



# How online retailing will transform IKEA

*2013 a crucial year for strategic decision making*

ResearchFARM



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February 2013

# IKEA: INTRODUCTION




The rise of e-commerce and increasingly intense online competition in the furniture market will make it vital for IKEA to radically transform the business model away from the single focus on the big out of town shed. Even with today's restricted transactional online offer, available in just 12 out of 40 countries, IKEA have attracted more website visits than physical store visits (1.1bn website visits compared to 776m store visits in 2011), leaving a lot of scope for IKEA to convert views into online sales.

IKEA's board has planned to grow like-for-like sales by 5% from the existing store estate and to boost sales by a further 5% through new store openings. However, were IKEA's online sales to double from the current level of around 2% of total sales and keep their strong sales momentum, this would all but cover the 5% growth targeted from new store openings, sharply reducing the need for costly new store development!

The company intends to amass 500 stores worldwide by 2020, compared to its current 338. The report shows that overemphasis on store expansion is the wrong route for IKEA to go down. Instead the analysts suggest stretching the online store to countries where it isn't yet available, adding more of the product range to the online store and exploiting the potential of mobile applications.

There are issues that will need closer attention in order to ensure a smooth transition to a true multichannel business. Online operations must be integrated more strategically into the existing physical store model to drive up footfall and offer complementary growth through services such as Click and Collect.





Right now IKEA does not offer a competitive home delivery service compared to the likes of Amazon and eBay, still charging customers according to the weight of their order. In Germany, IKEA's most important market, pureplay competitors such as Home24 already offer a completely free delivery service. In order to slash delivery times, IKEA's supply chain is in urgent need of revision. To cut costs and keep inventory levels low, closer cooperation between production stages and real time data mining will be necessary.

That said, although the online store is of massive significance for IKEA's future growth plans, physical store expansion plans remain critical further afield. Opportunities to expand the racecourse store model into emerging markets must not be missed, as there are large levels of untapped demand in the Indian and Chinese markets. Back in Europe, the current decline of the high street is putting downward pressures on real estate prices in city centres, opening up another opportunity for new store development and format diversification such as IKEA's city centre stores.

The internet will affect IKEA's business model in other ways too. The soaring ownership of tablets means that IKEA's app offer needs an overhaul and the catalogue needs to become entirely digital. A transactional service, encouraging customers to purchase goods using an IKEA app should also include a mobile payment option, so customers would be able to use IKEA's in-store Wi-Fi to cut checkout-waiting times.

IKEA's conservative attitude towards the web has resulted in lots of missed sales, and online expansion is the future for the retailer, hence strategic decisions taken in 2013 will be vital.

## This report will allow you...



- Demonstrate how to drive footfall into stores at a time when online performance is becoming increasingly important.



- Analyse great ideas on how to revise your supply chain away from a purely store based model towards readiness for multichannel and e-commerce.



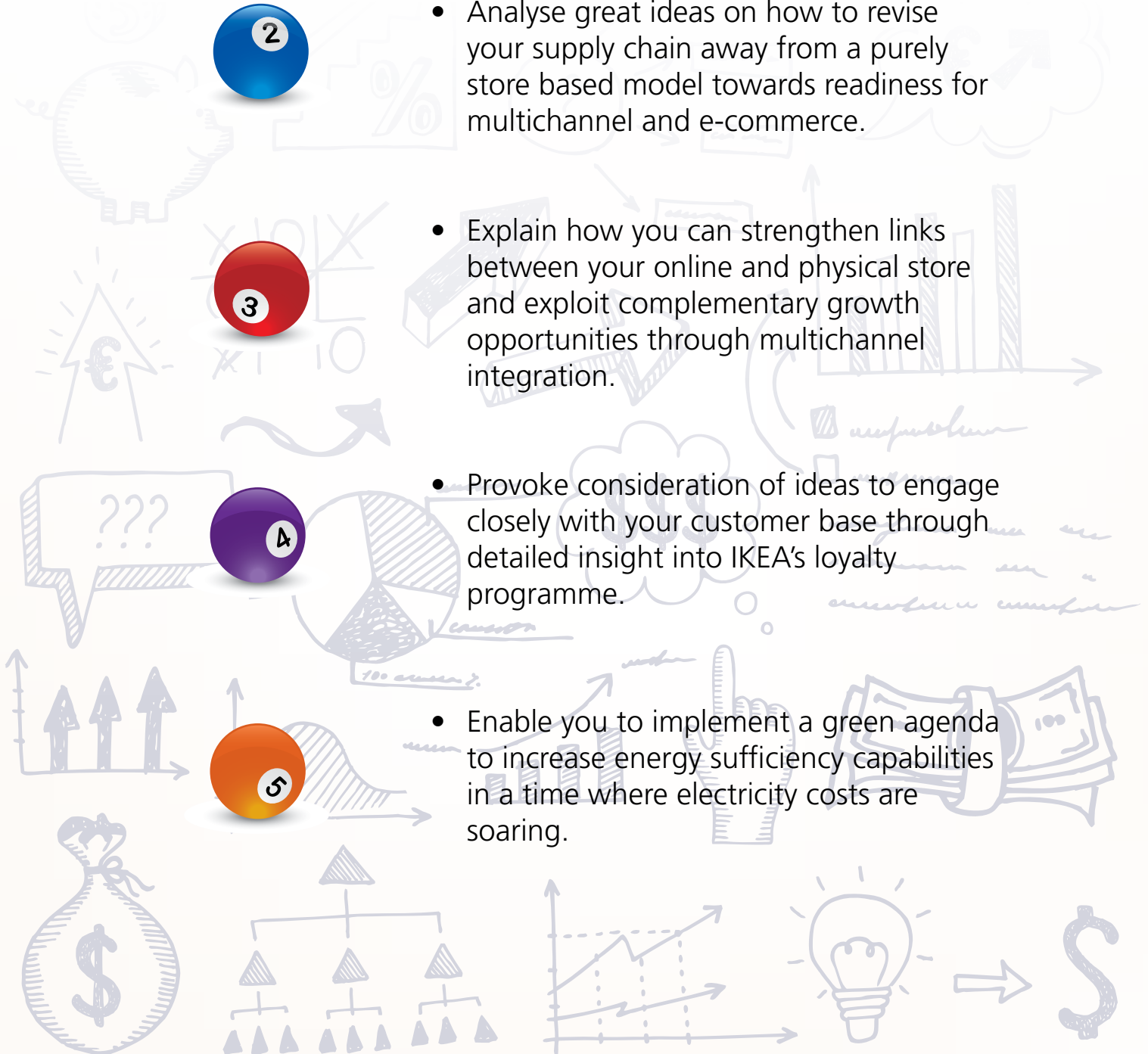
- Explain how you can strengthen links between your online and physical store and exploit complementary growth opportunities through multichannel integration.



- Provoke consideration of ideas to engage closely with your customer base through detailed insight into IKEA's loyalty programme.



- Enable you to implement a green agenda to increase energy sufficiency capabilities in a time where electricity costs are soaring.





# Servez-vous!

The report is based on one to one interviews with former and current high-level executives. In some cases the report reflects the viewpoints of the company.

ResearchFarm provides insights into IKEA's sourcing strategy and capabilities, the in-store experience, a budding online store, an engaging customer loyalty programme and what we expect the future to hold for the global furniture powerhouse.

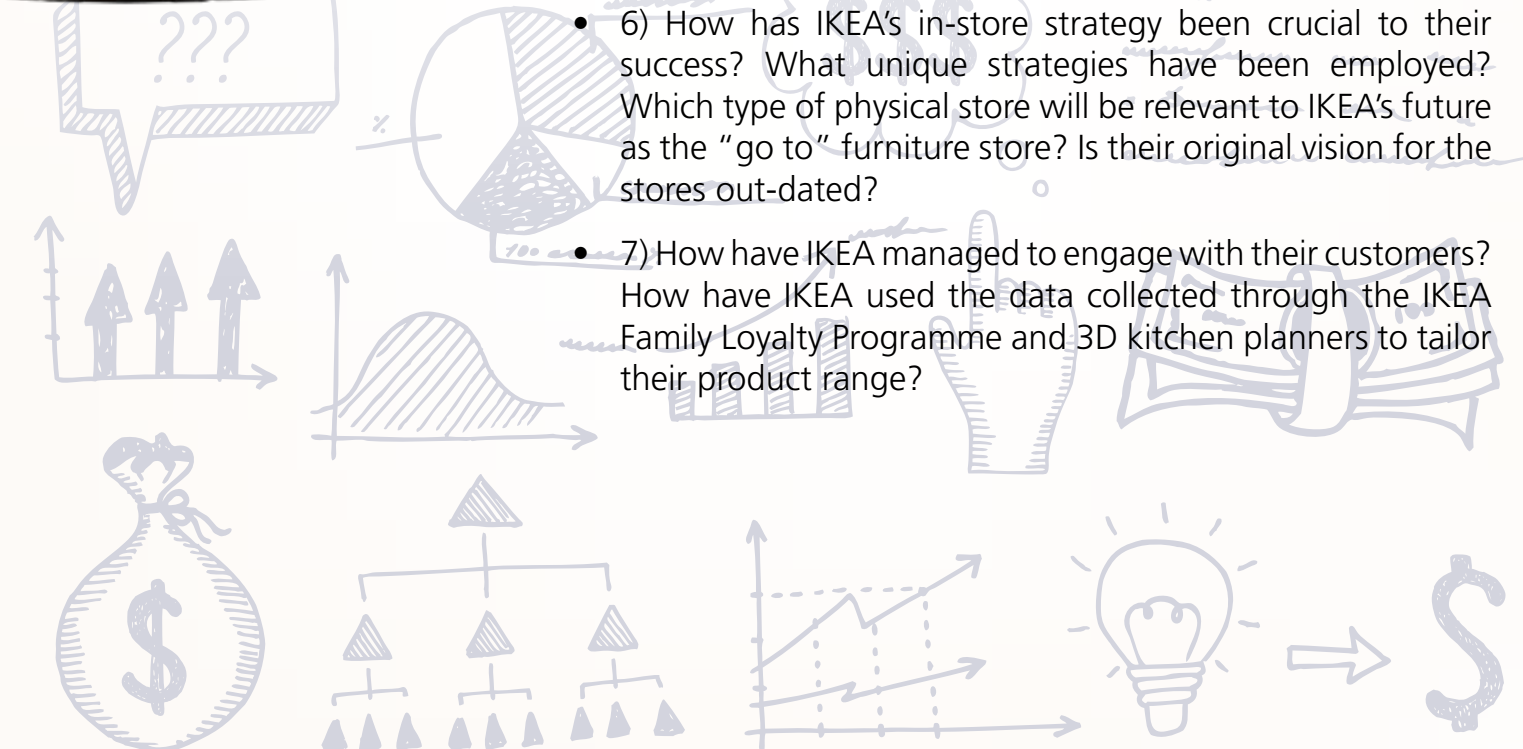


## Store expansion & online

- 1) Are IKEA's plans for a huge expansion of physical stores necessary given the rise of their online store? Should IKEA neglect physical store expansion altogether or should they focus solely on the online store?
- 2) Can both the online and physical store channels be integrated? Should they be given different roles in order to provide complementary growth? Should IKEA start to offer a Click and Collect service, in-store Wi-Fi and offer limited exclusive on/offline product ranges?
- 3) How much revenue was generated by online sales in the last year to August 2012? What proportion of the total product range is currently available online? In which countries do IKEA operate a transactional online service?
- 4) How have IKEA adapted to online competition in the furniture market? What is left to do for IKEA in order for this channel to succeed?

## In store strategy and customer engagement

- 5) What role does 3D room planning software play? How important are in-store product customisation workshops?
- 6) How has IKEA's in-store strategy been crucial to their success? What unique strategies have been employed? Which type of physical store will be relevant to IKEA's future as the "go to" furniture store? Is their original vision for the stores out-dated?
- 7) How have IKEA managed to engage with their customers? How have IKEA used the data collected through the IKEA Family Loyalty Programme and 3D kitchen planners to tailor their product range?

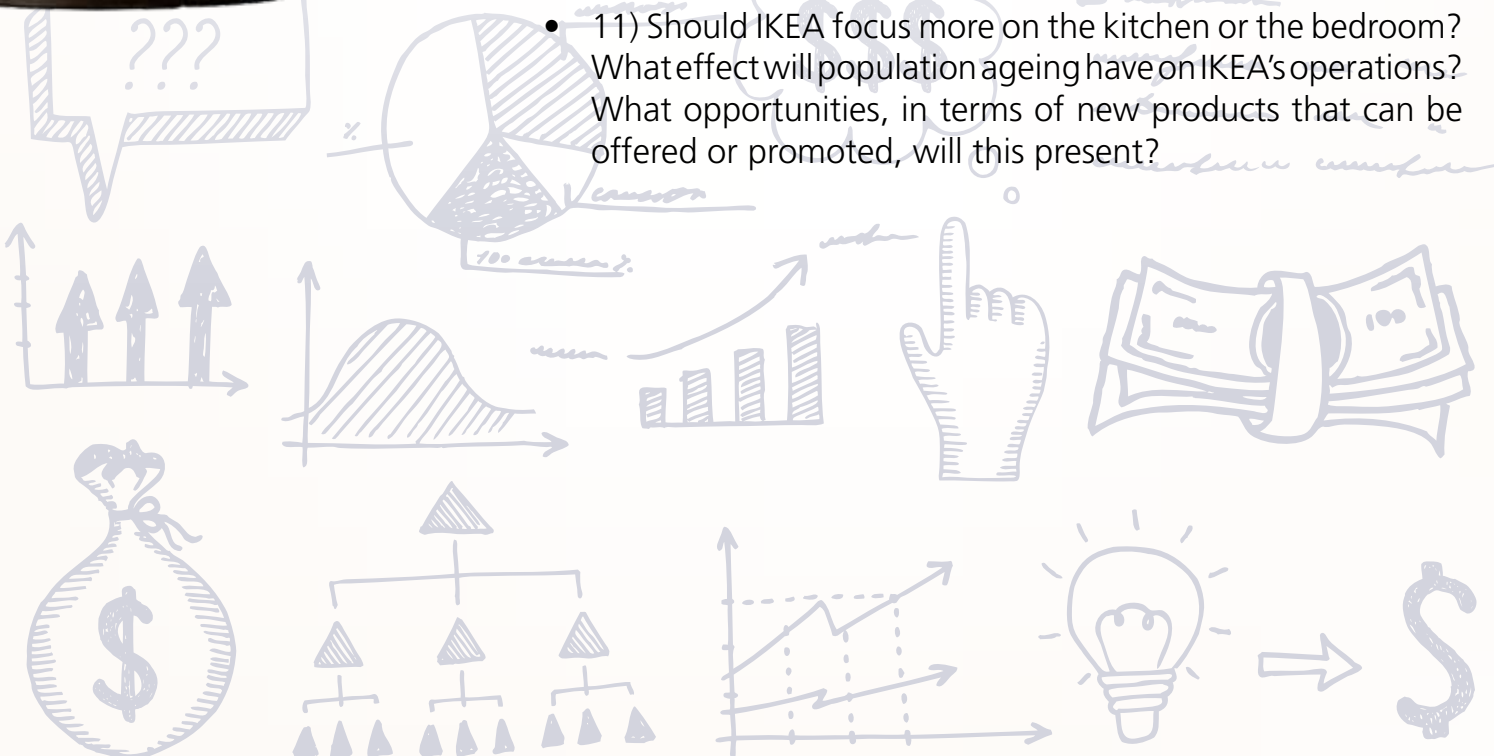


## Supply chain

- 8) How does IKEA's Supply Chain operation contribute to high quality furniture at low prices? What is more important, vertical integration, just-in-time, load sharing or careful sourcing of production materials? How can the Supply Chain be altered to cut costs and deliver a more efficient service? How many suppliers does IKEA currently work with? How does this figure compare to 1990? What are IKEA's four key sourcing initiatives?
- 9) How does IKEA source the materials used for production? Through close co-operation with suppliers and vertical integration? Encouragement of product returns in-store? The use of production materials traditionally thrown away?

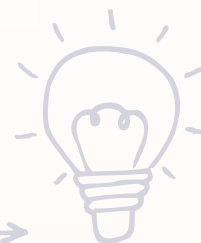
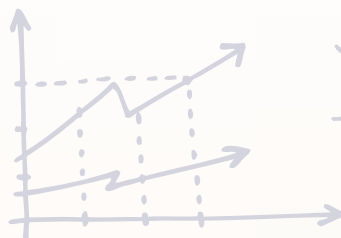
## The future

- 10) How can recent technological developments be used to make a contribution to IKEA's overall business plan? How many people have already downloaded the IKEA catalogue app? What are the future implications of this for IKEA's annual physical catalogue? What additional features could be added to the IKEA app? Interactive store maps? An online transactional service?
- 11) Should IKEA focus more on the kitchen or the bedroom? What effect will population ageing have on IKEA's operations? What opportunities, in terms of new products that can be offered or promoted, will this present?



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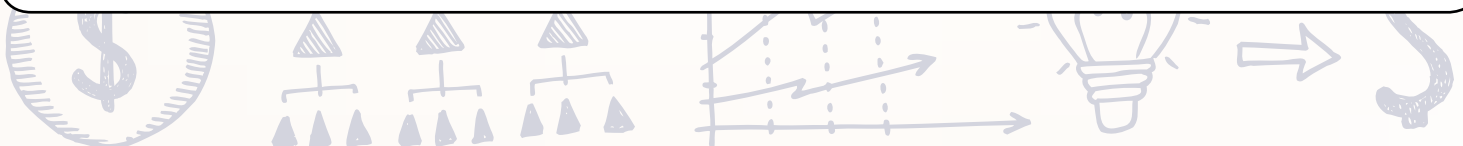
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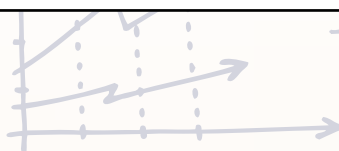
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- Retail HR Summit 8<sup>th</sup> October 2013

# TESTIMONIALS AND CLIENTS

« Our management team was very very satisfied with your reports. Your case studies really helped us. We are revamping our stores and have implemented a new way of thinking within the organisation and your piece of research helped us to understand how others are doing and how to apply it to our business.» (Retailer)

« The case studies helped us to think outside the box and we liked the fact that ResearchFarm is focussed on innovations and the future » (Financial services company)

« The report was very topical and very useful in explaining the technologies, players and issues and provided excellent case studies.» (Retail services provider)

« Very powerful piece of research. We often buy reports from other sources which are full of description and charts and very often with out to date info and things we already know. But yours are very compact and with current examples, recommendations on what we should do and what we should not do. Examples that we can directly apply to our business.» (Department store)

«Your publications have been extremely useful so far especially because you are giving real life examples. those are really helpful so we can benchmark ourselves against others and see what works and what does not.» (Retailer)

« I found it very insightful. [...] Impressed with the amount of information that has been covered by your report.» (Retail merchandising company)

«I found the document easy to read, well laid out and the content thought-provoking. It reminds me of the major considerations that affect our markets, and to address these key issues when approaching the global brands and retailers. This report is a very good demonstration of the quality of how ResearchFarm operates and communicates.» (Technology supplier)

«The content is very interesting to us, as we look after many of the largest shopping centres and we also represent many international retailers entering our market. There is plenty of food for thought.» (Property consultants)

«It was helpful. It helped me to persuade my boss to take on a project about e-commerce research. I was really surprised by the importance of legal issues. I never read that elsewhere before.» (Government)

«On DLF's (Danish Association of Fast Moving Consumer Goods Manufacturers) New Years Conference on the 20th of January 2011 we had the great pleasure to hear ResearchFarm speak about future trends in online grocery retailing. The feed back from the conference participants was very positive as they gave ResearchFarm's presentation the highest score of all speakers, finding the analysis about the key success factors of chosen EU and US online retailers both very interesting and inspiring. We can therefore give ResearchFarm our best recommendation.»

Dagligvareleverandørerne – Danish Association of Fast Moving Consumer Goods Manufacturers





# SAMPLE PAGES

## IKEA: 2012 rankings, sales per country in €m, shares of total IKEA global sales (%) (2)

Country	2012 Sales (€m)	Share of total
Japan	1,274.1	1.1%
Norway	1,260.0	1.1%
Poland	1,257.0	1.1%
Denmark	1,250.0	1.1%
Turkey	1,240.0	1.1%
Finland	1,230.0	1.1%
Czech Republic	1,220.0	1.1%
Greece	1,210.0	1.1%
Saudi Arabia	1,200.0	1.1%
Taiwan	1,190.0	1.1%
Portugal	1,180.0	1.1%
Singapore	1,170.0	1.1%
UAE	1,160.0	1.1%
Israel	1,150.0	1.1%
Hungary	1,140.0	1.1%

Table 8.

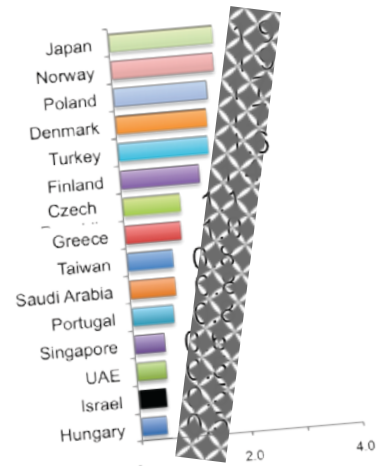


Figure 2.

Table 8 is a continuation of the 2012 rankings in sales per country in 2012. The countries above, showing low proportions of the total global sales are characterised by a small number of stores, and thus have low shares of total global sales.

Countries such as Turkey, where large growth is expected may see their total sales rise significantly in the coming years, especially due to store openings in the pipelines and the expected expansion online.

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### IKEA: Racecourse store design perfection, breath taking items, in-store events

**The racecourse design of the stores is thoroughly tested and perfected in the Netherlands, then rolled out internationally.** Many products will be seen by shoppers more than once, and the price value message is on display constantly. On average, a shopper turns 84 corners per visit, and has an opportunity to pick up a large shopping bag on 30 occasions. The large shopping bags made available for non-warehouse stored accessory items and impulse buys, and are designed so that customers are free to trial other goods in-store and keep hands free to write down items on forms for later collection.

**IKEA uses "BTI" (breath taking items) products at extremely competitive prices at the entrance of stores, serving to entice and mentally prepare customers to shop.** This strategy is based on the idea that the earlier shoppers are prepared to spend money, the more they will spend in total. The movements of customers, products they look at and the ones they shun are tracked by the retailer. Coupled with traditional and ethnographic market research in the home, IKEA identifies problems and the solutions it could sell on, and crucially makes the customer feel understood. **Other strategies adopted by IKEA to drive footfall include customisation workshops, enhancing personal interaction with customers and creating a sense of community and, to some extent, furnishing dependency.** For members of the IKEA Family, in-store events are set up to provide tips and enhance knowledge on furnishing techniques, and present opportunities to recycle old and unused products.







# SAMPLE PAGES



## China: Rapid growth, store expansions, increase in homeownership

Besides the opportunity in India, in future one of IKEA's most exciting markets will undoubtedly be China. That said, despite many favourable indicators, many western retailers have found China a difficult market to crack.

Sales in China increased by 21% to €757m last year and China will be one of IKEA's best performing markets for the coming year. In September 2012 the company announced that growing demand will be met by opening at least three stores annually over the coming years. As a result China will become IKEA's largest market in the next 15 to 20 years. Over the period 2011 to 2016, sales in China are expected to grow by €4.3bn, accounting for 97% of IKEA's projected growth in the Asia Pacific region.

Discretionary spending on furniture items continues its trend upwards along with disposable incomes. Another positive driver is **China's homeownership increasing from nearly 0% to 70% of the total population in the last fifteen years.** IKEA's strong value proposition and credentials will mean that many new homeowners will seek out the retailer to furnish their dwellings. So far, the unique shopping experience offered by IKEA is being well received by the Chinese and the Group is looking to launch a further 1,667 new products, at low prices, made possible by close co-operation on innovations between IKEA and local suppliers and the offering of low interest loans to suppliers.



## IKEA: Footfall drivers, in-store returns, Wi-Fi connection, click and collect



**IKEA allow products ordered online to be returned in-store, thus increasing the number of people walking through the door.** This technique offers the option for the customer returning purchased items to search for an alternative or to browse other collections and be upsold to.

The establishment of Wi-Fi connections in IKEA outlets will be an important development for in-store strategy. With a fast internet connection, customers can use their smartphone, irrespective of whether telephone signal is available, to browse the online store and physical store at the same time through the IKEA application.

Were an item not available in-store, it can be quickly searched for online. Moreover, by setting up furniture displays, visualisation of what customers' rooms would look like once their online purchases are delivered is greatly aided.

**A final way in which the online and physical store can be integrated is to offer a click-and-collect service, rather than just a return service,** offering a more convenient option for the collection of customer's products, cutting down on delivery costs and increasing in-store browsing times and once again upselling opportunities.

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