Analysis for Cost Leadership Strategy and Core Competitiveness Points of IKEA CO.

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Abstract. The achievement of IKEA CO. is a typical case of the cost leadership strategy, the study of which will play an important part in the development of China’s retail industry. The paper shows the outstanding achievement of IKEA in recent years and dissects the main points and the effect of cost leadership strategy through investigation. The results of analysis indicate that although it has been sixty years since the establishment of IKEA CO., the company still maintains sound development momentum in recent five years. The characteristic strategies of IKEA CO. mainly include four factors: design method modularization and standardization; differentiation design and Swedish design style; limited service and experiential marketing; global production management and logistics system. And the concept of design modularization has led the occurrence of the IKEA effect. There are three methods to reduce the transportation and storage cost: production modularization and standardization to cut the storage cost; global production management and logistics system to reduce the production cost; offering customers limited service to decrease the labor cost. There are three methods to improve the core competitiveness of IKEA CO.: design differentiation to satisfy the different demand of customers; Swedish design style to strengthen the brand effect; experiential marketing and brochures advertisement to promote customers’ satisfaction.

Introduction

IKEA was founded in 1943 by 17-year-old Ingvar Kamprad in Sweden. IKEA CO., ran the mail-order business of stationery in the beginning, has been gradually developing into an international home products company. Since 2003, IKEA CO. has been the world's largest furniture retailer who owns 180 retail chain stores selling thousands of series of products to 43 countries and regions all around the world.

Adhering to the idea of “help more people live a better life at home” [1], IKEA CO. insists on the guide line of providing home furnishings of excellent design, complete function and low price. At present, IKEA CO. has become the model focuses on cost leadership strategy with excellent design, outstanding strategies making and effective products and services. [1]

Compared with real estate, home furnishing is only a small industry. However, compared with the other industries, home furnishing is a huge industry. At present, most home furnishing companies produce high quality products at high price or produce common quality products at low price. Nevertheless, IKEA CO. produces high quality products at low price because of the competitive cost savings methods. Thus, the study of IKEA CO. cost leadership strategy, concept, marketing mode and core competitiveness will have a significant effect on the foundation and development of modern industries.
Recent Achievement

In 2002, IKEA CO. was named one of the 50 Best Global Brands. In 2005, the brand value of IKEA CO. reached 7,817 billion dollars.

Based on the official data published by IKEA CO., the variation tendency of IKEA CO. annual total sales in recent six years (2010-2015) is shown in Fig. 1: the annual total sales keep rising; the average of annual total sales is about 27.0 billion euros; the average annual growth rate is about 7.4%. According to modern economic theories, for retailing, the average annual growth rate at the scope of 3% to 5% means the company's annual total sales grows fast. So the annual total sales of IKEA CO. grow fast in recent six years. In fiscal 2015, the annual total sales of IKEA CO. already reached 31.9 billion euros and the net income was 3.5 billion euros.

![Graph showing annual total sales of IKEA CO.](image)

Data are from IKEA CO. official website.

Figure 1. The variation tendency of IKEA CO. annual total sales in recent six years (2010-2015).

The report “Global Powers of Retailing 2015: Embracing Innovation” published by Deloitte Touche Tohmatsu Limited and STORES Media identifies, the Top 250 Global Powers of Retailing generated retail average revenue more than 17.4 billion U.S. dollars (about 15.5 billion euros) for fiscal 2013, and sales-weighted, currency-adjusted retail revenue increased 4.1 percent in 2013 for the Top 250. The data in the report above and the Fig. 1 show: in fiscal 2013, IKEA CO. generated retail revenue 17.1 billion euros, which outdistanced that of the average of the Top 250; in fiscal 2015, IKEA CO. annual growth rate was about 11.2% outdistanced the Top 250 average annual growth rate 4.1%, which indicates IKEA CO. is developing strong recently. So far, IKEA CO. also develops very fast in China market. In fiscal 2015, China market is the largest procurement market in IKEA CO. global markets, with about 25% share of IKEA CO. global market. For fiscal 2015, in China market, IKEA CO. Annual total sales were about 10.5 billion RMB, with the annual growth rate of about 18%.

Cost Leadership Strategy

The cost leadership strategy is also called low cost strategy, though the theory was proposed long before [3], every company should make their own innovation.

IKEA CO. has its own originality in both design and implementation of the cost leadership strategy. For monitoring cost, to win the market competition, IKEA CO. develops three methods: furniture design method modularization, limited service and global production management and logistics system.

Furniture Design Method Modularization and the IKEA Effect. For cost saving, IKEA CO. gives up the common method that the sellers assemble furniture for their customers and makes its own modularized furniture design method: divide furniture into modules which are designed and produced separately and easy to assemble. When customers buy IKEA furniture, they should assemble by themselves. The more important point is the modules can be assembled into furniture of different styles and different uses, which not only saves cost but also offers customers originality chances.
IKEA CO. also creates the design concept of flat packaging. IKEA CO. furniture is designed the packaging method detachable, folding and assembling, which saves the warehouse room, reduces the transportation expenses, in other word saves the cost of transportation and storage.

At present, the sales model of IKEA CO. has been accepted widely and further creates a kind of behavior psychology which is called “the IKEA effect”. Dan Ariely, US behavioral economist, along with his colleagues, found self-assembly impacted the evaluation of a product by its consumers. In other word, people like the furniture self-assembled better than the finished product furniture; people tend to overvalue more the furniture that they pay more effort into. The substance of this phenomenon is people will have dependence and pride to their own labor products. This limited service not only saves cost, but also promote customers’ self-satisfaction. Besides, the products in IKEA CO. retail stores are real, customers can touch and feel the products directly, which promotes customers experience and saves selling cost.

**Limited Service.** Limited service can save cost for IKEA CO., mainly includes two aspects: when customers buy IKEA CO. furniture, they should carry the furniture back and assemble by themselves; in IKEA CO. stores, there’s no sole duty shopping guide, but IKEA CO. offers experiential marketing so that customers can learn and shop the products by themselves.

In addition, the difference from the other sellers is: IKEA CO. advertises their products not by large-scale media, but by brochures which is much cheaper. The products brochures can be seen everywhere in IKEA CO. stores. In the brochures, IKEA CO. products are introduced in detail and the brochures editions are humanized designed so that customers can shop their goods conveniently. IKEA CO. also advertises their products by animation movies shown in metro televisions, which is more effective than the other fragmentary advertising methods [4].

**Global Production Management and Logistics System.** IKEA CO. products and their prices take global integration strategy. IKEA CO. develops its own supplier selection methods: on the one hand, appoint procurement team to every procurement areas; on the other hand, select different suppliers in every procurement areas. By the methods above, the competition among suppliers can help control the price. Besides, to avoid being subject to the suppliers, IKEA CO. pays attention to its products designing copyright protection. IKEA CO. owns design patent of all its products so that it can be unconstrained from suppliers.

When design stage, IKEA CO. starts selecting suitable suppliers and making cooperative partners with them. To reduce the total cost which includes manufacture, logistics, tariff and relevant cost, IKEA CO. develops strict admittance requirements to select the supplier who quotes the lowest total price. IKEA CO. gives support to its suppliers to make long-term cooperative partners, so IKEA CO. and its suppliers have close relationship. Thus, from the developing stage, suppliers can make full use of their advantages to help IKEA CO. design and manufacture excellent products.

**Core Competitiveness Points**

Low cost is not the only survival secret, a well-developed company must have its own advantages to form their core competitiveness so that the others are hard to copy.

**Design Differentiation.** Cost leadership is a competition advantage, but low cost products must be provided by different competitive level. IKEA CO. products focus on differential design and IKEA CO. owns special management ideas. IKEA CO. employs professional designers to design products to well meet the customers’ different requirements. Meanwhile, IKEA CO. often communicates with their customers to ask for comments and advices, which provides new thoughts for its future products development and design. In addition, IKEA CO. takes its own design technology and brand for all the products to ensure IKEA CO. at the core position and the whole value chain under firm control.

**Swedish design Style.** IKEA CO. takes the classical Swedish design style. So far, all the series of products are designed in Sweden. In 1925, New York World Expo, the concept of “Swedish Grace” was presented. Simple and practical, elegant and natural, ingenious and skillful became the characteristics of Swedish design technology. Then the “Swedish Elegant” and “Swedish Modern” appeared and won the worldwide praises. IKEA CO. products inherit and carry forward the Swedish
traditions: people oriented, not intentionally pursuing popularity but representing modern fashion, rich variety but not similar, practical and beautiful, fresh and health. IKEA CO. products have become the representative of Swedish lifestyle.

**Experiential Marketing.** As people living standard rise ceaselessly, customers have moved its focus from the initial products quality and brand to current sensory stimulation and experience, and customers pay more and more attention to the feeling of products. The experiential marketing is: when shopping, customers are provided services of seeing, hearing, using, participating and other methods to experience the products functional characteristics, then desire to purchase the products. The experiential marketing takes customers’ desires as the main point, products as the carrier, service as the assistant method, which shortens the cognitive distance between enterprises and customers. IKEA CO. takes full advantage of the customers’ desires to experiential marketing, develops its own marketing mode: in IKEA CO. stores, instead of specialized cabinets, the exhibition rooms are decorated as the “home” style. Customers can feel and use the furniture directly to realize the experiencing consumption freely and enjoy the immersed sense [5]. Unless customers need to know more about the products, they will never be disturbed by salesmen.

**Summary**

1) IKEA CO. is a home products retailer attracting global attention, typical case of the cost leadership strategy. Although IKEA CO. The analysis of the recent six years IKEA CO. achievement indicates that although it has been sixty years since the establishment of IKEA CO., the company still maintains sound development momentum.

2) IKEA CO. takes four characteristic strategies: design method modularization and standardization; differentiation design and Swedish design style; limited service and experiential marketing; global production management and logistics system.

3) IKEA CO. develops three methods to cut cost: production modularization to cut the storage cost; global production management and logistics system, supporting and restricting suppliers to reduce the production cost; offering customers limited service to decrease the labor cost.

4) IKEA CO. owns three core competitiveness advantages: design differentiation to satisfy the different demand of customers; Swedish design style to strengthen the brand effect; experiential marketing and brochures advertisement to promote customers’ satisfaction.

**References**


