

Walk into an IKEA store anywhere in the world, and you would recognize it instantly. The warehouse-type stores all sell the same broad range of affordable home furnishings, kitchens, and accessories. Most of the products are instantly recognizable as IKEA merchandise, with their clean yet tasteful lines and functional design.

The outside of the store will be wrapped in the blue and yellow colors of the Swedish flag. The store itself will be laid out as a maze that requires customers to walk through every department before they reach the check-out stations. Immediately before the checkout, there is an in-store warehouse where customers can pick up the items they purchased. The furniture is all flat, packed for ease of transportation, and requires assembly by the customer. If you look at the customers in the store, you will see that many of them are in their 20s and 30s. IKEA sells to the same basic customers all across the world: young, upwardly mobile people who are looking for tasteful yet inexpensive "disposable" furniture.

A global network of about 978 suppliers based in 50 countries manufactures most of the 12,000 products that IKEA sells. IKEA itself focuses on the design of products and works closely with suppliers to bring down

manufacturing costs. Developing a new product line can be a painstaking process that takes years. IKEA's designers will develop a prototype design—a small couch, for example—look at the price that rivals charge for a similar piece, and then work with suppliers to figure out a way to cut prices by 40 percent without compromising on quality. IKEA also manufactures about 10 percent of what it sells in-house and uses the knowledge gained to help its suppliers improve their productivity, thereby lowering costs across the entire supply chain.

It's a formula that has worked remarkably well. From its roots in Scandinavia, in 2015 IKEA had grown to become the largest furniture retailer in the world with 328 stores in 28 countries and revenues of \$36 billion (32 billion euro). IKEA had 771 million store visits and 1.9 billion online visits (IKEA.com). With its Swedish heritage, IKEA is particularly strong in Europe, where it has more than 200 stores, but it also has around 50 stores in North America. Its strongest growth recently has been in China, where it had 17 stores, and Russia, where it had 14 stores.

Look a little closer, however, and you will see subtle differences between the IKEA offerings in North America, Europe, and China. In North America, sizes are different to reflect the American demand for bigger beds, furnishings, and kitchenware. This adaptation to local tastes and preferences was the result of a painful learning experience for IKEA. When the company first entered the United States in the late 1980s, it thought that consumers would flock to their stores the same way that they had in Europe. At first they did, but they didn't buy as much, and sales fell short of expectations. IKEA discovered that its European-style sofas were not big enough, wardrobe drawers were not deep enough, glasses were too small, and kitchens didn't fit U.S. appliances. So the company set about redesigning its offerings to better match American tastes and was rewarded with accelerating sales growth.

Lesson learned, when IKEA entered China in the 2000s, it made adaptations to the local market. The store layout reflects the layout of many Chinese apartments, where most people live, and because many Chinese apartments have balconies, IKEA's Chinese stores include a balcony section. IKEA has also had to shift its locations in China, where car ownership lags behind that in Europe and North America. In the West, IKEA stores are located in suburban areas and have lots of parking space. In China, stores are located near public transportation, and IKEA offers a delivery service so that Chinese customers can get their purchases home.

Sources: J. Leland, "How the Disposable Sofa Conquered America," *The New York Times Magazine*, October 5, 2005, p. 45; "The Secret of IKEA's Success," *The Economist*, February 24, 2011; B. Torekull, *Leading by Design: The IKEA Story* (New York: HarperCollins, 1998); P. M. Miller, "IKEA with Chinese Characteristics," *Chinese Business Review*, July–August 2004, pp. 36–69.

CASE DISCUSSION QUESTIONS

1. Why do you think IKEA uses a floorplan that "forces" the customers to move along a certain path in the store?
2. Is it appropriate for IKEA to customize their furniture to each geographic location, for example, differences between U.S. and European furniture? Some companies do not make these changes, but IKEA does; why?
3. IKEA entered the United States in 1985 and China in 1998. But the company started in 1958; why did it take so long to move into the United States and China? Why do you think IKEA is not in more than 28 countries today (there are almost 200 countries in the world)?