IKEA’s Growth Strategy in America

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Point of View
♦ Anders Dahlvig, IKEA group president, needs a strategy to keep IKEA’s growth in the United States on track.
♦ This recommendation will be written for Mr. Dahlvig from a consultant’s point of view.

SWOT Analysis
♦ Strengths
  o IKEA’s flat packaging reduces costs and makes it easier for customers to transport
  o The company culture matches its external image – pragmatic, cost-saving sensibilities
  o Product design – sleek, minimalist design is popular in Europe; gained popularity in the U.S.
  o Strong in-store experience – unique, experiential, “modern theme parks”
  o Brand reputation – in America, people lined to get into newly opened stores
♦ Weaknesses
  o Foreign company trying to sell to an American audience – it’s difficult to understand American attitudes and tastes if you’re not from the country
  o Niche market – the minimalist design doesn’t appeal to everyone
  o Too strong of an emphasis on cost-saving could lead to cutting corners and negatively affecting safety
  o Product and style selection is limited.
♦ Opportunities
  o The budget shopper market is growing, especially among college students and in metropolitan areas
  o In-store restaurants are popular, having grown to be the nation’s 15th largest food chain in America
  o Now that product design has been tailored to American preferences, there is an opportunity to add “bonus” services to increase customer service and satisfaction
♦ Threats
  o Plenty of competition. The furniture retail segment is highly fragmented and IKEA is flanked by competitors in high-end specialty retailers and low-end discount retailers.
  o Discount retailers sell on the basis of price, bringing down margins and making it difficult to stay profitable.

Issue Identification
IKEA wants to have 50 stores in operation in the United States by 2013 and needs a strategy to sustain its growth.

Alternatives
♦ Focus on customer service
  o Add more services to enhance customers’ experience (e.g. home delivery, interior design consultants)
  o Implement a customer relationship management (CRM) system to track current customers and communicate with them. Build up customers over a lifetime.
♦ Keep Scandinavian brand and focus on correct placement of stores
  o Concentrate stores in metropolitan areas, where apartments are smaller and the population more transient
  o Concentrate stores in college areas with the budget-focused students
  o Continue clever advertising to create demand
♦ Expand product lines to flank the budget line with a higher-priced line
  o Open up a chain of smaller stores with a more specialty retailer feel
Create a higher-end product line to appeal to the more suburban market, which is less likely to change furniture frequently

Emphasize a “pull” marketing strategy by launching a campaign that promotes furniture as a fashion statement

○ Clever advertising and promotion
○ Your furniture says something about you. And like fashion, your style changes – so can your furniture.

Pro/Con Analysis

♦ Focus on customer service
○ PRO: Creates a stronger bond with the customer and helps IKEA identify trends in customer tastes and preferences. Additional services like home delivery or interior design consultants make the large stores less intimidating for consumers, broadening its consumer base and appeal.
  - IKEA has a profile on its typical shoppers but could benefit from more in-depth knowledge about them
  - Americans did not like IKEA designs at first. Staying in better touch with customers will help the company avoid this problem in the future.
○ CON: Implementing a CRM system is costly. These customer service ideas might also dilute IKEA’s brand as a minimalist company and moves the company towards the specialty retailer segment.
  - The current model seems to be working and even without these services, Americans are flocking to the stores. Are these really needed?

♦ Keep Scandinavian brand and focus on correct placement of stores
○ PRO: The IKEA brand is already strong and has contributed greatly to its success so far. This option plays to the company’s strengths. This is familiar territory, as IKEA already knows its clever marketing and advertisements work. The typical IKEA customer is concentrated in certain regions of the country, specifically in urban and university areas.
  - Tweaking the brand will only weaken it.
  - The price, product and promotion mix already works. Correct placement is key to IKEA’s future growth.
○ CON: This option might be too narrow to help the company widen its market appeal and scope. The opportunity costs could be significant, since the majority of Americans do not live in cities.
  - Not everybody wants to assemble their own furniture or transport big packages (even if they’re flat) in their cars.

♦ Expand product lines to flank the budget line with a higher-priced line
○ PRO: Helps IKEA penetrate a new market. In the specialty retailer market, the profit margins are greater. IKEA will have to improve its customer service in these stores.
  - Lessons learned in customer service here might be leveraged in its current stores.
○ CON: IKEA has never operated a high-end retail store. To avoid diluting the IKEA brand, this new line might need its own name and promotion campaign, which is cost prohibitive.
  - This strategy run counter to IKEA’s promotion to encourage Americans to change their furniture.

♦ Emphasize a “pull” marketing strategy by launching a campaign that promotes furniture as a fashion statement
○ PRO: Leverages IKEA’s ability to create clever marketing and advertising campaigns. Creates a “pull” for its products and style. An integrated marketing plan will emphasize category need, raise brand awareness, craft the right brand attitude, and encourage consumers to make the purchase.
  - Other non-clothing items have managed to craft an “image” of fashion, like iPods, cell phones, even some automobiles.
A strong plan will ensure consistent messaging, which is very important in a company’s hyper-growth phase.

- **CON**: Expensive! This kind of marketing is also difficult to implement, especially for a non-American company.
  - Americans might still be too attached to their furniture for this option to be successful.
  - Furniture isn’t as easy to change as clothing, which can be easily discarded.

**Recommendation**

- Given the four alternatives above, IKEA should implement the second option – focusing on store placement. However, the company will also benefit from a strong integrated marketing communications plan, as outlined in the fourth option. The American market is fickle and hard to please; without an IMC plan, the company runs the risk of losing mindshare or sending mixed messages.

- With respect to revenue streams, this option will place IKEA stores in areas that are convenient for its target markets, who live in metropolitan areas and colleges, by making it easy for them to come to the store and make purchase. IKEA ought to focus on those areas where the populations are transient and move houses frequently. It will also capitalize on IKEA’s high-value consumers, by staying in touch with them and encouraging them to return.

**Implementation**

- IKEA must carefully identify cities in which to build its new stores. Current stores seem to be concentrated in California but there is huge opportunity in select cities in middle America and the East Coast. I would recommend exploring options like Denver, Colo., Austin, Texas, and Atlanta, Georgia. It is critical that IKEA does not lose sight of its target market – consumers who “traveled abroad, liked taking risks … was an early adopter of consumer technologies.”

- The company should also concentrate its stores in college areas, especially metropolitan colleges and universities. Size and space constraints in these areas might preclude IKEA from opening a store in the downtown area, but consumers seem willing to travel a little bit out of the way for the products. Instead of a store in Washington D.C., for example, one could be built in Virginia.

- The integrated marketing plan needs to be bold, clever and innovative. The idea is to encourage consumers to use their furniture as a fashion or style statement – this mindset will bring consumers into IKEA who want both function and form, which are two of IKEA’s strengths. This will also encourage consumers to change their furniture or home accessories, as the styles and fashions change. These consumers consistently upgrade their laptop computers, buy the latest cell phone, etc. IKEA products are less expensive than those other items.

- The IMC should include non-traditional media channels, as well. I would recommend focusing on clever Internet ads, since that is likely the main communication vehicle for the target demographic.

- In Expert Choice, these recommendations do the most to grow the urban and budget-focused demographics. It does not reach the high-end consumers, but I would not recommend that IKEA attempts to enter that market, as it would dilute the company brand.

- However, in my Expert Choice model, the one group that these recommendations do not reach are the families. While this group is budget-conscious, they are juggling jobs and children and need more convenience. IKEA might want to explore adding certain services, like home delivery or improving the sales rep to customer ratio.