

How IKEA in the Furniture Industry Responds to the Challenge of Affordability?

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1.Introduction

Imagine you are in your first apartment, building a space that fits your style and is within your budget. You want to give the final touch to this place by adding some furniture. As you enter a furniture store, you are flabbergasted by both high price tags and beautiful designs. Furniture is a traditional and essential product that has been manufactured, bought, and sold for ages (Schwartz, 2015, p. 6). The home furnishings sector plays a vital role in compelling our individuality and enchanting interior design. It not only affects our lives by giving comfort and shapes but also implicates our finances and the global economy. The global revenue in the furniture industry between 2023 and 2027 is expected to expand by 165.7 billion US dollars, and until 2027, revenue is predicted to be 931.9 billion US dollars (Statista, 2023).

Furniture affordability is a crucial challenge in an industry recognized for its expensive, handcrafted products by carpenters. Striking a balance between affordability, quality, and ease of assembly is no easy feat. In this extensive essay, I will thoroughly examine the daunting task of providing affordable furniture within the antique furniture and home furnishing market. To clarify this challenge, I will be using frameworks like the cost leadership method, disruptive innovations, and conducting a detailed case study on IKEA, a renowned company that strategically regulates and adapts its various sectors in response to these difficulties. With its inventive approaches and widespread global impact, IKEA serves as an exceptional example for businesses navigating such obstacles in the industry. This essay dives into precise division into several sections of the furniture market, allowing for in-depth analysis and providing vital knowledge regarding the complex process of industrial change, starting with the dramatic challenges the industry faces.

2.Dramatic challenge

2.1 Challenges faced by the furniture industry.

Furniture is an essential component in establishing our home's interior environment and shopping for furniture was a gruelling task as it was dreaded by a lot of people because they felt like they were deciding what they had to live with for 30 years. In addition, furniture is a reasonably expensive long-lasting good. The cost of furniture is relatively high as it depends on the quality of materials used for manufacturing, craftsmen's expenses, or transportation costs. From 1970 onwards, Furniture was designed for the transformational lifestyle of today's humans. With advances in science and technology, furniture with simple designs that are minimalistic yet functional is now common. Value-for-money furniture, typical of Scandinavian designs, is an example of such furniture (Ratnasingam, 2022, p.15). With that consumer preference in today's market plays a very key role as they often seek more affordable options due to economic constraints as well as changes in lifestyles. They value the uniqueness and customization that self-assembly furniture can offer. Understanding these trends is critical for businesses looking to effectively meet customer demands.



Figure 2.1(a): Evolution of Furniture (ArchDaily, 2018)

Source: <https://www.archdaily.com/901164/see-how-the-design-of-chairs-beds-and-sofas-have-evolved-through-history>

Along with that the number of non-family households is increasing. Many young couples leave home and move into apartments. The reduction in family members has raised the popularity in modern real estate, so-called apartments, modern flats, or condominiums. The increase in vertical estate has an implication in furniture industry, namely modern well-designed furniture which matches the lifestyle of flat people (Chaipornmetta, 2010, p. 44). For this reason, people these days prefer furniture to be affordable, detachable, easily movable, and subtle. Most people have bought self-assembly furniture at some point, and while some people enjoyed the process, others found it tiresome. Self-assembly now contributes around 30% of the total furniture market in value. (M, 1987). According to statistical reports numbers will keep on rising.

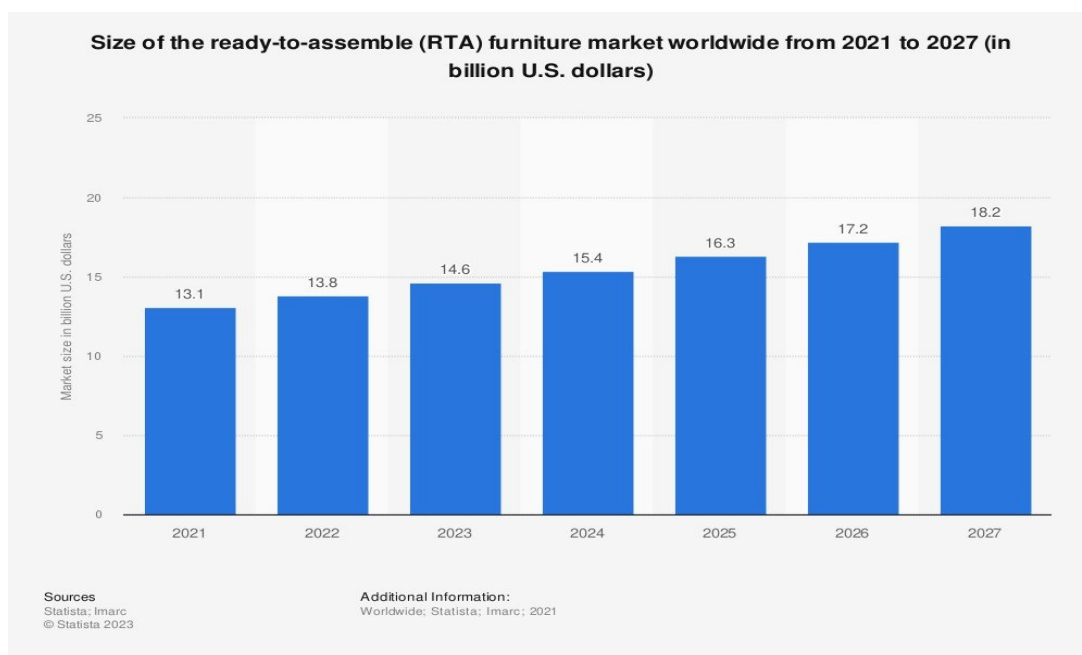


Figure 2.1(b): Size of Self-Assemble Furniture Market Worldwide from 2021 to 2027 (Statista, 2022).

Source: <https://www-statista-com.abc.cardiff.ac.uk/statistics/881897/global-size-of-rta-furniture-market/>

The above figure shows the predicted size of the self-assembly furniture market worldwide from 2021 to 2027. The global market for self-assembly furniture was estimated to be worth 14 billion US dollars in 2022 and was expected to grow to over 18 billion dollars by 2026 (Statista, 2022).

Improving the standard of sustainability of manufacturing remains an issue of debate among decision-makers and government policymakers. Despite the term's prevalence in society, government, and the productive sector, there is still a dearth of guidelines on its application in manufacturing procedures (Feil et al., 2022, p.13658). Many consumers now prioritize eco-friendly and sustainable furniture. Firms must find ways to balance affordability and self-assembly with sustainability, using sustainable materials and manufacturing processes. Many customers now emphasize eco-friendly and long-lasting furniture. Firms must develop ways to reconcile price and self-assembly with sustainability, such as by employing environmentally friendly materials and production processes.

2.2 Disruptive Innovation & Cost Leadership.

Clayton M. Christensen coined the term "disruptive innovation" in 1995 to describe a novel idea that creates its own market, thereby "disrupting" the existing industry and value network (ALMAAZMI, 2017a, p.11). The innovation, therefore, modifies how the product was previously thought to be utilized and even alters the strategies employed to market it. This concept has proved to be a magnificent instrument for thinking about innovation-oriented growth in the industry. Similarly, in this case, new entrants or innovative firms can introduce simpler, more affordable, and often self-assembled products that gradually capture market share. Traditional furniture companies, often with complicated manufacturing and distribution processes, may struggle to comply with this disruptive change.

Cost Leadership strategy places a premium on efficiency. The firm hopes to benefit from economies of scale and curve effects by producing large quantities of standardized products. The product is frequently a basic no-frills product produced at a low cost and made available to a large customer base. Maintaining this strategy necessitates a constant search for cost savings in all aspects of the business (Tanwar, 2013, p.12). This strategy usually involves a significant market

share advantage or preferential access to raw materials, components, labor, or some other important input. Without one or more of these advantages, competitors can easily replicate the strategy. Firms must find ways to manufacture furniture at a lower cost than competitors. This consists of optimizing manufacturing processes, efficiently sourcing materials, and achieving economies of scale to provide cost-effective solutions.

2.3 Furniture Market and Key Players

A major contribution to the furniture sector will come from the millennial demographic, as millions of millennials will buy their first houses in the coming years. If companies act according to their purchasing behaviours and preferences, they can win considerable market share. These days, people in general prioritize functionality, sustainability, and affordability, which means shops that can offer features like creativity and eco-friendly, cost-effective products are likely to dominate the market. For this purpose, a survey was conducted that said, “When it comes to furniture purchasing, which of the following would make you prefer one retailer over another? Please check all that is relevant.” (Mintel, 2023). Most people asked for affordability.

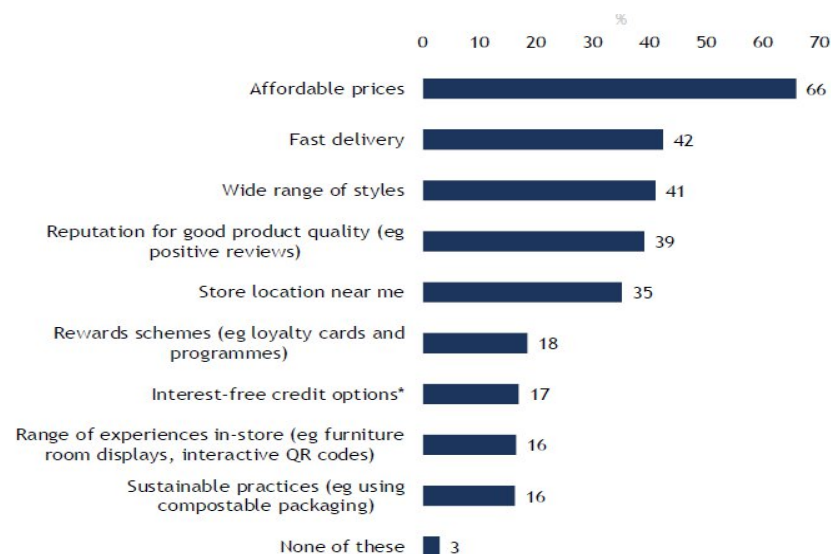


Figure 2.3(a): Survey on Furniture Purchase Driver – 2023 (Mintel, 2023).

Source: https://data-mintel-com.abc.cardiff.ac.uk/databook/1155149/question/Q15__wave_5259?country=1&d=gender&d=age&presentation=graphs

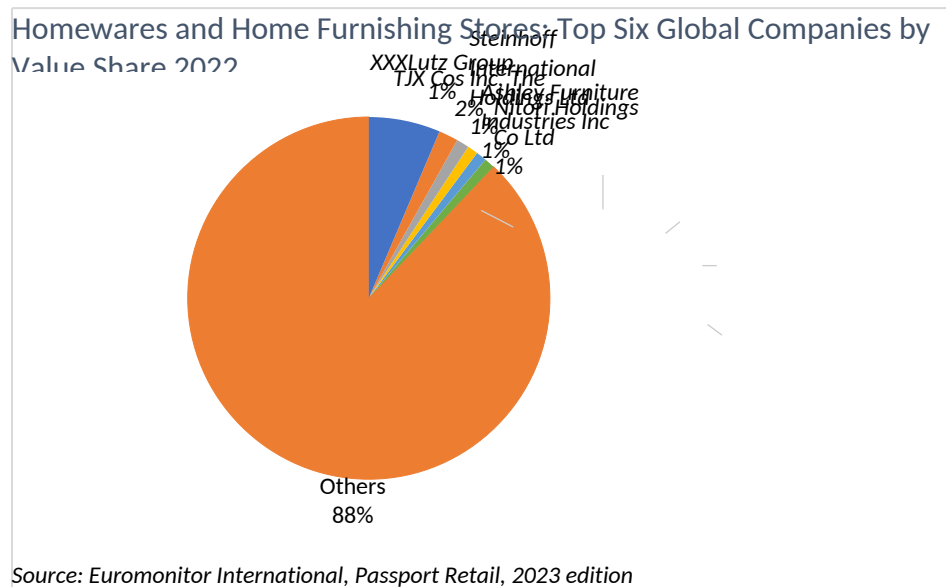


Figure 2.3(b): Top Competitors in Furniture Sector by Value Share 2022 (Passport, 2023).

Source: <https://www-portal-euromonitor-com.abc.cardiff.ac.uk/analysis/tab>

From the figure, we can verify that IKEA dominates the worldwide homewares and furnishing shops industry, considerably outperforming its competitors, and holding a market share that is greater than the combined market shares of the other six top firms. High levels of fragmentation characterize this sector, underscoring IKEA's significant advantage. Many well-known industry participants have a small regional presence. For example, XXXLutz Group only does business in nine Western and Eastern European nations, whereas TJX Cos Inc. concentrates only on sales inside the UK, Ireland, and North America. The only two rivals of Ikea in the home goods and furnishings sector with a worldwide value share of the market exceeding 1% in 2022 are these two companies (Passport, 2023). Ikea holds a 6% value share in the worldwide homewares and furnishings store channel, making it the dominant player. This is equivalent to a 3% value share in the global home goods specialized sales channel. So, to elaborate on IKEA's dominance in the furniture industry, I am going to discuss how they faced dramatic challenges and used a theoretical framework that led them to success in the following representative case study.

3.Representative Case Study

3.1 Why IKEA is a Representative Example:

IKEA is a classic example of a representative case study because it efficiently tackles the worldwide difficulty of supplying inexpensive furniture. The business principles that IKEA follows are completely based on affordability and providing consumers with a product that is cost-effective and well-designed without compromising on quality. The firm specializes in self-assembly, which empowers consumers while lowering production and transportation expenses. This Organization is a market disruptor, using innovation to challenge old furniture industry standards. It evolves in lockstep with consumer trends, demonstrating the significance of customer-centric methods. Furthermore, it's sustainability activities established industry trends by prioritizing environmentally responsible methods while keeping pricing low. This collection of characteristics establishes this firm as the ideal case study, demonstrating how a corporation can lead the way in altering an industry while continually addressing the issues of cost, self-assembly, and sustainability.

IKEA is a major player in the furniture and household industry with 468 shops in 63 markets (IKEA, 2023) and Nearly 70% of the stores are in Europe. Their best-selling countries are Germany (15%) and the United States (14%). Last year, the business opened 19 new locations, including its first in India in Hyderabad (Forbes,2023). It is famous for home furnishings retailer on a global scale. The annual revenue of IKEA has increased consistently over the previous two decades. 2020 saw the first revenue loss because of the coronavirus outbreak, totalling 39.6 billion euros. Revenue increased once more the following year, reaching over 40 billion euros (IKEA, 2022).

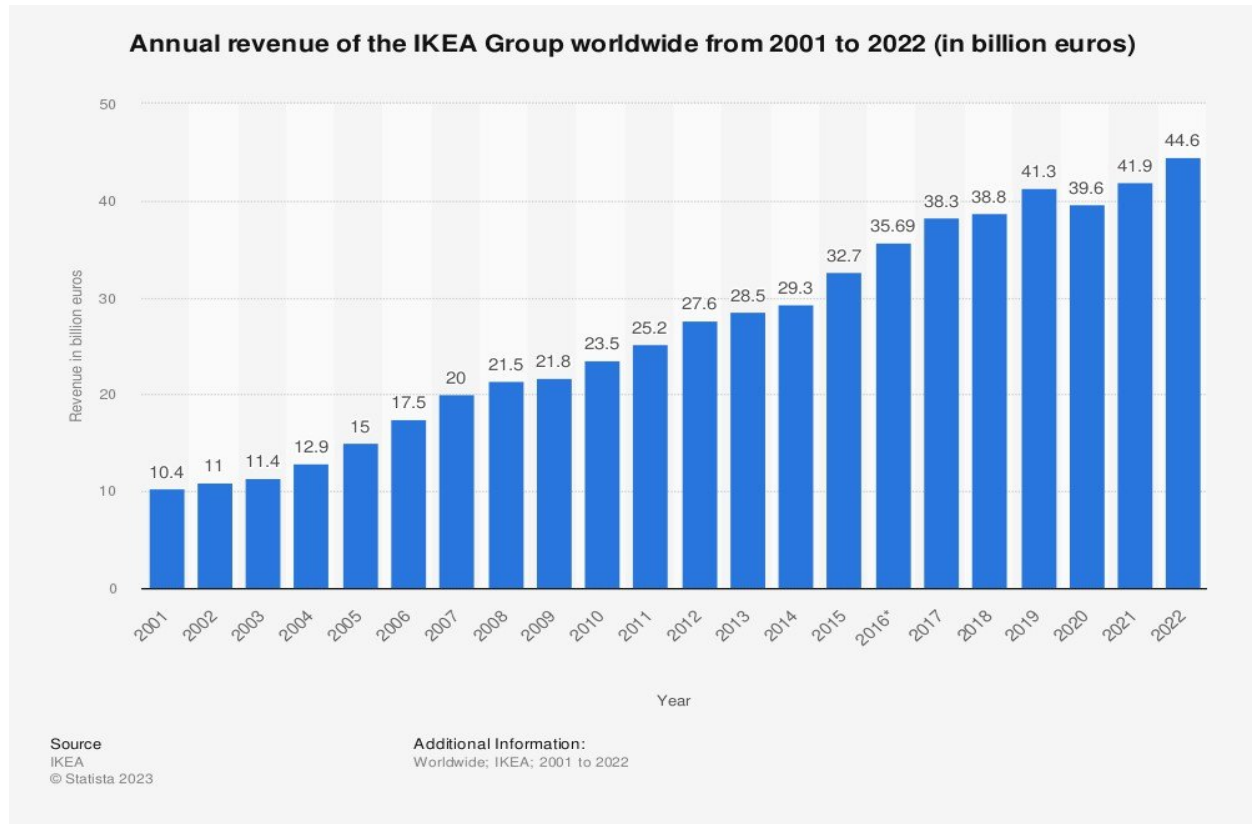


figure 3.1: Annual revenue of IKEA worldwide from 2001 to 2022 (Statista, 2022).

Source: <https://www-statista-com.abc.cardiff.ac.uk/statistics/264433/annual-sales-of-ikea-worldwide/>

Before overwhelming success, this business was founded by Ingvar Kamprad in 1943 as a Swedish mail-order service, while the first furniture store opened in 1958. Ingvar Kamprad (1926 – 2018) is recognized as a visionary and charismatic entrepreneur and founder, whose influence is strongly felt throughout the IKEA business (Thomsen, 2018, p.3). The organization's concept enables many to benefit from low-cost items that help more people live better lives at home, as opposed to selling expensive home furnishings that only a select few can afford. The way IKEA goods are created, produced, shipped, sold, and assembled is all governed by the IKEA Concept. Each of these elements helps to bring the IKEA concept to life. (Chopra, 2009a, p.5).

3.2 Applying Theoretical Framework:

IKEA is a successful example of Porter's Generic Strategies as it applies cost leadership tactics by offering products at an affordable price attracting a wide customer base. If a company can reach and sustain overall cost leadership, then it will be an extraordinary performer in its industry provided it can command prices at or near the industry average. A cost leader's low-cost advantage results in stronger returns at comparable or lower pricing than its competitors. A cost leader, however, cannot ignore the bases of distinction. A cost leader will have to offer prices much lower than rivals to attract customers if their product is not seen as equivalent or acceptable by consumers. This might offset the advantages of its advantageous cost position (Porter, 1985). As part of IKEA's global strategy, suppliers are typically found in low-cost countries that have dependable access to distribution networks and are close to raw materials. IKEA's job is to discover an efficient mix of low cost, standardization, technology, and quality in addition to centrally designing items and integrating operations globally. When it comes to working with subcontractors, IKEA uses its size in two ways. First, exert pressure on the subcontractors to increase their level of efficiency. However, as Porter notes in his Five Forces Model, if you become too significant to a particular supplier, they may push fiercely to obtain favourable pricing from IKEA. As a result, they have established a ceiling on the percentage of suppliers' production that they may purchase. Second, they may take advantage of its size to negotiate favourable prices with the vendors. This is accomplished by posing to the supplier as a sizable customer to gain some negotiating leverage over price (Zeller and Dimitriadis, 1994, p.6). All in all, this firm satisfied all the requirements necessary to prove cost leadership strategy.

Disruptive innovation is a concept that originated in the technology industry, but it was quickly adopted by enterprises all around the world. The fundamental feature of this form of innovation is that it may originate from outsiders in the business, and organizations that fail to adapt to the innovation are left behind. In such a context, IKEA has not only remained successful but has also been able to take its simple house design model to the various countries into which it has

expanded. The corporation has also altered its business model to fit the various markets, even going so far as to enter completely new and diverse companies to meet market demands (ALMAAZMI, 2017b, p.59). Thus, IKEA serves as an example of how organizations must manage themselves inside as well as externally to remain profitable in the face of disruptive innovation.

3.3 How IKEA Responds to the Challenge

IKEA's competitive advantage is built on affordability. Because of economies of scale and technological integration into many commerce forms, the global furniture distributor can offer affordable costs that are greatly appreciated. The corporation did not drastically boost the prices of its products. Instead developed the capabilities needed to reduce costs associated with fabrication, operations, and client procurement. In addition, the organization organizes various estimating factors that revolve around value-based estimating and cost-plus estimating methodologies to aid in the recommendation of an intriguing offering. Because the company is now the world's largest furniture retailer, it now has a cost authority advantage that allows it to set prices in advertisements (Mahamod, 2021, p.10). Additionally, it is vital to emphasize the fact that it targets the mass showcase to profit from mass consumer culture.

One of the main reasons for the dominance of IKEA is flat back design which revolutionized furniture making and home furnishing history. IKEA's global expansion came to light due to its development of flatpacks. Prices for the range's furnishings have dropped to an all-time low in the industry since this concept was used. It also allowed each retailer to carry a larger amount of product. Another effect is portability, which facilitates clients' large-scale goods transfers across shops. Lastly, IKEA flatpacks encouraged designers to take the challenge of creating functional products that are also clean and minimalist (IKEA,2023). The self-assembled concept reduces shipping costs and empowers customers to assemble products at home, enhancing both cost-effectiveness and convenience.

IKEA, as an organization, takes sustainability very seriously as they always want to offer how can solutions to their customers to use a more sustainable life at their homes. Along with that,

they took the initiative to reduce the carbon footprint from all company related operations and promoted use of natural resources within entire value chain in a sustainable manner. The goal of IKEA is to improve many people's daily lives. This goes well beyond merely giving a fantastic deal on home furnishings. Taking social and environmental responsibility for IKEA consumers, coworkers, and the people who make our goods is another aspect of it. Our ongoing efforts to become a sustainable company have reached a significant milestone with the decision to include sustainability in all of IKEA's business plans. (IKEA, 2009). IKEA launched two initiatives aimed at inspiring customers to adopt more sustainable everyday behaviours with the aid of smart IKEA products, which were promoted on TV and social media. It is estimated that typical home behaviours account for 71% of worldwide greenhouse gas emissions. The seemingly insignificant activities of each of us as we go about our daily lives contribute significantly to climate change. The findings of IKEA Climate Action provided the answer. It informed us that, while individuals were eager to make changes in their daily lives, many felt they lacked the necessary information and support. The mountain appeared to be too large and difficult to scale (WARC, 2023).

IKEA shops are typically enormous blue structures with few windows and yellow accents. They are built with a "one-way" arrangement that leads consumers down "the long natural way." This layout is intended to encourage customers to view the entire store (as opposed to a traditional retail store, which allows a consumer to go straight to the section where the goods and services required are displayed), though there are frequently shortcuts to other parts of the showroom (Chopra, 2009b,p.6).It also has several distinctive qualities such as 24x7 timing, restaurants that provide numerous classic Swedish foods as well as regional cuisine that differs by locality. It also has food stores and childcare facilities which creates a jubilant shopping environment.

By using clever tactics to tackle the challenge of affordability, emphasizing flatpack design to overcome self-assembly, providing sustainable products, and constantly creating innovative designs in this way, IKEA has successfully responded to the challenges in the furniture industry.

4. Conclusion

In conclusion, this essay explains how furniture evolves with time and changes customer styles and preferences according to their lifestyles. Additionally, it described how IKEA used a tremendous approach to address the challenges of producing cost-effective, affordable furniture in a highly volatile furniture market. IKEA reacted quickly when consumer preferences changed as most people shifted from traditional furniture to self-assembly, sustainability, and low-cost furniture. This company successfully applied theoretical frameworks like Porter's generic strategies of cost leadership and disruptive innovation. IKEA's greatest strength is its clear goal, which is to give value to its consumers regardless of market situations.

Innovation is key if a firm wants to remain at the top of the market, and IKEA managed to do so. Revolutionary flat-back design, which not only benefits customers but also the company as furniture comes in parts as it eliminates transportation costs. Along with that, its initiative to produce sustainable and eco-friendly goods attracts environmentalists. To replicate the success of IKEA for companies in the furniture industry or from different industries, knowledge of affordability can be put into application. Organizations in several industries can adapt to changing customer trends by strengthening their plans with working principles and improving competitiveness and feasibility. At the end of the day, it completely depends on getting away from the conventional way in which businesses have been run by competitors and putting more emphasis on identifying the worth of original ideas. Lastly, in my opinion, an organization is successful when there is a correct vision with a clear strategy and when they embrace innovation and adaptation without hesitation.

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