



# IST

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Case Studies on

Innovation, Services and Technology

**IKEA**

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## **IKEA**

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## 1. Case Study

IKEA was founded in 1943 by Ingvar Kamprad in Sweden<sup>1</sup> and has developed into a global retail company represented in 40 countries worldwide<sup>2</sup>. IKEA's success story started in 1948, when it included furniture in its range of products.<sup>3</sup> Until today, the company is known for its low-priced and self-assembly furniture.

Ironically, the company owed the idea to design their own furniture to their competitors who, in 1956, demanded of their suppliers to boycott the company. The company even owes the self-assembly known today and the sale of flatpack furniture to a coincidence: In order to transport a table by car, an employee removed the table's legs. This worked optimally and this is where today's concept originated from.<sup>4</sup>

IKEA is, above all, characterized by good quality at a low price. This is why their prices typically run 30% to 50% below those of their competitors.<sup>5</sup> The ten key factors responsible for low prices include in particular: (1) recycling, (2) waste reduction, (3) sale of damaged goods at reduced prices, (4) fusion between projection rooms and showrooms as well as customer self-service, (5) thriftiness at all corporate levels, e.g. top-level managers also fly economy or the regulation to turn off all computers at night, (6) in-house design, (7) economies of scale through mass purchase of input factors, (8) standardized and optimized transport routes, (9) strategic placement of points of sale that are easily accessible for large numbers of customers, e.g. along highway routes and (10) all-purpose minimal packing and packing material.<sup>6</sup>

For IKEA, price plays an important role, however, if it comes to outpacing the competitors, the mere low-price strategy is not enough. The basic idea IKEA

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<sup>1</sup> Cf. IKEA (2010a), for URL see bibliography

<sup>2</sup> Cf. IKEA (2010b), for URL see bibliography

<sup>3</sup> Cf. IKEA (2010a), for URL see bibliography

<sup>4</sup> Cf. IKEA (2010a), for URL see bibliography

<sup>5</sup> Cf. Margonelli (2002), page 2

<sup>6</sup> Cf. IKEAFANS (2010), for URL see bibliography

pursues is to offer every person the opportunity to purchase well-designed and functional furniture at reasonable prices. Before IKEA, the furniture industry was characterized by customers buying furniture to last a lifetime which was quite an expensive matter. Hence, young people were often forced to take the discarded furniture of their parents and relatives. With its reasonable prices, IKEA not only opened up a new customer segment called “young people”, but also brought about an additional benefit that had thus far been neglected by the furniture industry: offering customers the opportunity to change their furnishing style more often to suit their current needs..<sup>7</sup>. In this way, IKEA revolutionized the industry and changed the rules of competition.

In fiscal year 2009, the group reported total sales in the amount of 21.5 bn Euros comprising the following regions: 80% of the total turnover was generated in Europe with Germany being the most important sales market, 15% in North America and 5% in Asia and Australia. There are 267 furniture stores worldwide and another 34 stores that are run by franchisees outside of the IKEA Group.<sup>8</sup> IKEA is regarded as a clear market leader among the most active markets, and even the latest financial crisis could not stop the company.<sup>9</sup> With its market strategy, IKEA was able to steadily expand its turnover and market position in the past few years. However, this strategy gradually seems to reach its limits because the branch density of the biggest sales markets is very high.<sup>10</sup> Among other things, e.g. political reasons, the opening of new markets such as the one in Russia somewhat came to a halt. This is why IKEA has recently extended its expansion strategy to city centers. In doing so, the popular company experiences, however, a lot of opposition from residents.<sup>11</sup> Newly formed competitors, such as the Austrian XXXL-Lutz conglomerate, put the company under more and more pressure, too.<sup>12</sup>

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<sup>7</sup> Cf. Mourkogiannis et. al. (2007), part 5 : For URL see bibliography

<sup>8</sup> Cf. IKEA (2010c), page 2

<sup>9</sup> Cf. Eckl-Dorna (2009), page 1

<sup>10</sup> Cf. Eckl-Dorna (2009), page 3

<sup>11</sup> Cf. Eckl-Dorna (2009), page 1

<sup>12</sup> Cf. Eckl-Dorna (2009), page 3

Apart from its self-assembly furniture, IKEA also offers numerous household gadgets. This way, numerous smaller products from the tableware to the carpet can be purchased at more favorable prices. Thus, the company also attracts customers, who are not specifically looking to buy new furniture. In this segment, IKEA experiences new competition by ZARA Home and H&M Home. As part of a diversification strategy, both companies offer household products. Hence, the market for household items is becoming more and more competitive.

Since 1996, IKEA and Skanska have also been selling prefabricated houses under the name of BoKlok.<sup>13</sup> The joint project was realized by establishing a joint venture in which both parties to this day each own 50% of the shares.<sup>14</sup> In Germany, the prefabricated houses have been available since mid-April 2010.<sup>15</sup> Apart from selling their own products, BoKlok also promotes franchisees.<sup>16</sup> In doing so, IKEA is looking for a way to access new sources to increase profits.

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<sup>13</sup> Cf. BoKlok (2010a), for URL see bibliography

<sup>14</sup> Cf. BoKlok (2010b), for URL see bibliography

<sup>15</sup> Cf. Klotzbücher (2010), for URL see bibliography

<sup>16</sup> Cf. BoKlok (2010b), for URL see bibliography

## **2. Definition of Task**

As an innovation manager at IKEA, you are responsible for the strategic planning of business development. The Executive Committee assigned you to keep a close eye on the current business in Germany. Germany is the most important market for the company and the current competitive situation requires new ideas to continue to maintain the existing success in future.

### **2.1 Patenting**

First, check to see how secure your current revenue sources from the current IKEA furniture, household goods and prefabricated houses sector are. With this in mind, you are to briefly focus on whether the goods from the three sectors of „furniture“, „household items“ and „prefabricated houses“ are patentable in order to protect them from competitors. Please explain first, which requirements the products have to fulfil to be patentable. Furthermore, you are to discuss whether it makes sense to patent in any of the three aforementioned sectors since costs arise from patents, too.

### **2.2 Life cycle of competences and core competences**

In a second step, you have to analyze IKEA's core competencies. For this purpose, you first need to identify them using the four known criteria. First of all, explain the four criteria theoretically and describe which core competence IKEA has.

Then, by means of the life cycle of competencies, try to find out the phase in which IKEA's core competency is. To do this, you will first have to present the life cycle of the competencies theoretically before conducting the allocation.

## **2.3 Innovative Idea and Property Rights Theory**

In order to spice up your products in the fields of furniture, household goods and / or prefabricated houses, consider whether IKEA should work with external designers from other industries to bring out an exclusive line from time to time such as, for example, H&M's limited exclusive collections with Karl Lagerfeld and Roberto Cavalli in the past.

### **2.3.1 Innovative Idea**

Select one of the three fields and examine this idea. Describe with whom you would work together, e.g. Karl Lagerfeld, Armani and Pininfarina, and how the product might look like. Please give a detailed product description.

### **2.3.2 Property Rights Theory**

Using the Property Rights Theory (PRT), please explain which consequences the cooperation with an external designer has for IKEA. Describe what the Property Rights Theory (PRT) states and seeks to present. Then outline the four components of the modular property rights theory structure and define property rights.

In order to discuss the consequences, it is to be assumed that the primary rights are owned by the designer. You would have to negotiate with him which partial rights you may obtain. Depending on the partial rights, IKEA either has a smaller or bigger stimulus to enter into such cooperation. Theoretically explain the partial rights and discuss all the advantages and drawbacks of partial rights for your specific product.



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