VNIVERSITAT DE VALÈNCIA Facultat d'Economia

DEGREE IN BUSINESS ADMINISTRATION

CORPORATE STRATEGIES 202223

PRACTICE CASE Nº 3 IKEA

PRACTICE CASE OBJECTIVE:

Study aspects covered in the classroom regarding the competitive advantage of firms.

WORK TO BE DONE:

Read, on an individual basis, the attached report on IKEA, and then answer the discussion questions that follow.

If you are not skilled in the analysis of cases, you may find it worthwhile reading 'How to Conduct a Case Analysis' (a file you can find in the same folder as this document).

After working individually, share your findings with your work team and make a joint report with a maximum length of five pages (**no cover page is needed, just the title of the case and the team member names**), written using Calibri 11 with 1.5 interlining and justified text. Upload your report as a pdf file on Moodle, before the due date. The report is not to be presented in class.

Originality and professionalism will be highly valued.

How IKEA does things

Ingvar Kamprad, the founder of IKEA, died in January 2018. The following comment appeared in a recent article: 'Few people can claim to have genuinely revolutionised retail. Ingvar Kamprad did. Much of this difference was down to Ingvar's Swedish heritage and instincts. It is no exaggeration to say that his innovative approach changed not just the furniture sector, but the way people decorated and led their lives at home.'

By the time of his death, IKEA was the world's largest home furnishings company with some 10,000 products in 422 stores in 50 markets. For the year ending 31 August 2018, revenue had grown to €38.8bn (an increase of 4.5 per cent on 2017) and net profits were €1.4bn. The company had 208,000 co-workers (of which 40,000 were in production and distribution). There were almost one billion store visits each year.

IKEA and the home furnishings market

By the late 2010s, home furnishing was a huge market worldwide with retail sales of almost $700bn in items such as furniture, household textiles, and floor coverings. IKEA sales by region reflected its European heritage with 70 per cent of sales in Europe (including Russia); 19 per cent in North America, and 11 per cent in Asia.

IKEA's competitors

The home furnishings market was highly fragmented with competition occurring locally rather than globally – and included several types of competitors:

- Multi-national furniture retailers (like IKEA) – all of whom were considerably smaller than IKEA. These included, for example, the Danish company Jysk (turnover €3.4bn).

- Companies specialising in just part of the furniture product range and operating in several countries – such as German Poggenpohl for kitchens.

- Multi-branch retail furniture outlets whose sales were mainly in one country, such as DFS in the UK. The USA market was dominated by such players (e.g., Bed Bath & Beyond Inc. with revenues of some $12bn).

- Non-specialist companies that carry furniture as part of a wider product range. In the UK, Argos (a subsidiary of Sainsbury's) offered some 60,000 general merchandise products through its network of 800+ stores and online sales. Together with Habitat (also Sainsbury's), it 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 the biggest share of the market in Europe.

It was estimated that the UK market was worth about £6.7bn in 2016, of which IKEA had a £1.72bn share.

IKEA's approach

IKEA was founded by Ingvar Kamprad in 1943 in the small Swedish town of Älmhult and opened its first furniture store in 1958. The company's success was achieved through the now legendary IKEA business approach – which was revolutionary in the furnishing industry in its early years (see Table 1). The guiding business philosophy of Kamprad was to improve the everyday life of people by making products more affordable. This was achieved by massive (20 per cent+) reductions in sales prices vs. competitors which, in turn, required aggressive reductions in IKEA’s costs.

Reasons for success

Anders Dahlvig reflected on the reasons for IKEA's success before, during, and after his period as CEO (1999-2009) in his book, The IKEA Edge, published in 2011. He felt IKEA had five criteria for success:

1. Design, function, and quality at low prices;

2. Unique (Scandinavian) design;

3. Inspiration, ideas, and complete solutions;

4. Everything in one place;

5. ‘A day out’ shopping experience.

You may well say that these criteria are like those of most companies. The difference, in my opinion, is that IKEA is much better at delivering on these customer needs than are other retailers. Most competitors focus on one, or at most two, of these customer needs. High-street shops focus on design and inspiration. Out-of-town low-cost retailers focus on price. Department stores focus on choice. The real strength of IKEA lies in the combination of all five.'

IKEA's competitive strategy

Dahlvig explained IKEA's approach to competition:

‘You can choose to adapt your company's product range to the markets you are operating in, or you can choose to shift the market's preference toward your own range and style. IKEA has chosen the latter. By doing this, the company can maintain a unique and distinct profile. This is, however, a more difficult path to follow. A significant understanding of the customer's situation at home is the basis for IKEA's product development. For most competitors, having the lowest price seems to mean being 5 to 10 per cent cheaper than the competition for comparable products. At IKEA, this means being a minimum 20 per cent cheaper and often up to 50 per cent cheaper than the competition.'

Table 1 IKEA's 'upside-down' approach

Element of the approach	Traditional furniture retailer	IKEA
Design	Traditional	Modern (Swedish)
Target households	Older, established	Families with children
Style of shop	Small specialist shops	All furnishing items in big stores
Location	City centre	Out-of-town
Product focus	Individual items	'Room sets'
Marketing	Advertising	Free catalogue (203 million in 32 languages in 2017)
Price	High	Low
Product Assembly	Ready assembled	Flat pack - self-assembly
Sourcing	Local	Global
Brand	Manufacturers'	IKEA
Financial focus	Gross margin	Sales revenue
Overheads	Often high	Frugal– no perks

Managing the value chain

Dahlvig explained that IKEA's strategy crucially requires the design and control of their wider value chain in detail:

'The secret is the control and coordination of the whole value chain from raw material, production, and range development, to distribution into stores. Most other companies in the retail sector control either the retail end (stores and distribution) or the product design and production end. IKEA's vertical integration makes it a complex company compared to most, since it owns both production, range development, distribution, and stores. This included backward integration by extending the activities of Swedwood (IKEA's manufacturing arm) beyond furniture factories, into control over the raw materials, sawmills, board suppliers, and component factories.

The franchise system

By 2018 all but one of the 422 stores were run by 11 franchisees (partners). The role of the IKEA Group was to provide the best possible support for franchisees to implement the IKEA concept worldwide. For this the Group received 3 per cent of franchisee sales. This was provided through the following activities:

- Maintaining the IKEA concept and marketing communications.

- Developing the product range.

- Managing supplier relationships, procuring product, and distributing/selling to franchisees.

- In addition, IKEA themselves manufactured about 10 per cent of products and materials (mainly wood-based) through 40 production units.

So, of the €38.8bn of IKEA sales in 2018, the revenue of the Group was €24.9bn (the remainder being franchisee mark-up).

Global expansion

Despite IKEA's strong global position when Dahlvig took over as CEO in 1999, he felt there was a need for improvement. Earlier growth had come from going 'wide but thin' with limited market shares, but now they would go 'deep and concentrate on their existing markets'.

He explained his reasoning:

'Why make the change? The competition had been very fragmented and local in nature. However, many of the very big retail companies were shifting strategy. From being local, they were looking to a global expansion, not least in the emerging markets like China, Russia, and Eastern Europe, as well as broadening their product range with much more muscle than IKEA's traditional competitors. One way to dissuade them from entering into the home furnishing arena was to aggressively reduce prices and increase the company's presence with more stores in all local markets in the countries where IKEA was operating.

China

By 2015 around 70 per cent of IKEA stores were still in Europe and expansion into Asia was crucial. But the company had come to realise that emerging markets could be particularly challenging, as head of research Mikael Ydholm remarked: 'The further away we go from our culture, the more we need to understand, learn, and adapt.'

IKEA first opened in China in 1998 and today it is the company's fastest growing market. By 2009 eight of its ten biggest stores were in China. The Chinese market was extremely challenging for a company that had built global success through standardisation. The main problems were that in emerging markets IKEA products were expensive relative to local competitors and consumer shopping expectations were centred on small local shops and personal service. IKEA thus had to be flexible and presented an image as an exclusive West European interior design specialist – popular with young and affluent city dwellers. IKEA shops were smaller than usual and typically nearer city centres. Because DIY was not well developed in China it offered home delivery and assembly services. Catalogues were only available in store. Crucially, to keep prices competitive, stores were allowed to source almost 50 per cent locally (against company average of about 25 per cent).

India

India has been an important country in the IKEA supply chain for more than 30 years. In 2018 the company sourced €315m of Indian products through 48 suppliers employing 45,000 co-workers directly. However, in 2012 it was announced that IKEA would enter the Indian market by investing €1.5bn in 25 stores over 15 to 20 years – with the first store opening in Hyderabad in 2018.

The Chinese experience was useful when IKEA entered India. However, India also proved challenging as a third of a retailer's merchandise had to be produced locally. IKEA had significant problems in finding producers that could live up to its strict corporate social responsibility requirements.

Growing IKEA and reaching more customers

The IKEA approach remained central to the company's strategy, and the annual report for financial year 2015 explained how new challenges were being addressed:

'We want to be even more accessible to many people. This means working hard to ensure we make it easier for customers to shop with us, wherever and whenever they want to visit our stores and shopping centres, or our website and apps.'

This included the following:

- Shopping centres: by 2017-18 IKEA operated 43 shopping centres and 25 retail parks (in 15 countries) and had 20 projects in the pipeline in several markets. These family-friendly shopping centres had an IKEA store as one of the main attractions. There were 460 million shopping centre visits.

- Online: online sales were about 5 per cent of revenue by 2018. There were 2.5bn visits to IKEA.com and 2.5 billion hits on the IKEA catalogue and store apps. The company was continually exploring how it could improve the ways that customers could discover IKEA products and be inspired by the product range through digital channels (such as the website and apps) and the catalogue.

- Pick up (order and collection) points: much smaller than the usual stores, order and collection points were designed to offer the same range, but with most products available to order and collect, and a small range of products available to take home on the day. These points also offer home delivery.

- Pop-up stores. These are temporary spaces (maximum of six months) that focus on specific themes, events, or messages.

- New leadership, Anders Dahlvig finished as CEO in 2009 (but joined the Supervisory Board and was Chairman from 2016). He was succeeded as CEO by Michael Ohlsson – who had already worked for IKEA for 30 years. In turn he was succeeded in 2013 by another internal appointee – Peter Agnefjäll (18 years at IKEA), and then in 2017 by Jesper Brodin (20 years at IKEA). It appeared that a key credential for IKEA leaders was the amount of time they had been immersed in the company culture.

The future

In a rapidly changing retail environment CEO Jasper Brodin was eager to restate the IKEA vision that continued to guide everything that the company did:

'Our business idea is to offer a wide range of well-designed, functional, home furnishings at prices so low that as many people as possible will be able to afford them'.

Questions

1. Identify where (in its value system) and how IKEA have achieved cost leadership.

2. Identify how IKEA has achieved differentiation from its competitors.

3. Explain how IKEA tries to ensure that its 'hybrid' strategy remains sustainable and does not become 'stuck-in-the-middle'.

4. How would you explain IKEA's business model in terms of value creation, configuration, and capture?

Video:

https://fortune.com/videos/watch/ikea's-secret-to-global-success/815d040f-6bc5-44ae-8704-93812a7ad259