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

The facts of this case are from "25 Innovators, 6 Industries," *BusinessWeek Online*, April 13, 2006 (http://www.businessweek.com/print/innovate/content/apr2006/id20060413_268232.htm), accessed October 9, 2009; Meera Bhatia and Armorel Kenna, "IKEA Has Slowest Sales Growth in More Than a Decade," *Bloomberg*, September 17, 2009 (http://www.bloomberg.com/apps/news?pid=20601085&sid=aSvPmp60dCL8), accessed October 9, 2009; "Business: Flat-Pack Accounting; IKEA," *The Economist*, May 13, 2006, p. 76; Kerry Capell, "IKEA: How the Swedish Retailer Became a Global Cult Brand," *BusinessWeek Online*, November 14, 2005 (http://www.businessweek.com/magazine/content/05_46/b3959001.htm?campaign_id=nws_insdr_nov4&link_position=link1), accessed October 9, 2009; Kerry Capell, "Online Extra: Sweden's Answer to Sam Walton," *BusinessWeek Online*, November 14, 2005