

# Ikea case analysis narrative essay

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IKEA has a distinct market segment in the home furnishing arena. It has created a niche market with innovative designs, quality, and low price structure. IKEA has employed the cost leadership and product differentiation strategies through low price structure and innovative designs, respectively. Additionally, the uniqueness of the disposable furniture concept allowed IKEA to capitalize on the first mover advantage (Harrison & Enz, 2005). Behavioral Customer Segmentation for IKEA The behavioral consumer segmentation data provided by Bartlett and Nanda (1996) indicates the demographic profile of IKEA customers and buyer behavior.

IKEA's strategy post World War II, was to target young couples and new families in the low to middle income range by providing inexpensive furniture with durable construction and contemporary lines. The demographic profile presented by Bartlett and Nanda (1996) suggests that the archetypal IKEA buyer is young; middle-class; married; either has no children or one child; and lives in a rental. This new target market's primary determinants to purchase were based predominantly on price (44%); followed by large assortment (16%); and design (14%). Quality; design; and price were the three most important criteria for store choice.

Similarly, price; distance; and design were the significant factors leading to consumer attitude toward IKEA. This target market based their decision purchases on information gathered from the IKEA catalog; visits to other stores; and prior visits to IKEA. Contrary to the traditional IKEA consumers' determinants to purchase and buyer behavior, sustainability is now playing a larger role in consumer spending habits (Datamonitor, 2010). In a recent Customer Satisfaction Index (CSI) analysis IKEA was ranked ninth overall for

customer satisfaction, which is largely due to IKEA's commitment to sustainable initiatives.

Of IKEA's products, 71% are recyclable, made from recycled products, or both. IKEA also recycles 84% of the waste the stores generate (Datamonitor, 2010). Comparison of Traditional and U. S. Customers Before entering the U. S. market in 1985, IKEA did not conduct thorough market research on U. S. consumers or U. S. buyer behavior. IKEA assumed that U. S. customers would embrace its way of doing business and the products offered. That was not the case, as IKEA's furniture; metric measurements; and kitchenwares did not meet U. S. customer's expectations.

The furniture was uncomfortable, as it was designed for the European preference of being hard and rigid. The unit of measure was in centimeters, whereas the U. S. has never adopted the metric system. The U. S. serving sizes are generally larger than the European portions, making the kitchenwares too small for U. S. servings. Likewise, the cabinetry was too small for U. S. appliances. The traditional IKEA customer subscribed to the value proposition that furniture was a soft good versus a hard good. This value proposition was in contradiction with the mindset of the U. S. consumer, making it necessary for IKEA to rethink its marketing strategy. IKEA launched an advertising campaign targeting U. S. customers at the same time it entered the U. S. market. Its tagline for U. S. consumers was, "...to take a more commitment-free approach to furniture" (Moon, 1996, p. 8). IKEA's intention was to convey to the U. S. population that it was not necessary to hang on to furniture for decades. The simplicity and low price point IKEA offers affords consumers the opportunity to replace furniture and opt for a

new look at a significantly lower price point than at conventional furniture, appliance, or kitchenware stores.

IKEA was essentially making fun of U. S. consumers and the desire to keep furniture for decades. Traditional consumers understood that the value proposition offered by IKEA meant no in-store sales assistance; limited variety; unassembled furniture; and no delivery. This did not meet any of the expectations of the U. S. consumer. Hence, the revenues at IKEA in the U. S. were flat, taking almost ten years before increasing. IKEA has since focused on organic slow growth and low risk in the U. S. as it was a new market (Module 2, Lecture 1, n. d. ). This allowed IKEA time to do more market research on U. S. customers and expand manufacturing facilities. IKEA has done a great job in leading customers to pull its products into U. S. homes (Module 2, Lecture 2, n. d. ). IKEA has learned to meet U. S. customer needs by studying consumer preferences and behaviors based on interactions (Module 2, Lecture 1, n. d. ). This information provided demographic and consumer behavior data by store location and region of the United States, allowing IKEA to meet or exceed the loyal customer expectations. Given that, IKEA has built a U. S. cult following and state of mind that is centered on low prices, many promotions, and contemporary designs (Capell, 2005).

U. S. Strategic Growth Opportunities for IKEA  
IKEA was making a huge push into four major geographic markets in the late 1980's. They were Eastern Europe, Italy, the United Kingdom, and the United States. Any one of these large geographic locations would need exponential resources and one would have to wonder if IKEA was opening itself up to incredible risk. This hard line expansion poses a major strategic challenge. The major strategic concern

was the changing target market segment. IKEA rode the post war baby boom wave to become successful.

The target market segment of low-income married couples had shrunk and the original IKEA customers, the baby boomers, have become older and more comfortable. IKEA is continuously striving to differentiate its price, products, and services to keep them in line with a first mover competitive advantage and ahead of the market trends to the point that they may be setting the standards for furniture and related product expectations (Harrison & Enz, 2005). However, the United States' target market segment proved to be more difficult; as the U. S. consumers were used to having furniture delivered, and preassembled.

Additionally, the U. S. consumers and IKEA's other target markets all preferred traditional rather than modern furniture, with the exception of consumers in Denmark and Holland who buy modern design furniture. At IKEA, the furniture product mix is comprised of 70% modern with the remainder being traditional (Lee, 2005). For IKEA to be successful in the U. S. market it would need to tweak its product lines and strategic plans in an effort to achieve growth. In order for IKEA to achieve strategic growth in the U. S. it will need to get the buy-in of senior management to change its product line-up.

The lack of senior management buy-in has been proven in many studies to be a leading factor in not attaining growth (McGrath & MacMillan, 2009). IKEA will need to hire a consultant to perform a SWOT analysis to determine the internal strengths and weaknesses as well as the external opportunities and threats. In addition, utilizing a TOWS matrix derived from the SWOT

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analysis would prove beneficial (David, 2009). The TOWS Matrix is designed to assist managers with matching the attributes of IKEA with the various opportunities and threats that exist in the environment.

It also allows for the development of corporate strategies that can be implemented, thus maximizing marketplace positioning. The four types of strategies that can be formed based on the TOWS Matrix are: SO, which use the firm's internal strengths to maximize opportunities; WO, which looks at improving weaknesses by taking advantage of external opportunities; ST, utilizes the company's strengths to avoid threats; and WT, which are strategies designed to assist in the development of defense tactics to help reduce internal weaknesses and avoid external threats (David, 2009).

The crucial information obtained from the SWOT and TOWS Matrix will prove to be invaluable to IKEA if it wishes to grow in the United States as well as globally. The snapshot of information will help tell IKEA what it must become to U. S. and global consumers in order to grow strategically. Failure to capture and understand this information could keep IKEA from growing in a large geographic market.