo (Nesbru)
1969	**Denmark** – Copenhagen (Ballerup)
1973	**Switzerland** – Zürich (Spreitenbach)
1974	**Germany** – Munich (Eching)
1975	**Australia** – Artamon
1976	**Canada** – Vancouver (Richmond)
1977	**Austria** – Vienna (Vösendorf)
1978	**Netherlands** – Rotterdam (Sliedrecht)
1978	**Singapore** – Singapore
1980	**Spain** – Gran Canaria (Las Palmas)
1981	**Iceland** – Reykjavik
1981	**France** – Paris (Bobigny)
1983	**Saudi Arabia** – Jeddah
1984	**Belgium** – Brussels (Zaventem and Ternat)
1984	**Kuwait** – Kuwait City
1985	**United States** – Philadelphia
1987	**United Kingdom** – Manchester (Warrington)
1988	**Hong Kong** – Hong Kong (Shatin)
1989	**Italy** – Milan (Carugate)
1990	**Hungary** – Budapest
1991	**Poland** – Platan
1991	**Czech Republic** – Prague (Zlicin)
1991	**United Arab Emirates** – Dubai
1992	**Slovakia** – Bratislava
1994	**Taiwan** – Taipei
1996	**Finland** – Esbo
1996	**Malaysia** – Kuala Lumpur
1998	**China** – Shanghai
2000	**Russia** – Moscow (Chimki)
2001	**Israel** – Netanya
2001	**Greece** – Thessaloniki
2004	**Portugal** – Lisbon
2005	**Turkey** – Istanbul
2006	**Japan** – Tokyo (Funabashi)
2007	**Romania** – Bucharest
2009	**Ireland** – Dublin

Source: IKEA website: www.ikea.com.

- Companies specialising in just part of the furniture product range and operating in several countries – such as Alno from Germany in kitchens.
- Multi-branch retail furniture outlets whose sales were mainly in one country (such as MFI before its closure), and DFS in the UK. The USA market was dominated by such players (e.g. Bed, Bath & Beyond Inc., with revenues of some $US7bn).
- Non-specialist companies which carried furniture as part of a wider product range. In the UK the largest operator was the Home Retail Group whose subsidiary Argos offered some 18,500 general merchandise products through its network of 700 stores and online sales. Despite this more generalist offering Argos was number one in UK furniture retailing. General DIY companies such as Kingfisher (through B&Q in the UK and Castorama in France) were attempting to capture more of the bottom end of the furniture market.
- Small and/or specialised retailers and/or manufacturers. These accounted for some 90% of the market in Europe.

Figures 1–4 give some facts and figures about IKEA.

The IKEA formula for success

In June 2008, to mark the 50th anniversary of the launch of IKEA in Sweden, *The Times* ran an article[iii] looking at why many people seemed to love IKEA. This required a look at the origins of the company and how the founding values had shaped its development:

> In the 50 years since IKEA launched, and the 21 years since the first British store opened its doors, the Swedish lifestyle giant has made itself an often derided yet essential part of the culture. We journey beyond the Billy bookcases to discover what makes its global flat-packed heart beat strong. . . . In the [company] museum, Juni Wannberg, with the company since 1984, tells me that story.
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> Ingvar Kamprad, the founder, grew up on a farm outside Älmhult. Älmhult is in the Småland region, and Smålanders are famed throughout the country for their informality, entrepreneurial spirit (Brio, the toymaker, also started here) and thrift. ~~Especially their thrift~~: the IKEA catalogue is shot here, using employees as models. A lot of advertising is also done in-house. Managers fly economy and sometimes have to share hotel rooms. And, as any visitor to IKEA will know, staffing levels are hardly generous.
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> It's hard country, rocky, with poor soil. A century ago, many Smålanders left for America. Those who stayed had to graft. Kamprad's grandfather ran the general store, while his father was full of business ideas. 'What a great combination for a little guy!' enthuses Wannberg. Indeed so: Ingvar was an uncommonly enterprising boy. His aunt sent him bulk quantities of matches from Stockholm that he broke up and sold to locals at a profit. He launched the catalogue as a single-sheet mail order flyer (last year 191 million copies in 27 languages were produced, one of the biggest print runs in the world). Then he opted to concentrate on furniture, took on the established cartels by buying direct from small producers, brought in Danish designers, discovered flat-pack (by accident) and steadily expanded through the Fifties and Sixties.
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> . . . Kamprad got into low-cost supply very early, doing a deal in Communist Poland in the late Fifties.

Figure 1 IKEA's turnover, 1954–2009

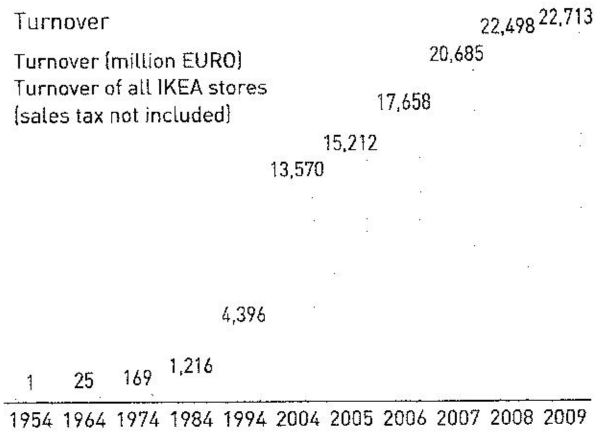


Figure 2 IKEA catalogues, 1954–2009

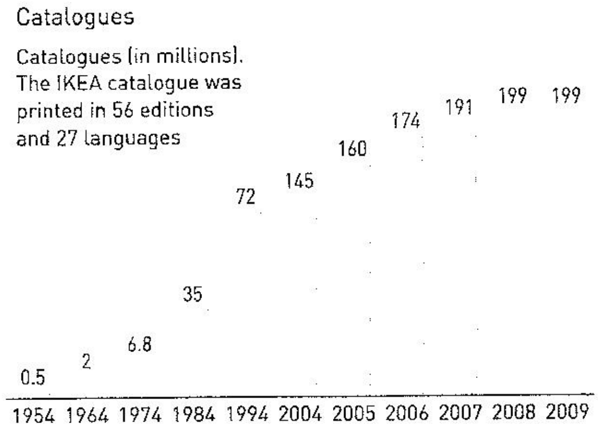


Figure 3 IKEA visits, 1954–2009

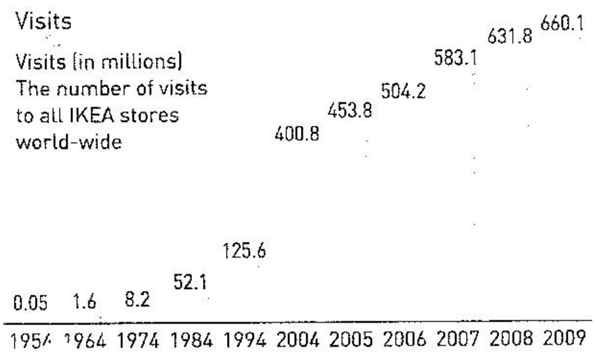
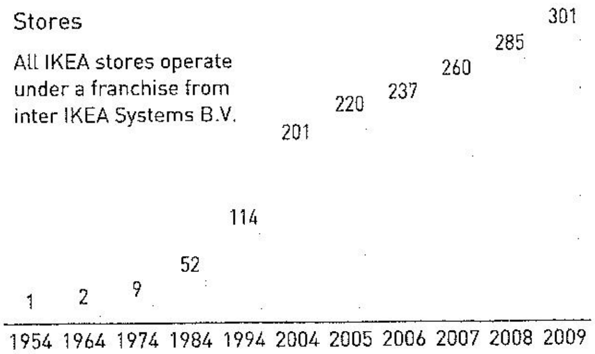


Figure 4 IKEA stores, 1954–2009



The Poles, apparently, warmed to Kamprad's informality and his ability to drink. Poland is still IKEA's second biggest supplier, the biggest being China, which accounts for more than a fifth of procurement. The chain's purchasing power is such that it is estimated to make an extraordinary 18 per cent profit on sales, this despite passing on a large chunk of its cost savings to the customer. IKEA does not have any shareholders. Its ownership is shrouded in a series of foundations and trusts, but it remains a private company under, no one doubts, the control of the Kamprad family. The founder himself, now 82 and living in Switzerland, comes to Älmhult every Christmas to make a speech.

. . . [Meanwhile in London 2009] I don't suppose you'd guess Peter Högsted was in charge of 10,000 employees and a chunk of one of the world's best-known and most successful companies. He wears an open-necked shirt and jeans, he swears occasionally, and his office, perched on top of a multistorey car park on a retail estate in Wembley, North London, looks more like a Portakabin than the headquarters of a multinational. But then the hallmarks of this company are, firstly, a fanatical devotion to cost-cutting and, as part of that devotion, an informal structure. 'It's a very well-regarded, very well-run operation,' says Richard Hyman, an independent retail consultant.

Högsted doesn't even have the whole Portakabin, merely a desk in the open-plan layout like everyone else. And yet this 39-year-old Dane is the managing director of IKEA UK, which this year celebrates its coming of age in Britain. 'Furniture retailing in this country traditionally was not great,' says Hyman. 'IKEA has changed that. It puts fashion in the product, it made good Scandinavian design accessible to lots of people.'

. . . Before IKEA, there was Habitat, but Habitat was never cheap, and consequently it never had more than a sliver, about 1 per cent, of the market. IKEA has about 7.5 per cent, second only to Argos. For a chain with a mere 17 stores [in the UK], albeit very large stores, IKEA has woven itself into the fabric of British culture, become part of the furniture if you will, remarkably quickly. Like Boots and Smiths in the 20th century, IKEA has become, like Borders, like Gap, one of those places where, in the 21st century, almost everyone shops at some stage.

Given its prices, IKEA has effectively removed personal wealth as a factor for most people in buying home furnishings. This makes IKEA more egalitarian, albeit a great deal less ubiquitous, than Starbucks. £1.50 for a cup of coffee is a lot. £150 for a sofa is not. And if you want a sofa, you do not want to wait three months, let alone until you inherit your parents'.

. . . IKEA is a retailing institution in Sweden, like Marks & Spencer is here, but I don't know if we can talk about cultural dominance in the UK when we have Argos with 700 stores or DFS with 300,' says Högsted. Perhaps not dominance (the £18 billion a year furniture market is the most fragmented in retailing, with fully 50 per cent of Britons still buying at their local high street shop), but for the young, for the full range of the middle class, for those aspiring to join the middle class, a trip to IKEA has become a modern ritual. Forty-five million customers will enter a British IKEA this year, close on a million a week, more than go to church, more than go to football.

'We know that our core customers are 25–50,' says Högsted, '80 per cent are female, a majority have kids.' In terms of social class, 'Bs and C1s are the core', but IKEA also attracts a lot of what Högsted calls 'smart As'. They will leave the core furniture items, but they like our kitchens and they will go for kitchenware and tableware and textiles [all to be found in the cleverly demarcated Market Place]. Our customers know what is for me and what isn't. We are not for the rich, we are for the smart. If you want to use your furniture to display that you are rich, you will not shop at IKEA, but if you are smart it is OK.

. . . The world over, as people secure the essentials and become wealthier, they tend to spend their spare cash in predictable ways. Clothing and electronic items come first, but once they're togged up and plugged in, people spend on furniture and interior design. Sweden is a richer country than the UK. The money Britons became accustomed to spending on their homes in the Eighties and Nineties, the Swedes were spending in the Sixties, the Germans were spending in the Seventies, some Russians, and some Chinese, are spending now. And, with 231 stores in 24 countries serving 522 million customers, many of them are spending it in IKEA.

A richer country, Sweden, and also a colder, darker one. For good reasons, the home is historically important to the Swedes. They spend a lot of time in it. 'In Sweden,' says Anna Efverlund, an IKEA designer since 1980, the woman who came up with the brightly coloured plastic coat hanger so many of us use, 'it is rude not to ask if you can look around when you go into someone else's home.' Such social mores could only thrive in a far less class-ridden society than Britain used to be.

With a local market willing and able to spend, it is no accident that IKEA started in Sweden, near the small town of Älmhult, to be exact. Getting off the train from Malmö, countless logs from the northern forests passing in the opposite direction, I saw soon enough that Älmhult is a company town. Visitors stay in the IKEA Hotel and Restaurant on Ikeagatan, surrounded by visiting IKEA 'co-workers' talking about how great it is to work for IKEA. In the hotel basement are the IKEA archive and the IKEA museum. 'IKEA is part of the Swedish soul,' says Görel Karlsson, my guide.

Opposite is the world's first IKEA store, opened in 1958. This place must have looked like a spaceship back then; now, it looks like every other IKEA I've ever seen: a big blue and yellow shed with flags outside. Indeed, the single worst thing about IKEA, worse than the mystifying self-assembly instructions, is the external appearance of its stores. 'There is a terrible pathos,' says design guru Stephen Bayley, 'about IKEA's idealism for good design for everyone and the brute, corrupting ugliness of its presence wherever it goes.' That may be harsh and yet, although IKEA says cheap and beautiful need not conflict, when they do, cheap always wins. If a designer is asked to produce a chair to sell at £10 and comes up with a wonderful £12 chair, she either redesigns it or it doesn't get produced.

Of Älmhult's population of 9,000, 3,500 work directly for IKEA. It is not the headquarters – that is in the Netherlands for tax purposes – but it is, insiders say, 'the heart of IKEA'. Indeed, in the curious way co-workers have of echoing each other, they all use that same phrase. No surprise: managers from around the world come to Älmhult to learn the essentials of the IKEA story. IKEA is very big on its story.

Back in London, I meet Olivia Szdjnaa, 24, Tania Hamilton, 20, and Melissa Hurring, 25, all on the first rungs of the IKEA management ladder. Their youth is no accident. The average age of IKEA store managers is 32, and it is very big on harnessing the energy and enthusiasm of youth, an enthusiasm that can verge on passion, even idealism. IKEA's training internally and advertising externally assiduously maintains its status as an oppositional brand, an outsider, a cult. Its propaganda uses radical, sometimes leftist imagery: polo players contrasted unfavourably with kids playing football; a silver salver of caviar under the words 'for the few' up against a page full of hot dogs, 'for the many'.

These three young women talk in glowing terms of their employer: the Christmas gifts, the social outings, the lack of a hierarchy, the opportunity to switch jobs. IKEA has been called a 'Marmite'[2] brand (you love it or

[2] Marmite is a savoury spread made from yeast extract – similar to Vegemite in other countries. Consumers seem to either love it or hate it.

hate it), yet while plenty of people moan about wobbly tables, the firm does not incur the opprobrium directed at other global multiples. Indeed, in a customer satisfaction survey carried out by Verdict research, IKEA came third in the retail sector after Waitrose and John Lewis. Part of the reason for this popularity is that IKEA's staff are such zealous ambassadors for their employer.

Szdjnaa, Hamilton, Hurring and I drive to Ealing in West London. We are going to see Boyd Chung, a 32-year-old Malaysian IT consultant, as part of the firm's market research into how we use our homes and what products we want in them. 'What are you happy with?' they ask Chung. 'Nothing,' he says, gesturing helplessly around a flat overflowing with books, magazines, filing, electronic kit. It strikes me that a big part of IKEA's success is simply that we have much more stuff than we did 20 years ago, and need somewhere to put it all.

It rapidly emerges that Chung wants to be told what to do. One of the reasons he likes IKEA, he says, and I heard this time and again, is 'it is easy to navigate'. The IKEA pathway, the line of bossy blue arrows that forces you through the whole store, is much vilified. If you hate IKEA, even if you don't hate the queues and the self-assembly, you certainly hate the line. And yet direction is precisely what many customers want. 'My wife and I go there once or twice a month, for recreation, window-shopping, inspiration, and to see solutions to our problems,' says Chung. 'My friends here and in Malaysia all go to IKEA.'

Chung and his friends are part of an expanding global middle class, meritocrats defined by mobility and pragmatism, people with similar taste, regardless of race, religion or country of origin. The IKEA fan in Milton Keynes probably has as much, if not more, in common with the IKEA fan in Moscow or Monterey, than with her own compatriot who goes to MFI. What sells well in one country sells well in another; what flops in one place tends to flop everywhere. The average spend per store visit ($85 in 2005) is the same in Russia as it is in Sweden.

One-size-fits-all is the essence of the IKEA business model. To benefit from economies of scale, you can't be tweaking products to suit local tastes. Stephen Bayley bemoans this homogeneity: 'Products should have national characteristics, that's what people love.' But is it? Peter Högsted, sitting up there in his spare, functional HQ in Wembley, thinks not. 'There is this thesis that we are all so different,' he says, 'but we are not.'

The future

Commenting on the company's annual results in September 2009 Mikael Ohlsson, IKEA's new chief executive (replacing Anders Dahlvig) talked about the challenge ahead:

> It has been a challenging year in which we have had to adapt to changed market conditions. We know that many of our customers have less money to spend and our low-price concept is therefore more relevant than ever.[iv]

References:

[i] 'Is IKEA's business model coming apart'?, David Wighton, *The Times*, 24 June 2009.

[ii] Data in this section comes from the IKEA website and from the DataMonitor report on Global Home Furnishings Retail-Industry Profile (Reference Code: 0199-2243 Publication date: April 2008).

[iii] From Robert Crampton, 'Why we love IKEA', *The Times*, 7 June 2008, © the Times/The Sun/nisyndication.com.

[iv] 'Sweden's IKEA builds record sales', BBC website: www.bbc.co.uk, 17 September 2009.