

# [Case study ikea invades america marketing essay](https://assignbuster.com/case-study-ikea-invades-america-marketing-essay/)

IKEA has successfully grown in the home furnishings retail market as a result of its primary philosophy of cost-leadership, wide variety of fashionable and practical products, and its ability to maintain low costs and pass the savings onto the customer. In addition to this, IKEA has also implemented some very important details into their overall corporate strategy that affects the shopping experience of the customer. They have reinforced their chic-style and sophisticated environment by offering gourmet meals in their stores (offering smoked salmon and other Swedish delicacies), implementing the availability of a child day-care area rendering adults free to shop, and by focusing on self-service shopping/self-guided tours through fully furnished staging areas.

In addition to the experience that customers regard as convenient and even fun, IKEA can attribute the success of their organization to their very well balanced corporate strategy. They follow a specific process that allows them to design and contract the manufacturing of medium to high quality (relative to price) home furnishings and also permits the unique shipping, distribution, display and final point of sale of these products in a very methodical manner.

The overall success of the company comes from its strategy to produce attractive yet simplistic designs that are made from inexpensive yet reasonably well-constructed components. These unfinished products are then shipped in a disassembled fashion (flat-packed), sold directly to the customer in a warehouse type store, and then taken by the customer to their home where the final assembly takes place – all in return for a price that is 30-50% less expensive than competitors.

## What do you think of the company’s product strategy and product range?

For the limited “ niche” market that IKEA operates within, the company’s product line is substantially larger than any of its competitors. This could come as a result of the flexibility of its products’ designs. A single product such as a table or a bookshelf can be selected and purchased as a component of a larger set or as an individual product, however due to the interchangeable nature of the product lines, it could also be implemented in a way that complements another set of furnishings from a different design set. This advantage allows for the minimization of design costs. The advantages of the product strategy are clear – increased cost savings that are translated into lower prices for the customer, while still marketing your brand as a fashionable option for home furnishings – “ Low Price with Meaning.” IKEA provides the customer with the freedom to select their own furnishings, designs, and combinations while providing them with as much assistance as they can to streamline the purchasing process. From the showroom examples that display fully furnished home scenarios to the availability of user-centered items such as tape-measures and vehicle cargo racks, IKEA is implementing its self-service (for customers) philosophy.

Another advantage of the product strategy comes from the understanding that is inherent between the customer and the manufacturer – the costs are lower because they are simplistic, medium quality, convenience designs where assembly is required without exception. This flat-packed strategy saves on construction and shipping space. The arrangement is dual-benefit since the consumer can see the savings of self-assembly. This balance between quality, product line and price comes about through a very closely monitored process. The disadvantages of the product strategy and the product range are fairly evident as well. The idea of the transient use of medium-quality, self-constructed, Scandinavian-styled furniture naturally eliminates a large portion of the population as a target market for the products. Either the total combination of these details or each of them individually potentially causes concern among certain consumer demographics. The “ niche” market in which IKEA resides does not provide a sizeable product line for those that are not looking for the overall type of furniture that they provide. In addition to this, the western mentality regarding home furnishings is one that IKEA hesitated in reacting to. It conducted market research and found that its product line was not aligned with traditional demand, especially due to the reluctance of Americans to adopt a “ Scandinavian” style of home furnishings.

## Despite its success, there are many downsides to shopping at IKEA. What are some of these downsides? IKEA’s Vision Statement (in Figure C of the case) describes how the company seeks to build a “ partnership” with its customers. What do you think of this vision statement?

The disadvantages of shopping at IKEA are almost as intrinsic to the environment as the advantages. Due to the sheer size and layout of the stores, the ability for consumers to quickly locate and select a small number of products and vacate the premises is very difficult. It seems that to keep a timely and efficient “ traffic flow” the second level of the store is designed along a path that leads the consumers through a display of all the different product lines throughout the separate segments (kitchen, bath, bedroom, etc.) In order for a consumer to locate the product they are seeking, they may experience some difficulty navigating through IKEA’s 10, 000 other products. In addition to this, the scarcity of store locations limits the ability of the consumer who is ordering from a catalog to physically experience the product prior to purchase and delivery.

The vision statement is logical in its delivery, but potentially flawed in its practicality and how it pertains to IKEA. First and foremost, the company states the need for a substitute to expensive furniture. They seem to make the claim that never before has there been a company to provide this to the consumer, however, local furniture stores have been offering low-priced, fully assembled furniture prior to the introduction of IKEA. Furthermore, they claim that they are manufacturing beautiful, durable furniture; these claims cannot be quantified and are therefore merely a matter of opinion. One consumer could experience IKEA furniture and regard it as the best design and manufacturing initiative to have ever been implemented in the home furnishing market; another could experience the very same furniture pieces and be completely aghast and appalled by the very idea that these products were regarded as either beautiful or durable. Moreover, they claim to be responding to the home-furnishing needs of those all over the world; those who have different styles, tastes, and budgets. This is partially false due to the very nature of their marketing. They are not responding to the individual needs of the world, rather they are addressing the various home furnishing needs with the “ Scandinavian-answer.” They are marketing their limited furniture blueprints, styles and designs in an attempt to convince their target markets to change the way they think about furnishings (ephemeral vs permanent, minimalist vs elaborate). They are claiming to be the panacea for those who exist in a world without affordable, high-quality furnishings; they claim to side with the masses. They create a sense of class-warfare and claim that they can’t accomplish their noble goal without the help of the consumer. So they propose this seemingly harmless bond between IKEA and customer, because evidently one of the most profitable corporations in the world whom holds some of the most powerful brand recognition ever, couldn’t continue to offer low prices if they had to build their own furniture. It seems slightly ridiculous when you dissect the advertising logically. There is no doubt that forcing the customer to build their own furniture translates into cost savings, but to what extent do the consumers actually get to enjoy those benefits? Nonetheless, they continue to lower prices and increase market share, so their strategy seems to be working very well.

## The fact that IKEA hopes to have fifty stores in operation in the Unites States by 2013 is an indication of how optimistic the company is about the viability of its value proposition in this country. Do you think IKEA is being overly optimistic in its growth plans? How would you improve IKEA’s value proposition to make it even more attractive to American consumers?

IKEA will most likely attain its goal of having fifty stores in operation in the U. S. by 2013. However, it will be a challenging task to accomplish without applying significant changes to the overall approach IKEA has taken regarding the U. S. First, they need to perform market research regarding the purchasing trends of not only their current customer demographics, but more importantly, the demographics of the customers that they are not attracting. Secondly, they need to familiarize themselves with the distinct and separate styles to which Americans are attracted. The ability to transpose the traditional (American) way of thinking regarding interior design with a more European (Scandinavian) based fashion may not be advantageous for IKEA. Additionally, the products that IKEA offers are too limited in their usability in different regions of the country. Just as different parts of the world appreciate different styles, different regions of the U. S. do as well. The U. S. is unique that it encompasses all the different ethnicities of the world in a free market, the ability of IKEA to convince every separate ethnic group’s individual preferences may not be realistic either.

The capacity for adaptive change will be the key to IKEA’s continued existence and prosperity. It is a “ win-win” for every party involved: If IKEA performs research to determine what they need to change to be successful in America they: a.) will continuously attract their loyal customers with newer design releases, b.) may capture new market segments of consumers that never considered IKEA an option (through advertising their upgraded and expanded product line) and c.) could recapture discouraged consumers that “ tested” the products, but are no longer interested in the IKEA brand.

## To achieve the kind of growth that IKEA is hoping for, should the company change its product strategy? If so, in what way(s)? What about its product range-are there limitations to the matrix approach? Should the company expand its product lineup to include a greater number of styles and price points? In what other ways should the company consider changing its product lineup?

It should expand its belief that the whole world can be convinced to accept the “ Scandinavian design” is the universal taste in furniture. Most importantly, they need to implement three progressive features to their business model (especially in U. S. market).

First they need to adopt a higher quality brand image of their limited product line than they currently possess. After a much needed expansion of their product line, they need to market the increased quality and expanded selection. If they are going to increase the number of stores, then an expanded product line is necessary to attain customers in these new geographic areas. They have the image of simple, functional, stylish furnishings, however price can determine quality and certain consumers have a high aversion to companies that claim that their products are high-quality, but not meant to last a long time; or that their products are beautiful and stylish, but cheap at the same time. These paradoxes are detrimental to the attainment of consumers that are actually affluent.

Secondly, they need to adjust to the market in which they are advertising. If they are operating in Midwestern U. S., then after performing market research they need to advertise the products that appeal to that location’s population the most. Third, they need to increase the availability of services in their stores, such as delivery for those who cannot transport the number of furnishings they need to outfit their home, financing for large purchases, and company assistance with the assembly of their products. All of these could be acquired at a premium if the consumer chooses to do so. The availability of these offers could further eliminate the consumers that don’t consider IKEA an option.

IKEA claims to market to the predominantly low-middle income, young, urban and suburban, educated, professionals – but at the same time they claim that their typical consumer is sophisticated enough to appreciate fine wine and fine food, participates in international travel with their frequent flier miles, etc. This paradox is illogical in and of itself as well. The ability of a young, educated, low-income, urban dweller to spend their limited disposable income on fine wine, food, and international travel (all the while doing so by saving money on their affordable, yet chic home furnishings) is highly unlikely. The more likely scenario is that this image of the IKEA consumer is the representation that they wish to project in hopes of attracting consumers who wished to be viewed as this depiction as well. It is doubtful that a successful individual with fashionable tastes will spend their income on temporary, particle board furniture. That is the equivalent of considering a McDonald’s sophisticated, urban dining just because it happens to be located in the center of downtown in a metropolitan area.

## If you had to predict, what do you think IKEA’s value proposition and product lineup will look like in ten years?

IKEA will most likely use the size and strength of its organization wisely to expand its product line drastically, increase the availability of corporate offers in order to make its products even more attainable for the consumers, and will implement a locality philosophy to provide certain geographic areas with the styles the local population demands. It will also have a high probability of implementing a massive marketing campaign so as to expose other potential markets to its innovative and efficient designs prior to expanding, thus increasing future demand in locations that may eventually receive an IKEA store. IKEA will most likely also continue its approach to manufacturing by using outsourced manufacturing locations in order to avoid unnecessary costs. IKEA has a high probability of surviving and prospering due to its differentiation/low-cost strategy.

## Some industry observers have suggested that IKEA should open a number of smaller, satellite stores across the United States (e. g., in shopping malls, strip malls, etc.). By offering a limited range of IKEA products, these “ IKEA Lite” shops would presumably give consumers who do not otherwise have access to a full-size IKEA the opportunity to experience the brand. In addition, consumers who do live near a full-size IKEA would be able to use these mini-outlets to make minor purchases (e. g., purchase a set of mugs, as opposed to an entire living room set). Do you agree with this idea? Why or why not?

No, I don’t believe that this is in the best interest of IKEA’s overall corporate strategy. They have carved a niche in the home furnishings market by doing exactly what they have determined to be the more effective manner of cost-reduction (based on market research). Smaller home furnishings can be attained and purchased through their business-to-customer internet portal through the company website. Usually, consumers are more comfortable purchasing small, inexpensive items over the internet over large, costly items. If IKEA was to implement smaller IKEA-lite stores, they would then be competing with stores such as Bed, Bath & Beyond and Pier 1. Their differentiation strategy of self-shopping and self-assembly would be rendered either unavailable or no longer a competitive advantage. Furthermore, the cost incurred to operate and ship small items to these satellite stores would increase the overall costs of the items.

The profitability of IKEA comes from the savings of selling large home furnishings to consumers that are willing to assemble the products themselves. The sale of smaller, tier 2 and tier 3 items such as towels, mugs and cups, and storage containers are profitable due to the fact that the consumer is in the main facility looking for large home items. The sale of secondary items is available to complement the larger items. The implementation of smaller, IKEA-lite stores would not be recommended as it conflicts with their current corporate strategy and there is no discernible benefit in changing the methodology at this point in time.