

Product and Brand Management

Case Analysis: IKEA - Brand of the Many

JRL Consulting

Cross-Cultural Technology Management

E-Mail : tech@jrleeconsulting.com

Website : www.jrleeconsulting.com

- (1) Is Ikea a successful global brand? Why has it been successful?**
 - (2) What is the relationship between Ikea's brand and design?**
 - (3) How important is design to Ikea's positioning and brand equity?**
 - (4) How defensible is Ikea's brand equity in its target markets? Why and Why not?**
 - (5) Is Ikea an under-leveraged brand? Do they have more opportunities than they are pursuing? Should they expand more rapidly in the US? Why or Why not?**
 - (6) What are the risks to the Ikea brand?**
- As the Ikea brand manager what do you need to be careful about?**

Is Ikea a successful global brand? Why has it been successful?

Ikea is a very successful global brand, not because it has 226 stores in Europe, Asia, Australia and the United States with 410 million shoppers a year, not because other global brand like Wal-mart stumbled in Brazil, Germany and Japan but for Ikea's unique cultural branding that merges the value and fashionable design to ensure the creation of an affordable contemporary household goods (not just the furniture with 5-10% sales in each country with Ikea stores) for the middle-class. This uniqueness of its corporate DNA is the main reason why the Ikea is so successful globally. The frugality of the founder of the Ikea with his desire to create "better life for many", these two tenets are deeply embedded into Ikea's corporate DNA. The frugality combining with the obsession with design forming a unique brand that became a global cult brand.

As a global brand Ikea stands for

- 1) Unique household products with contemporary design, affordable prices that will inspire consumers
- 2) A gathering place the global tribes that are sensible in cost, design, and green environment.
- 3) Egalitarianism. The Ikea as a corporation is very flat, the executives performs first-line employees' job in an "Anti-bureaucracy Week"
- 4) High Competitive. Constantly dropping the price (2-3% annually) to provide the best values for customers (consumers).

What is the relationship between Ikea's brand and design?

As described in the Ikea's corporate DNA, that the Ikea's stands for "affordable contemporary design household goods". "If it was't for Ikea, most people would have n access to affordable contemporary design" stated in a British design magazine. The design, but not just design but a contemporary design with affordable prices. As a known facts good contemporary design of products requires substantial time and money that would make a good contemporary goods expensive. To design beautiful products that are inexpensive and functional posted a huge challenge. It is Ikea's policy to discard the design that won't be made affordable, no matter how inspired it represent. The design is

an important part of what make this brand a global cult brand but it won't stand out if the brand is only about the contemporary design and missed the "frugality" part.

How important is design to Ikea's positioning and brand equity?

Without the design part, the Ikea's brand will be just like that of Wal-Mart. With the strength of Wal-Mart, Ikea's won't be able to compete with Wal-Mart for the economies of scales since there won't be any differential products between Ikea and Wal-Mart. The only difference between these two companies is the design (contemporary design) part of the brand. Ikea holds the position to be the affordable contemporary designer for the household goods with the affordable price. With this differential branding position, Ikea does practice the economies of scale with a network of 1300 suppliers in 53 countries, as it just like Wal-Mart, worked hard to find the right manufacturer for the right product. Ikea started the business as a furniture store, but the sale of the furniture only constituted 5 to 10% of the sales in each country with Ikea stores opened. For most customers, Ikea stands not only for the contemporary design and affordable furniture but also the complete household goods from picture frame to candlesticks.

How defensible is Ikea's brand equity in its target markets? Why and Why not?

To grow the market, Ikea's main targets are US, Russia and China markets. We can conduct a SWOT analysis for Ikea for its targeting market competitiveness.

Strengths:

- Economies of Scale in the affordable Contemporary Design household market.

- Identifiable concept with clear strategy of cost leadership

- Target consumers- middle class consumers.

- Recognizable store structure - a huge range of home furnishings within the same area.

Ikea is privately held, thus the pressure from the financial market for quarterly growth and profit.

Weakness:

Limited manufacturing capabilities, the current model can only grow 20 stores in a year

Quality concerns in some regions

Cultural differences in the some diversified markets as in the US, China, and Japan

Opportunities:

The fast growing Asian countries with an affluent middle class represent opportunities for Ikea to penetrate and sell its concept of affordable contemporary design of uplifting lifestyle.

Focus on differentiated products for the Asian markets

Threats:

Competitors: Kmart and Target Corp. in the US.

Fly in France.

Japan Nitori Co. in Japan.

From this SWOT analysis, that we identify the strengths and weaknesses of Ikea that its business model is difficult to copy. The entry barrier is high for the competitors. Although, Target in the US market posted the biggest threats, but Target is more like Wal-Mart with some contemporary design of its goods as high-end of Wal-Mart store. Ikea's gigantic store setting along with the highest operating margin of 10%, it could afford to beat the competitors by slashing the price. Kmart is too small to compete with Ikea and Fly in France and Japan Nitori Co. in Japan are local chains can be handled with the network of suppliers and economies of scale.

Is Ikea an under-leveraged brand? Do they have more opportunities than they are pursuing? Should they expand more rapidly in the US? Why or Why not?

As a global brand, Ikea is under-leveraged, because the limitations for the right suppliers and sourcing capabilities. Ikea could not open more than 20 stores a year because this limitation. The design of an affordable and contemporary designed products required time and in Ikea's situation, they needs to find the proper materials to ensure the designed products can be manufactured with affordable price.

The US market provided both challenges and opportunities, Ikea tried and failed in the 1990s, the reasons are listed below

Challenges in the US market

- 1) Huge demographic differences inside the US, different lifestyle and needs for different demographic groups.
- 2) Did not listen to the customers in the issues that impeded the sale of Ikea products.
 - a. Stores are not big enough to offer full Ikea experiences
 - b. In poor locations
 - c. Prices were too high
 - d. Beds were measured in centimeters, not King, Queen and Twin
 - e. Sofas weren't deep enough
 - f. Curtains were too short
 - g. Kitchens didn't fit US size appliances

Ikea needs to conduct more customers' surveys, marketing research and learned from their mistakes then they could enter the market slowly to fine tune their strategy for the US market and resolve the limitations of the suppliers as cited in the SWOT analysis.

What are the risks to the Ikea brand?

As the Ikea brand manager what do you need to be careful about?

The risks of the Ikea brand could realized from the deviation from its core value as the founder had established and the values that associated with the contemporary design could not be maintained. As a brand manager, I would follow the guideline from “the reporting card” to measure the weakness/strengths of the brand to enforce that Ikea is a strong brand and has a range of products that appeal to the mass market. The brand of the future would need to be modified to adapt into different culture and regions as in the Asian, Australian and Middle East markets where only 6% of its sales were generated from this region.