

5. Reference 3, p. 62.
6. Reference 3, p. 63.
7. Reference 3, p. 63.
8. Reference 3, p. 74.
9. Reference 3, p. 120.
10. Reference 3, p. 123.
11. Reference 3, p. 75.
12. Reference 3, p. 83.
13. Reference 3, p. 95.
14. Reference 3, p. 124.
15. U. Johansson and A. Thelander, 'A standardised approach to the world? IKEA in China', *International Journal of Quality and Service Sciences*, vol. 1, no. 2 (2009), pp. 199-219.
16. Reuters, 23 June 2012.
17. IKEA press release, 24 April 2009.
18. Reported by [www.valuewalk.com](http://www.valuewalk.com), 18 September 2012.

#### Questions

- 1 Identify where (in its value network) and how IKEA has 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 What are the lessons from China about IKEA's approach?

Table 2 IKEA's 'upside-down' business model

| Element of the business model | 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                    | Catalogue (free)                   |
| 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                  |

### Reasons for success

In his book *The IKEA Edge*<sup>3</sup> published in 2011, Anders Dahlvig reflected on the reasons for IKEA's success before, during and after his period as CEO (1999–2009). He felt that the success of IKEA was built on a clear and detailed understanding of the furnishing market and IKEA's success criteria:

'IKEA's success has grown from stability and consistency regarding the big picture but with lots of action and innovation in the detail (evolution rather than revolution)'<sup>4</sup> ... (IKEA's five success criteria were):

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", the shopping experience ... You may well say that they are similar to 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.<sup>5</sup>

### 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 towards 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.'<sup>6</sup>

'... A significant understanding of the customer's situation at home is the basis for IKEA's product development and the creation of the main media through which the product is presented to the public.'<sup>7</sup>

'... For most competitors, having the lowest price seems to mean being 5 to 10 per cent cheaper than the competition on comparable products. At IKEA, this means being a minimum 20 per cent cheaper and often up to 50 per cent cheaper than the competition.'<sup>8</sup>

### Global expansion

By 1999 IKEA was operating 158 stores in 29 countries with a turnover the equivalent of €7.6 bn. Despite IKEA's strong global position Dahlvig felt there was much opportunity and need for improvement:

'So far growth has come from going "wide but thin". We have stores in 29 countries but with limited market share in most markets. Now we enter a new phase where the focus will be to go "deep" and concentrate on our existing markets ... We shall focus on continued strong volume growth, 10 per cent pa for 10 years.'<sup>9</sup>

He explained his reasoning:

'Why make the change? First of all, we were impelled by the changing character of the competition. For many years, 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. They were also broadening their product range, moving away from food or traditional DIY products towards more home furnishing. These