

Strategic Focus

Ikea's Global Strategy in the Age of Digitalization and Urbanization

Founded in Sweden, IKEA has pursued a global strategy in developing its well-designed, inexpensive retail furniture strategy. As with most companies pursuing a global strategy, it emphasizes global efficiencies.

One particular approach that IKEA has used is to reduce shipping weight by efficient packaging. Standardization of the product offerings, efficient packaging, and the associated benefit of lower transportation costs are “at the heart of IKEA’s ability to stay affordable.” Instead of changing products once they have hit shelves, IKEA is increasingly designing things with packaging and manufacturing in mind from the start. A tradeoff IKEA has experienced is that packaging can become too efficient at the expense of consumer frustration at the complexity of assembly once the product is in the home. So, simple assembly is also an important criterion.

IKEA continues to grow with annual sales of \$45.7 billion, and more than 400 stores across 49 countries. It has also continued to enter new countries, with special focus recently on Latin America—such as Chile, Colombia, and Peru—and India. Furthermore, the firm is ramping up its focus on online shopping, because of the increasing emphasis on digital sales in the marketplace. The number of visitors to IKEA stores has plateaued, with expected heightened sales coming from online shopping in future years. IKEA is expanding this strategy by increasing its “click-and-collect merchandising approach where people order online and pick up the merchandise at a physical location.”

Also, because of increased urbanization, IKEA is developing smaller city-center stores with a lower range of products compared to its majority of suburban store locations. One of these stores, which recently opened in the central part of Madrid, offers only bedroom furnishings while another one in Stockholm specializes in kitchen furniture and fixtures. Even with suburban locations, IKEA seeks to be within walking distance of transportation hubs such as subway stations.

Although IKEA is focused on efficiency, it also invests a significant amount of time studying each new country market entry. It focuses on where a growing middle-class is developing. It has entered China and India and is considering other South American countries such as Brazil. All of these economies have a growing middle class. Even in these countries, IKEA is focusing on flat packing, transporting, and reassembling its Swedish-styling furniture offered globally.

One of IKEA’s latest strategies to improve its image is to develop a sounder approach to sustainability. Accordingly, its store roofs are outfitted with solar panels, and it will operate 314 wind turbines in 9 countries, putting the company on track to be energy independent by 2020. With its multiple actions to enhance sustainability, IKEA expects to be perceived as a socially and environmentally responsible company. These costs have reduced its operating income in the short term, yet they should lower overall costs in the longer term.



The founding CEO of IKEA, Ingvar Kamprad, in front of one of IKEA’s store fronts.

IKEA has many challenges and hopes to continue to grow, especially in its largest markets such as the United States. Although the recent tariffs placed on some European goods by the U.S. government cause IKEA operations in the United States concern, the company is well positioned. It has 13,000 employees in the United States and produces many of its products there. Although the founder’s family continues to play a role in the company, they do not have ownership control. Thus, IKEA is a family influenced—not a family-controlled—firm. It has the advantages of a family firm without many of the disadvantages.

Sources: J. R. Hagerty, 2018, Ingvar Kamprad made IKEA a global retailer by keeping it simple, *Wall Street Journal*, <https://www.wsj.com>, February 2; R. Milne, 2018, What will Ikea build next? *Financial Times*, <https://www.ft.com>, January 31; C. Matlack, 2018, The tiny Ikea of the future, without meatballs of showroom mazes, *Bloomberg News*, <https://www/Bloomberg.com>, January 10; R. Milne, 2017, Ikea moves focus to centre city stores, *Financial Times*, <https://www.ft.com>, November 28; T. Gillies, 2017, Ikea’s strategy: Stick to the basics, and expand in the US, *CNBC*, <https://www.cnn.com>, January 16; S. Chaudhuri, 2015, IKEA’s favorite design idea: Shrink the box, *Wall Street Journal*, June 18, B10; B. Kowitz, 2015, How IKEA took over the world, *Fortune*, www.fortune.com, March 13; A. Molin, 2015, C. Zillman, 2015, Here’s how IKEA is fighting climate change, *Fortune*, www.fortune.com, June 11.