



IKEA

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IKEA (1943 – 2024)

IKEA has been a private company since its founding by Ingvar Kamprad in 1943,¹ with limited available information publicly regarding its historical financials and financing, including its private market valuation at different moments in time.²

Mental Model Summary Derived from IKEA

1. **IKEA's cost structure is significantly lower than that of its competitors by disintermediating middlemen, sourcing raw materials, having customers transport their own goods and assemble their own furniture, paying suppliers early for discounts, owning its own real estate, and designing its own products. This low-cost structure enables IKEA to offer the lowest pricing, which fuels higher sales volume, continuously pushing its flywheel.**

Internally, IKEA aims to price its products at least 20% lower than its competitors for similar items, with discounts often reaching 50%.³ In some cases, IKEA's products can be over 90% cheaper than comparable offerings from competitors. For instance, in 2024, IKEA's Poäng chair is priced at \$129, while a chair with similar design from a competitor costs \$2,850.

IKEA has a policy of paying suppliers within 30 days,⁴ which contrasts with the Net 30/60/90-day⁵ payment terms common in the retail industry. This approach can lead to lower prices and strong relationships with suppliers. IKEA's founder, Ingvar Kamprad, adopted this principle since the 1950s as a response to boycotts from larger competitors who pressured suppliers not to sell to IKEA. In order to continue purchasing from these suppliers and to get a discount, IKEA had to pay them much earlier than other businesses typically would. A 1957 report by the National Price and Cartel Commission highlighted that IKEA paid suppliers within 10 days, taking a 3% cash discount, whereas other manufacturers took the same discount but were able to delay payments for three to four months.⁶

Flat-packing is a key part of IKEA's strategy – it reduces transportation costs, saves space, prevents damage, and ultimately leads to lower prices for customers. IKEA involves customers directly in the distribution process, allowing them to pick up flat-packed furniture from warehouses attached to stores, transport it home, and assemble it themselves. This approach helps lower costs, which IKEA passes on through reduced prices.

When making investment decisions regarding store locations, IKEA always owns its store real estate and acquiring more space than is immediately needed, preparing for long-term growth. The company believes that land prices are unlikely to decrease over time,⁷ so IKEA acquires as much land as possible and constructs larger-than-necessary buildings to facilitate future expansion. Owning its real estate ensures that IKEA does not rely on landlords, giving the company control over rental costs. Moreover, owning property allows IKEA to update or expand stores as needed and benefit from potential property value appreciation.

IKEA designs its own products using both in-house designers and partnerships with external designers across its entire product range. In addition, IKEA manufactures some of its products for three main reasons: 1) in certain categories, IKEA's scale makes it difficult to find suitable external producers; 2) for critical categories such as board and solid wood products, IKEA retains production control to safeguard its proprietary techniques; and 3) in-house production serves as a reference for suppliers and as a competency center for material and production

¹ IKEA was founded by Ingvar in 1943 when he was 17, initially selling small items such as pens, wallets, and picture frames. The company later expanded into mail-order business with a wider product range, including furniture. In 1951, Kamprad opened its first furniture showroom. In 1958, the first IKEA store was opened.

² The limited private market valuation information we could find is in the Appendix.

³ Differentiation through Control of The Value Chain. *The IKEA Edge*; Chapter 6. *The IKEA Edge*.

⁴ Chapter 18. *The IKEA Edge*.

⁵ Net terms indicate how long a customer has to remit payment upon receipt of an invoice, commonly set at 30, 60, or 90 days.

⁶ Chapter 3. *Leading By Design*.

⁷ Chapter 12. *The IKEA Edge*.

innovation.⁸ **As of 2023, IKEA Industry AB, a strategic manufacturer under Inter IKEA,⁹ produces approximately 10% of IKEA's products, focusing primarily on wood-based furniture.¹⁰**

- 2. IKEA has fostered a culture of continuously reducing costs to deliver lower and lower prices to customers.** Even with prices already 20% to 50% lower than those of competitors, IKEA continues to strive for further reductions in prices. The company's founder, Ingvar Kamprad, was known for persistently asking, "How can we make it a little cheaper? What do you think? Of course we can."¹¹

This relentless focus on cost reduction has allowed IKEA to consistently deliver value to customers, driving long-term growth. From 1953, when IKEA opened its first showroom in Sweden, to 2024, the company's revenue grew at a CAGR 17%. During the same period, the number of IKEA stores grew at a 9% CAGR, reaching 476 locations worldwide.

IKEA reinvests cost savings into further lowering its retail prices and believes that it can grow its top-line revenue by offering lower prices¹² and, in turn, driving higher sales volume. An example of IKEA's effective executions to lower pricing and continuous efforts to deliver value to customers is the iconic Poäng chair, which sells over 1.5 million units annually. Introduced in 1976, the Poäng chair had sold more than 30 million units by 2016.¹³ Due to economies of scale, IKEA has been able to steadily reduce the price of the chair over the years. In 1990, the Poäng chair cost over \$300 in inflation-adjusted dollars (indexed to 2016), but by 2016, it was priced at just \$79, a reduction of more than 70%, according to ABC News.¹⁴ Even in 2024, the Poäng chair remains over 90% cheaper than a similar chair offered by a competitor.

- 3. IKEA is the low-price leader with greater selection in the furniture industry, targeting price-sensitive young, first-time home buyers with trendy, fashionable products that are smartly designed for both functionality and ease of assembly. Customers of furniture tend to be infrequent purchasers, and IKEA's offerings are tailored to meet their needs.**

According to a 2016 survey by Earnest,¹⁵ IKEA's core customer base is typically in their mid-20s to early 30s.¹⁶ **The survey, conducted among Earnest's clients, revealed that age 24 is the most common age for purchasing from IKEA.** While IKEA remains popular among customers through their late 20s and early 30s, its appeal declines after age 34, as older customers increasingly prefer traditional furniture stores or home improvement retailers, likely due to increased homeownership and related projects. Notably, IKEA was the only retailer in the study whose peak customer age was under 30.

The expected lifespan of most furniture pieces generally ranges from 10 to 15 years,¹⁷ though it varies depending on the item. For instance, sofas typically last between 7 and 15 years, tables can range from 15 to 50 years, chairs have a lifespan of 10 to 30 years, and beds generally last from 8 to 20 years, depending on various factors.

IKEA offers a broad range of products, including essential household furniture such as beds, tables, chairs, and wardrobes, as well as other home goods such as kitchenware, candles, and napkins. They also provide workspace furniture. **As of 2024, IKEA's catalog includes over 12,000 in-store products, making it a one-stop shop for home furniture and household needs. In comparison, many of its retail competitors in furniture**

⁸ Chapter 7. *The IKEA Edge*.

⁹ Inter IKEA Group operates as the franchisor of IKEA, owning the IKEA brand and concept, but does not directly run the retail side of the business; while the Ingka Group operates the majority of IKEA's retail business, about 90% of its revenues, and functions as a franchisee of IKEA.

¹⁰ Inter IKEA Group. Financial Summary 2023.

¹¹ Chapter 3. *Leading By Design*.

¹² Maintaining A Strong And Dynamic Corporate Culture. *The IKEA Edge*.

¹³ Poäng The Little-Known History Of Ikea's Most Famous Chair. <https://www.fastcompany.com/3063312/poang-the-little-known-history-of-ikeas-most-famous-chair>

¹⁴ The Weird Economics Of IKEA. <https://fivethirtyeight.com/features/the-weird-economics-of-ikea/>

¹⁵ A U.S. fintech company that offers student loans.

¹⁶ When Do You Outgrow Shopping at IKEA.

<https://web.archive.org/web/20170619131454/https://www.earnest.com/blog/shopping-at-ikea/>

¹⁷ How Long Should Furniture Last. <https://auramodernhome.com/blogs/the-modern/how-long-should-furniture-last>; When Is It Time to Replace Your Furniture. <https://www.parachutehome.com/blog/when-to-replace-furniture-couches-chairs-beds>; How Long Should Furniture Last. https://www.prime-furniture.com.au/blogs/inspiration-trends-how-tos/how-long-should-furniture-last?srltid=AfmBOooAjPi44PwHC7pITX6UAXlt4t5FGThD1mQAIiMBD_ZGRU-8oqHaB

carry in-store products in the low to mid-thousands range.¹⁸ For example, La-Z-Boy carries roughly 1,500 to 2,500 items in-store; Bernie & Phyl's carries anywhere from 500 to 2,000 items, depending on locations; and Ashley Furniture generally carries 1,000 to 1,500 items. Some furniture stores that focus more on home décor, such as Pottery Barn, may carry 5,000 to 10,000 items in-store, as these accessories do not take up much space.

4. Research suggests that building furniture on their own can psychologically increase the perceived value of IKEA products for customers. In addition, IKEA's maze-like, guided store layout creates a subtle sense of mystery, drawing customers deeper into the store. IKEA also publishes annual catalogs as a marketing tool to attract customers. These catalogs are distributed by mail to households near each store and are also available in-store and online.¹⁹

A psychology professor at Anglia Ruskin University explains that simply touching a product can increase its perceived value – and there is no better way to encourage touch than having customers assemble the furniture themselves.²⁰ This phenomenon, referred to by some scholars as the "IKEA effect," suggests that **the act of building an item, even if it requires effort such as sweat and stamina, leads to a more favorable perception of it compared to purchasing a pre-assembled version.**²¹ The more effort consumers invest, the more they tend to value the product.

IKEA showrooms are arranged in a four-leaf clover pattern (or close to it) to maximize customers' exposure to products, which are displayed in familiar mock-room settings that make the space feel like home. Unlike traditional furniture stores, where customers can walk directly to specific sections to pick up the items they need, IKEA's circular, one-way layout guides customers through every section – from living rooms to kitchens, workspaces, and bedrooms – before reaching the cafeteria and store exit. While there are potential shortcuts, taking them means missing several sections. Knowing it may be tricky to revisit an item later, customers are more likely to place items in their carts immediately when they see them, especially as touching the product fosters a sense of ownership and reduces the chance of leaving it behind.

With over 12,000 products, including both home furniture and various home goods, IKEA is a one-stop shop for household needs. Its maze-like, guided store layout creates a subtle sense of mystery, enticing customers to explore the store further.²² Research shows that environments perceived as mysterious are generally more engaging, encouraging further exploration. This design potentially increases the likelihood of impulse purchases, especially for smaller, lower-cost items such as candles, napkins, and picture frames, which appear inexpensive when they are placed next to larger items. The longer customers browse, the more likely they are to add items to their carts, boosting IKEA's sales potential.

The store layout is designed to keep customers in the store longer, giving them more time to make purchase decisions. IKEA's cafeteria is an integral part of this strategy. Ingvar Kamprad introduced food and beverages at the first IKEA store in 1958, initially offering coffee and cold dishes.²³ **He observed that "customers with full stomachs stay longer and buy more" and believed that "no good business is done on an empty stomach."**²⁴ The food at IKEA also has lower price tags. For instance, in 1995, IKEA's hot dogs cost SEK 5, roughly 50% to 70% cheaper than those of competitors (in hot dogs).²⁵

The cafeteria is not intended to be a profit center for IKEA. "Ingvar felt that the profit margin should be about 5% and should never exceed 10%. **He was keen to ensure that any profit over 5% in the restaurants and cafés**

¹⁸ Worldly Partners Calls.

¹⁹ How IKEA's Strategy Was Formed. INSEAD.

²⁰ The IKEA Effect How Ingvar Kamprad's Company Changed The Way We Shop. https://theconversation.com/the-ikea-effect-how-ingvar-kamprads-company-changed-the-way-we-shop-90896?utm_medium=email&utm_campaign=Latest%20from%20The%20Conversation%20for%20January%2031%202018%20-%2093597998&utm_content=Latest%20from%20The%20Conv

²¹ The "IKEA Effect" When Labor Leads to Love. Harvard Business School.

²² The IKEA Effect How Ingvar Kamprad's Company Changed The Way We Shop. https://theconversation.com/the-ikea-effect-how-ingvar-kamprads-company-changed-the-way-we-shop-90896?utm_medium=email&utm_campaign=Latest%20from%20The%20Conversation%20for%20January%2031%202018%20-%2093597998&utm_content=Latest%20from%20The%20Conv

²³ Restaurants That Make Customers Happy. <https://ikeamuseum.com/en/explore/the-story-of-ikea/the-worlds-biggest-restaurant/>

²⁴ Chapter 2. *Leading By Design*.

²⁵ Chapter 5. *Leading By Design*.

should be used to raise quality. For him and IKEA, the restaurants were never primarily about making money. We can do that with furniture and other home furnishing products. A good meal at a low price is a way of giving back to the customers. That's an important part of the overall experience of IKEA, just like that glass of squash that Ingvar offered at the furniture showroom in Älmhult. And as already mentioned, you can sell more sofa beds to happy customers with full stomachs, and you also strengthen the Swedish link to IKEA and its brand."²⁶

In 2017, IKEA ranked as the world's sixth-largest restaurant chain,²⁷ serving over 700 million customers annually.²⁸ The largest store restaurants have about 700 seats, with a minimum of 450 seats. According to a 2017 Forbes report, 30% of shoppers visit IKEA stores just to eat.²⁹

By 2023, the size of typical IKEA's flagship stores ranges from 215,000 square feet to over 500,000 square feet.³⁰ In comparison, showrooms of competitors such as Williams-Sonoma, La-Z-Boy, Room & Board, and Bed Bath & Beyond have an average size range of 10,000 to 60,000 square feet.³¹

The IKEA catalog, published annually, also plays a key role in attracting customers, especially in new markets unfamiliar with Scandinavian aesthetics. IKEA offers inspiration and solutions through its stores and catalogs, showcasing rooms fully furnished with IKEA products in various styles. Since its first print in 1950, before IKEA's first store even opened, the catalog has been an important tool for positioning IKEA as a brand,³² showcasing not only IKEA products but also a lifestyle. At its peak, 220 million copies were printed across 69 versions, in 32 languages, and in over 50 markets.

5. **IKEA operates in a large total addressable market worldwide, with low- to mid-single-digit CAGR in global demand, providing lots of runway for growth and likely strong payback periods.** Exact global furniture market data from the early decades is limited. However, a 1989 report from the European Commission (EC) revealed that the EC was the largest regional market in terms of furniture production, surpassing major economies at the time, such as the United States and Japan.³³ From 1980 to 1989, production value in the EC grew at a 3% CAGR, compared to 9% in the U.S. and 12% in Japan. This indirectly highlighted the international opportunities available for European home furniture companies, particularly as the market for home furnishings continued to expand globally.

Furthermore, a dataset cited by the Forest and Wildlife Research Center at Mississippi State University in a 2002 study showed that, from 1970 to 1999, sales of furniture and home furnishings in the U.S. grew from approximately \$26 billion to \$45 billion (indexed to 1983 dollars),³⁴ representing a CAGR of about 2%, indicating a large addressable market for IKEA to potentially enter, given that the company's overall sales were estimated to be only \$150 million in 1974.³⁵

²⁶ Restaurants That Make Customers Happy. <https://ikeamuseum.com/en/explore/the-story-of-ikea/the-worlds-biggest-restaurant/>

²⁷ The Future of Food IKEA. <https://www.ikea.cn/cn/en/this-is-ikea/newsroom/the-future-of-food-pub4dd5a66e>

²⁸ Restaurants That Make Customers Happy. <https://ikeamuseum.com/en/explore/the-story-of-ikea/the-worlds-biggest-restaurant/>

²⁹ From Sofas To Meatballs Ikea May Be The Next Player In The Restaurant Business. Forbes.

<https://web.archive.org/web/20170610043442/https://www.forbes.com/sites/michelinemaynard/2017/04/17/from-sofas-to-meatballs-ikea-may-be-the-next-player-in-the-restaurant-business/#3dd86ddf3128>

³⁰ Ikea Banks on New Store Formats to Sustain Success. <https://www.retaildive.com/news/ikea-new-store-formats/648706/#:~:text=%E2%80%9CIt's%20a%20smaller%20format%20in,to%20over%20500%20000%20square%20feet.>

³¹ Retailers with the Largest Average Store Square Footage U.S. 2018. <https://www.statista.com/statistics/1017706/retailers-with-the-largest-average-store-square-footage-us/>; Here's Who's Moving in to Empty Bed Bath & Beyond Stores. CBS Boston. <https://www.cbsnews.com/boston/news/bed-bath-beyond-empty-stores-burlington-vacant/>; Interview with Manager at Room & Board 3/22/2024.

³² The End of The Iconic IKEA Catalogue on Paper. <https://ikeamuseum.com/en/explore/the-story-of-ikea/an-icon-is-retired/#:~:text=The%20final%20push,Norway%2C%20South%20Korea%20or%20Australia.>

³³ The predecessor of European Union.

³⁴ Furniture Manufacturing & Marketing - Eight Strategic Issues for The 21st Century. Forest and Wildlife Research Center at Mississippi State University. <https://scholarworks.sfasu.edu/forestry/43/>

³⁵ Case Study: Ingvar Kamprad and IKEA. Harvard Business School.

Although information on the furniture market worldwide, or even in Europe, is limited for the period when IKEA was founded in the 1950s, Anders Dahlvig, IKEA's former CEO, noted that the furniture market remained fragmented and local,³⁶ a trend that largely continues today.

IKEA does not disclose specific information regarding the payback period of its stores. However, RH, reported in 2020 that its flagship locations, such as its New York store, had a payback period of less than two years, approximately 20 months.³⁷ Williams-Sonoma disclosed in 2018 that its new stores reached payback in just over one year.³⁸

IKEA's store count grew at a 9% CAGR from its first showroom in Sweden in 1953 (and its first official store in 1958) to 476 stores across 63 countries in 2024.³⁹ As of the fiscal year 2024, despite the world's largest furniture retailer, IKEA holds only a 5.7% share of the global market, maintaining the same share as in fiscal year 2023,⁴⁰ with total global sales reaching \$50 billion.

6. **IKEA has maintained a founder-led, owner-operated business, where management is deeply invested in the company's future and well-being and a promotional culture that prefers internal promotions for its managers vs. external hires.**

Thirty years after opening the first IKEA store in 1958, Ingvar Kamprad stepped down from an operational role in 1988. However, he continued to serve as a senior advisor to IKEA.

Since Kamprad's transition, IKEA's CEOs have typically held tenures ranging from four to ten years. From 1986 to 1999, Anders Moberg served as CEO, followed by Anders Dahlvig from 1999 to 2009. Mikael Ohlsson led the company from 2009 to 2013, succeeded by Peter Agnefjäll from 2013 to 2017. Since 2017, Jesper Brodin has held the role. **Kamprad continued as a senior advisor to the Supervisory Board until his passing in 2018.**⁴¹

Anders Dahlvig, a former CEO of the IKEA Group, remarked that many agree that almost all elements of IKEA's culture today are rooted in the values and characteristics of its founder, Ingvar Kamprad. Kamprad was known for his cost-consciousness, enthusiasm, and attention to detail,⁴² which continue to shape IKEA's corporate culture.

Dahlvig also remarks that IKEA's emphasis on hands-on experience was one of the reasons IKEA rarely hired senior management externally.⁴³ All of the company's CEOs since its founding rose through internal promotions. For instance, Anders Moberg, who served as CEO from 1986 to 1999, began his career at IKEA in administration, later becoming a store manager in Austria and Switzerland, and eventually leading IKEA's entry into France as country manager.

7. **IKEA has always maintained a conservative approach to financing,⁴⁴ following a policy of earning money before spending it. The company only borrows money for property construction.⁴⁵**

For many years, some board members advised Ingvar Kamprad to raise capital through the stock exchange to support expansion into new markets. However, Kamprad declined these suggestions, as he believed IKEA was about more than just capital – it was about people, ideas, culture, and history. Between 2008 and 2023, IKEA's debt-to-asset ratio is estimated to have declined from 35% to 1%, while during the same period, its equity-to-asset ratio increased from 50% to 83%.

³⁶ Chapter 12. *The IKEA Edge*.

³⁷ RH Special Call, 9/6/2018; Q1 2020 Earnings Call, 6/4/2020.

³⁸ Williams-Sonoma Q2 2018 Earnings Call. 8/22/2018.

³⁹ How We Work. <https://www.ikea.com/global/en/our-business/how-we-work/#:~:text=476%20IKEA%20stores%20in%2063%20markets&text=The%20first%20IKEA%20store%20opened%20in%201958%20in%20%C3%84lmhult%2C%20Sweden>

⁴⁰ Chapter 13. *The IKEA Edge*.

⁴¹ INGKA Group Yearly Summary 2017.

⁴² Differentiation through Control of The Value Chain. *The IKEA Edge*.

⁴³ Chapter 2. *The IKEA Edge*.

⁴⁴ Differentiation through Control of The Value Chain. *The IKEA Edge*.

⁴⁵ Chapter 18. *The IKEA Edge*.

Company Overview

We shall offer a wide range of home furnishing items of good design and function at prices so low that the majority of people can afford to buy them.

- IKEA's business motto⁴⁶

IKEA was founded in 1943 by Ingvar Kamprad, a 17-year-old entrepreneur from Småland, Sweden. The name IKEA is an acronym derived from Kamprad's initials, the name of his family farm, Elmtaryd, and his home village, Agunnaryd.⁴⁷ Initially, Kamprad's business involved selling small items such as pens, wallets, picture frames, and nylon stockings, using seed money provided by his father as a reward for his academic success. His focus was on providing needed goods at lower prices, establishing the cost-conscious approach that would later become central to IKEA's operations. Within a few years, Kamprad expanded into a mail-order business, offering a wider range of products, including ballpoint pens and eventually furniture.⁴⁸ Customers placed orders using a form from Kamprad, and the factories delivered. Furniture quickly began to dominate the business.⁴⁹ In 1950, recognizing the potential demand for home furnishings, Kamprad pivoted to selling furniture through a catalog, laying the foundation for IKEA's future.⁵⁰

In Sweden, furniture was traditionally custom-made and passed down through generations. This practice became increasingly impractical for younger households seeking new yet inexpensive furniture. Booming demand emerged, but interlocking agreements between manufacturers and retailers kept prices high, making furniture unattainable for many. Between 1935 and 1946, furniture prices rose 41% faster than other household goods.⁵¹ Kamprad identified this situation as both a social issue and a business opportunity, stating, "A disproportionately large part of all resources is used to satisfy a small part of the population... IKEA's aim is to change this situation. We shall offer a wide range of home furnishing items of good design and function at prices so low that the majority of people can afford to buy them... We have great ambitions." **Ingvar Kamprad saw opportunities to offer customers goods at the same prices bought from dealers, in some cases even lower, through direct purchase with no middlemen, displaying the items on brochures.**⁵²

Despite his ambitions, Kamprad faced significant challenges.⁵³ In 1951, his participation in the annual furniture trade fair was hindered by complaints from competitors accusing IKEA of selling imitation products. IKEA was eventually banned from selling directly at the fair and could only take orders. When that too was prohibited, IKEA resorted to having employees collect potential customers' contact information and following up afterward. In addition, Swedish furniture suppliers, pressured by larger retailers, began boycotting IKEA due to its low prices.⁵⁴ Kamprad responded by seeking independent Swedish manufacturers and, when necessary, alternative suppliers abroad, particularly in Poland, where lower production costs allowed him to maintain or even further reduce IKEA's prices.⁵⁵

The boycott also led IKEA to design its own furniture. In *Leading by Design*, Ingvar Kamprad remarks that,

"In IKEA's business philosophy, the whole matter should be inscribed as a golden rule: regarded every problem as a possibility. New problems created a dizzying chance. When we were not allowed to buy the same furniture that others were, we were forced to design our own, and that came to provide us with a style of our own, a design of our own. And from the necessity to secure our own deliveries, a chance arose that in its turn opened a whole new world to us. That chance was to be called Europe or, to be more precise, Poland."⁵⁶

⁴⁶ Chapter 4. *Leading By Design*.

⁴⁷ 1940s-1950s – IKEA.

https://web.archive.org/web/20200101003514/https://www.ikea.com/ms/en_AU/about_ikea/the_ikea_way/history/1940_1950.html

⁴⁸ Case Study: Ingvar Kamprad and IKEA. Harvard Business School.

⁴⁹ Chapter 2. *Leading By Design*.

⁵⁰ 1940s-1950s – IKEA.

https://web.archive.org/web/20200101003514/https://www.ikea.com/ms/en_AU/about_ikea/the_ikea_way/history/1940_1950.html; Time Travelling with IKEA Catalogues 1951-2021 - IKEA Museum. <https://ikeamuseum.com/en/explore/ikea-catalogue/>

⁵¹ Case Study: Ingvar Kamprad and IKEA. Harvard Business School.

⁵² Chapter 2. *Leading By Design*.

⁵³ Case Study: Ingvar Kamprad and IKEA. Harvard Business School.

⁵⁴ Case Study: IKEA: Past, Present, And Future. International Institute for Management Development, Lausanne, Switzerland.

⁵⁵ Case Study: Ingvar Kamprad and IKEA. Harvard Business School.

⁵⁶ Chapter 3. *Leading By Design*.

In 1953, Ingvar Kamprad converted a carpentry factory that was closing down in Älmhult, Sweden, into a showroom, allowing customers to see and experience the furniture before making purchases.⁵⁷ This innovation came during a price war with a key competitor and helped IKEA demonstrate the function and quality of its products, despite pricing them low.⁵⁸ According to IKEA, the concept was a success, as people chose products offering the best value for money.⁵⁹ Kamprad recalled, "At that moment, the basis of the modern IKEA concept was created, and in principle, it still applies: first and foremost, use a catalog to tempt people to come to an exhibition, which today is our store. 'Come and see us in Älmhult and convince yourself that...' we wrote on the back of the first catalog."⁶⁰

The first physical IKEA store opened in 1958 in Älmhult, covering 6,700 square meters (about 72,000 square feet), making it the largest furniture display in Scandinavia at the time.⁶¹

By 2023, IKEA flagship stores typically range in size from 215,000 to over 500,000 square feet. Some IKEA's smaller stores located in dense downtown districts range from 19,000 to just under 200,000 square feet.⁶² In comparison, showrooms of competitors such as Williams-Sonoma, La-Z-Boy, Room & Board, and Bed Bath & Beyond have an average size range of 10,000 to 60,000 square feet.⁶³

⁵⁷ IKEA Expands And Develops During The 1940s. <https://ikeamuseum.com/en/explore/the-story-of-ikea/maybe-furniture/>; World's First IKEA Store Becomes A Reality. <https://ikeamuseum.com/en/explore/the-story-of-ikea/the-first-ikea-store/>

⁵⁸ Differentiation through Control of The Value Chain. *The IKEA Edge*.

⁵⁹ 1940s-1950s – IKEA.

https://web.archive.org/web/20200101003514/https://www.ikea.com/ms/en_AU/about_ikea/the_ikea_way/history/1940_1950.html

⁶⁰ Chapter 2. *Leading By Design*.

⁶¹ 1940s-1950s – IKEA.

https://web.archive.org/web/20200101003514/https://www.ikea.com/ms/en_AU/about_ikea/the_ikea_way/history/1940_1950.html

⁶² Ikea Banks on New Store Formats to Sustain Success. <https://www.retaildive.com/news/ikea-new-store-formats/648706/#:~:text=%E2%80%9CIt's%20a%20smaller%20format%20in,to%20over%20500%2C000%20square%20feet.>

⁶³ Retailers with the Largest Average Store Square Footage U.S. 2018. <https://www.statista.com/statistics/1017706/retailers-with-the-largest-average-store-square-footage-us/>; Here's Who's Moving in to Empty Bed Bath & Beyond Stores. CBS Boston. <https://www.cbsnews.com/boston/news/bed-bath-beyond-empty-stores-burlington-vacant/>; Interview with Manager at Room & Board 3/22/2024.

Figure 1: First IKEA Store in Älmhult, Sweden 1958⁶⁴



IKEA's sales, with only one location back then, grew exponentially, from SEK 3 million in 1953 to SEK 6 million by 1955 and over SEK 40 million by 1961, about 80 times larger than an average furniture store at the time.⁶⁵ IKEA quickly became one of the largest players in the Swedish furniture industry. Innovations such as self-service shopping, informative catalogs, flat-pack furniture (allowing for easy transportation and storage), and large suburban stores with ample parking helped lower costs and streamline the shopping process. In 1965, IKEA opened its second store, the largest in Europe at the time, on the outskirts of Stockholm.⁶⁶ The concept of allowing customers to retrieve their purchases from the warehouse, first suggested during the chaotic opening of the Stockholm store, became a signature of IKEA's operations, reducing costs and increasing efficiency. **These innovations reinforced IKEA's reputation as a low-price leader, while its focus on young, first-time homebuyers (in contrast to the more affluent older customers targeted by traditional retailers) helped secure its market position.** By 1973, IKEA had opened seven additional stores in Scandinavia, capturing 15% of the Swedish furniture market.⁶⁷

As the Swedish furniture market stagnated in the early 1970s, partially due to the 1973 oil crisis,⁶⁸ Kamprad sought international expansion. An IKEA employee recalled that IKEA's low-cost, value-for-money approach allowed it to thrive even in difficult economic times. Kamprad targeted Switzerland as IKEA's first international market because German-speaking countries constituted the largest market for furniture in Europe, and Swiss furniture retailing, similar to Sweden,

⁶⁴ What The First Ikea Store in Älmhult, Sweden Looked Like 1958. Business Insider.

<https://web.archive.org/web/20190911212415/https://www.businessinsider.com/ikea-first-store-history-in-sweden-in-1958-2019-9>

⁶⁵ Case Study: Ingvar Kamprad and IKEA. Harvard Business School.

⁶⁶ Case Study: Ingvar Kamprad and IKEA. Harvard Business School.

⁶⁷ Case Study: Ingvar Kamprad and IKEA. Harvard Business School.

⁶⁸ Case Study: Ingvar Kamprad and IKEA. Harvard Business School.

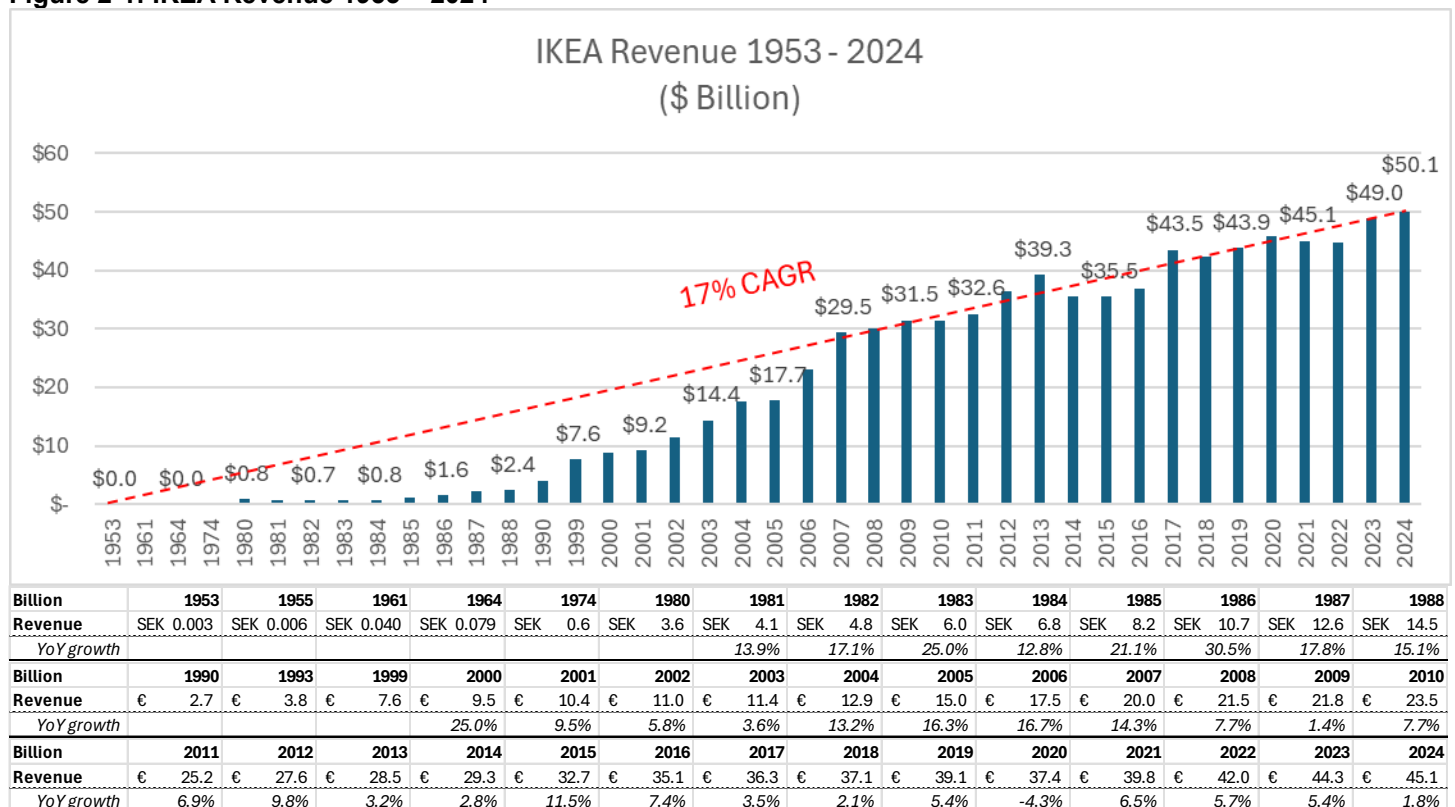
was highly fragmented and full of small, downtown retailers. The exact market share information on the industry was limited during that time, but 67% of all furniture companies employed three people or less, implying a highly fragmented market. In 1973, IKEA opened a store in the Zurich suburbs, taking advantage of the area's wealth, which said to have 20% of the country's purchasing power, and its demand for contemporary design.⁶⁹ The self-service, cash-and-carry model, combined with IKEA's affordable prices and ready-to-assemble furniture, was a success, attracting over 650,000 visitors in the first year.

The success in Switzerland paved the way for IKEA's entry into Germany in 1974, where the market was similarly fragmented. German retailers often operated as order takers for manufacturers, holding little inventory and requiring customers to wait weeks for delivery. IKEA differentiated itself by offering affordable prices, immediate delivery, and the quality associated with the Swedish Möbelfakta seal. The Munich store attracted 37,000 visitors within its first three days.

Throughout the 1980s, IKEA continued expanding across Europe and began franchising stores outside of Europe, extending its global reach.⁷⁰

By the end of fiscal year 2024, IKEA had achieved global sales of over €45 billion (approximately \$50 billion), with a 17% CAGR over nearly seven decades. With 476 retail stores in 63 markets,⁷¹ IKEA has become a global leader in the furniture industry. As of 2023, Germany remained IKEA's largest market, generating 15.4% of its revenue, followed closely by the United States at 14.5%.⁷² Furniture sales is estimated to account for 70% of the company's total revenue, while the remaining 30% comes from accessories such as kitchenware, home organization items, and textiles.⁷³

Figure 2-1: IKEA Revenue 1953 – 2024⁷⁴



Notes:

1. Ingvar Kamprad opened his first furniture showroom in 1953 and opened the first IKEA store in 1958.

⁶⁹ Case Study: Ingvar Kamprad and IKEA. Harvard Business School.

⁷⁰ Case Study: Ingvar Kamprad and IKEA. Harvard Business School.

⁷¹ How We Work – IKEA Global. <https://www.ikea.com/global/en/our-business/how-we-work/>

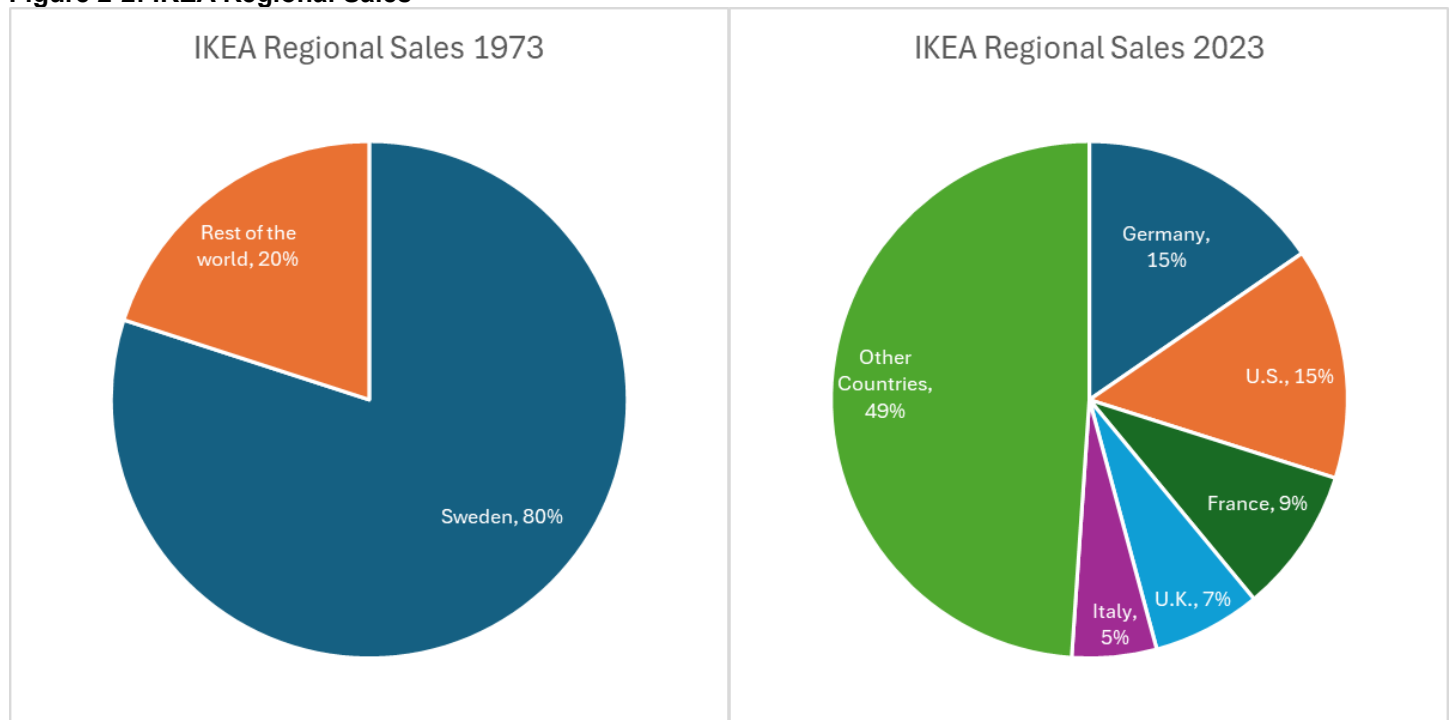
⁷² INGKA Group Yearly Summary 2023.

⁷³ Interview with Former Supply Chain Manager at IKEA. 7/26/2022.

⁷⁴ Company case studies; Company documents.

2. The revenue data before 1988 was originally reported in Swedish Krona, while data since 1999 is in Euros. For consistency in the chart above, we converted all revenue figures to USD using year-end exchange rates provided by the Bank of International Settlements.⁷⁵
3. Most of the data above (1999–2023) is sourced from the financial records of IKEA Group. IKEA operates under a franchise model, established in the 1980s, where multiple companies use the IKEA brand. Inter IKEA Group is the franchisor and owner of the IKEA brand and concept, with IKEA Group being the largest franchisee, responsible for over 90% of IKEA's global sales. For example, in 2016, IKEA Group reported revenue of €35.1 billion, while global sales reached €36.4 billion. From 2017 to 2023, IKEA's global sales were €38.3 billion, €38.8 billion, €41.3 billion, €39.6 billion, €41.9 billion, €44.6 billion, and €47.6 billion, respectively. For 2024, based on available data, we use IKEA's global sales of €45.1 billion.
4. Revenue data above from 1953 to 1988 are stated in Swedish Krona because euro was not launched until 1999.⁷⁶ Revenue data in 1990 and 1993 were sourced from *The IKEA Edge* and Harvard case study.⁷⁷

Figure 2-2: IKEA Regional Sales



Notes:

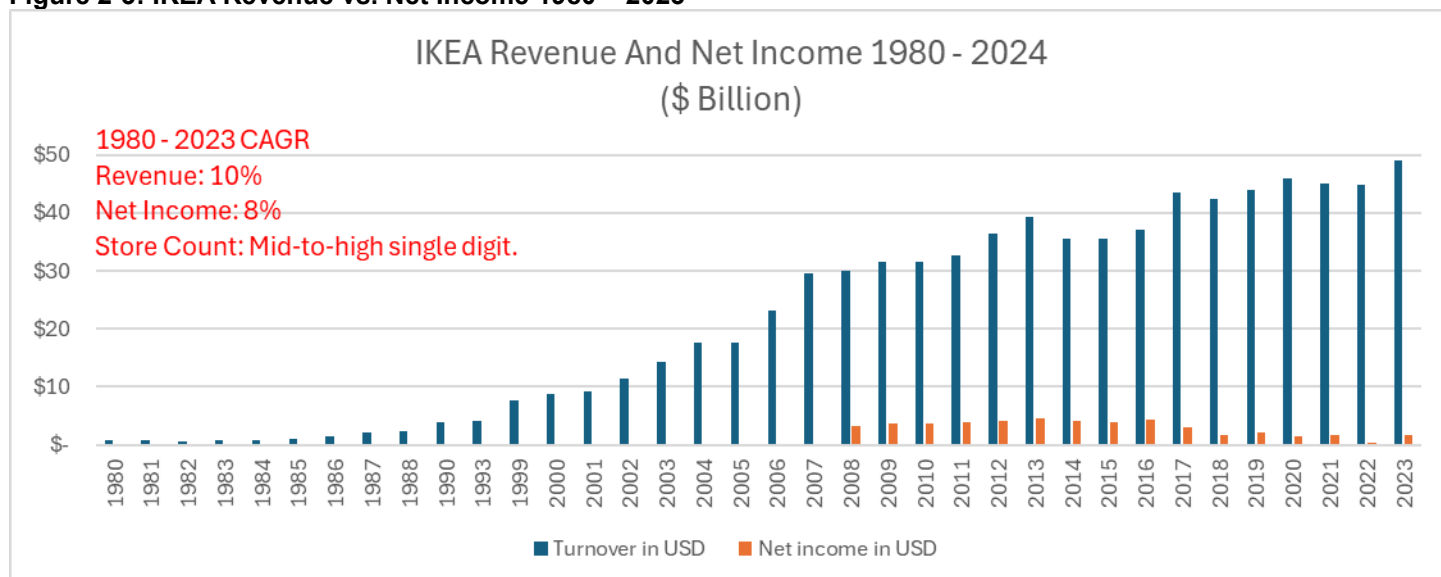
1. The revenue breakdown of 2023 reflects only the stores under INGKA Group, IKEA's largest franchisor, representing nearly 90% of IKEA's overall revenue.
2. INGKA Group only discloses the top 5 countries of its sales in 2023.

⁷⁵ Exchange Rates Against USD, Euro Area, EUR/USD. https://data.bis.org/topics/CPMI_CT/BIS,WS_XRU,1.0/A.XM.EUR.E; Exchange Rates Against USD, Sweden, SEK/USD. https://data.bis.org/topics/CPMI_CT/BIS,WS_XRU,1.0/A.SE.SEK.E

⁷⁶ Euro – History And Purpose. https://european-union.europa.eu/institutions-law-budget/euro/history-and-purpose_en#:~:text=After%20a%20decade%20of%20preparations,changeover%20in%20history%20took%20place.

⁷⁷ Case Study: IKEA Invades America. Harvard Business School.

Figure 2-3: IKEA Revenue vs. Net Income 1980 – 2023



Billion	1980	1981	1982	1983	1984	1985	1986	1987	1988	1990	1993	1999
Revenue	SEK 3.6	SEK 4.1	SEK 4.8	SEK 6.0	SEK 6.8	SEK 8.2	SEK 10.7	SEK 12.6	SEK 14.5	€ 2.7	€ 3.8	€ 7.6
YoY growth		13.9%	17.1%	25.0%	12.8%	21.1%	30.5%	17.8%	15.1%			
Net profit	SEK 0.3	SEK 0.3	SEK 0.3	SEK 0.4	SEK 0.5	SEK 0.5	SEK 0.6	SEK 0.9	SEK 1.1			
YoY growth		12.0%	7.1%	40.0%	19.0%	0.0%	26.0%	47.6%	18.3%			
Billion	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Revenue	€ 9.5	€ 10.4	€ 11.0	€ 11.4	€ 12.9	€ 15.0	€ 17.5	€ 20.0	€ 21.5	€ 21.8	€ 23.5	€ 25.2
YoY growth	25.0%	9.5%	5.8%	3.6%	13.2%	16.3%	16.7%	14.3%	7.7%	1.4%	7.7%	6.9%
Net profit				€ 1.4		€ 1.9		€ 2.3	€ 2.5	€ 2.7	€ 3.0	
YoY growth									11.3%	5.9%	10.3%	
Billion	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	€ 27.6	€ 28.5	€ 29.3	€ 32.7	€ 35.1	€ 36.3	€ 37.1	€ 39.1	€ 37.4	€ 39.8	€ 42.0	€ 44.3
YoY growth	9.8%	3.2%	2.8%	11.5%	7.4%	3.5%	2.1%	5.4%	-4.3%	6.5%	5.7%	5.4%
Net profit	€ 3.2	€ 3.3	€ 3.3	€ 3.5	€ 4.2	€ 2.5	€ 1.5	€ 1.8	€ 1.2	€ 1.6	€ 0.3	€ 1.5
YoY growth	8.0%	3.1%	0.8%	5.5%	19.6%	-41.1%	-40.6%	23.8%	-34.6%	32.8%	-81.8%	425.1%

Notes:

1. The above chart starts from 1980 because that is when the earliest net profit is available from public sources.
2. The revenue data before 1988 was originally reported in Swedish Krona, while data since 1999 is in Euros. For consistency in the chart above, we converted all revenue figures to USD using year-end exchange rates provided by the Bank of International Settlements.⁷⁸
3. Most of the data above (1999–2023) is sourced from the financial records of IKEA Group. IKEA operates under a franchise model, established in the 1980s, where multiple companies use the IKEA brand. Inter IKEA Group is the franchisor and owner of the IKEA brand and concept, with IKEA Group being the largest franchisee, responsible for over 90% of IKEA's global sales. For example, in 2016, IKEA Group reported revenue of €35.1 billion, while global sales reached €36.4 billion. From 2017 to 2023, IKEA's global sales were €38.3 billion, €38.8 billion, €41.3 billion, €39.6 billion, €41.9 billion, €44.6 billion, and €47.6 billion, respectively. For 2024, based on available data, we use IKEA's global sales of €45.1 billion.
4. Revenue data above from 1953 to 1988 are stated in Swedish Krona because euro was not launched until 1999.⁷⁹ Revenue data in 1990 and 1993 were sourced from *The IKEA Edge* and Harvard case study.⁸⁰
5. Historically (prior to August 2016), product development and supply chain companies were owned and operated by IKEA Group under a non-exclusive agreement with Inter IKEA Group. However, as of August 31, 2016, Inter IKEA Group acquired these companies.⁸¹ Following this transaction, IKEA Group's financial results no longer included those

⁷⁸ Exchange Rates Against USD, Euro Area, EUR/USD. https://data.bis.org/topics/CPMI_CT/BIS,WS_XRU,1.0/A.XM.EUR.E; Exchange Rates Against USD, Sweden, SEK/USD. https://data.bis.org/topics/CPMI_CT/BIS,WS_XRU,1.0/A.SE.SEK.E

⁷⁹ Euro – History And Purpose. https://european-union.europa.eu/institutions-law-budget/euro/history-and-purpose_en#:~:text=After%20a%20decade%20of%20preparations,changeover%20in%20history%20took%20place.

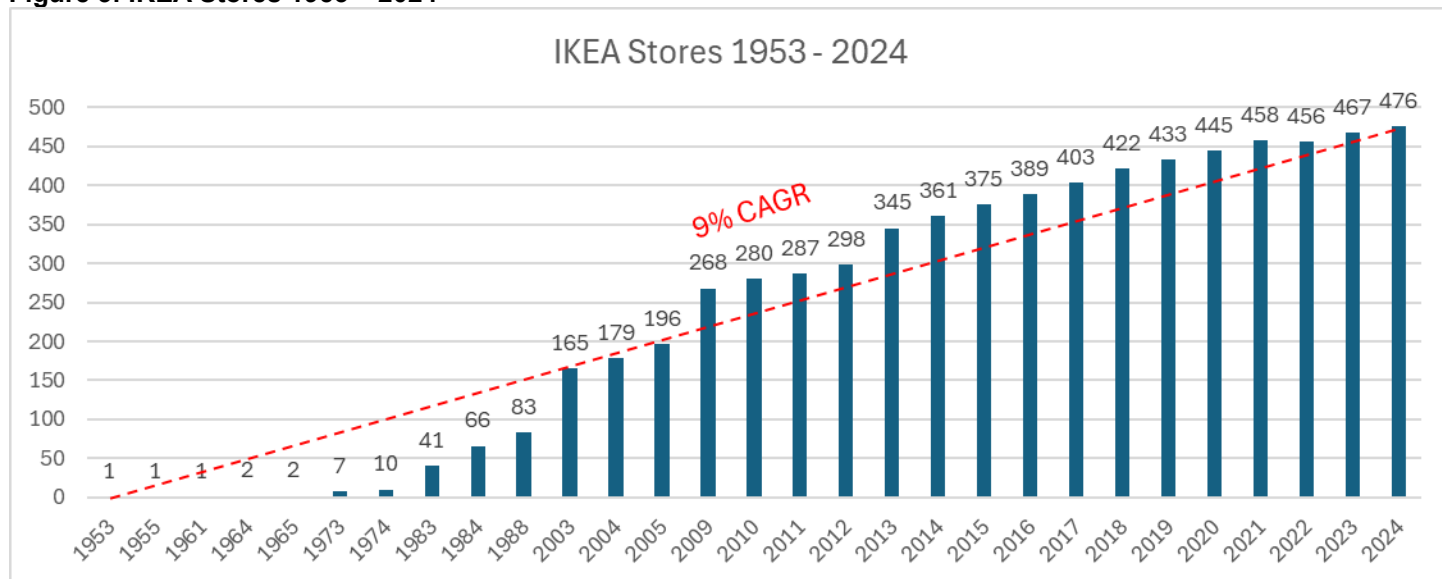
⁸⁰ Case Study: IKEA Invades America. Harvard Business School.

⁸¹ INGKA Group Yearly Summary 2016.

from the production and supply chain companies that were sold. The decline in operating results was mainly driven by the loss of profit from the companies that were sold in the transaction, as well as the increased costs of IKEA Retail to support multichannel growth and expansion.⁸²

6. IKEA's net profit continued to decline in 2018 due to the transaction in 2016. IKEA underwent a significant transition aiming to become more accessible. The company expanded its digital services, invested in new stores and fulfilment units, and opened new store formats in city centers to make IKEA more accessible. IKEA also continued to develop its e-commerce platform to meet the demand for online shopping.⁸³
7. The store count in 1980 was estimated to be around 25 as the middle point of 10 in 1974 and 41 in 1983, as public available data shows.

Figure 3: IKEA Stores 1953 – 2024⁸⁴



Notes:

1. Ingvar Kamprad opened his first furniture showroom in 1953 and opened the first IKEA store in 1958.
2. Prior to 2013, the store counts in the chart above only reflect those franchised under IKEA Group due to limited information. Stores franchised by other IKEA franchisees were not included. From 2013 onward, including 2013, the store counts shown represent the total number of IKEA stores globally. Between 2013 and 2022, the estimated number of stores operated by franchisees outside of IKEA Group was 42, 46, 47, 49, 48, 55, 59, 67, 66, and 77, respectively.⁸⁵

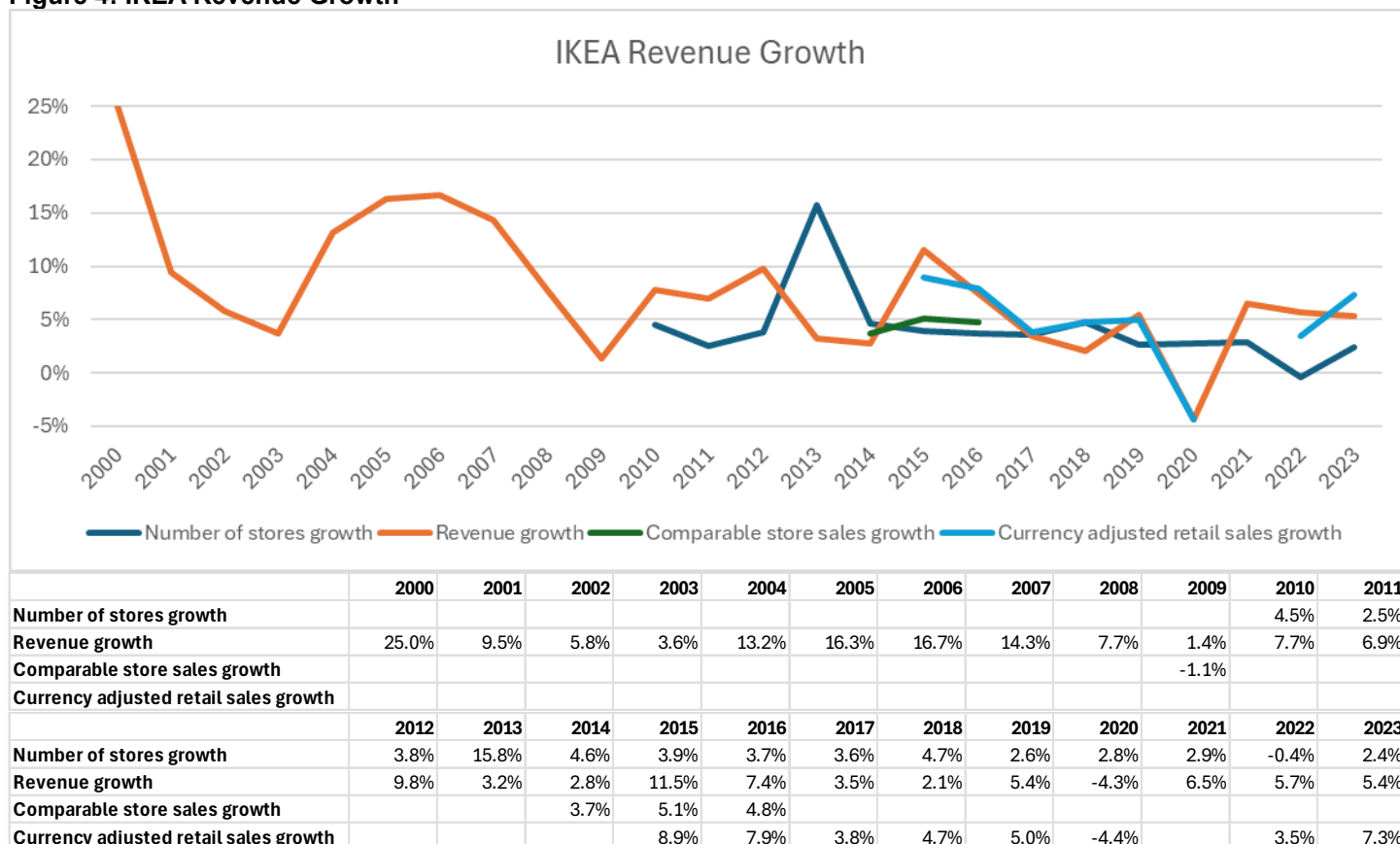
⁸² INGKA Group Yearly Summary 2017.

⁸³ INGKA Group Financial Summary 2018.

⁸⁴ Company case studies; Company documents.

⁸⁵ Estimated from IKEA Group Yearly Summary 2017-2020; IKEA Sustainability Report 2021-2022; and Inter IKEA Group Yearly Summary 2017-2022.

Figure 4: IKEA Revenue Growth



Notes:

1. Growth rates in the chart above are on a year-over-year basis.
2. **IKEA does not disclose the comparable store sales growth.**
3. **IKEA does not disclose the payback period of its stores.**

Home Furniture Industry Overview

The home furniture sector has been notably stable compared to other retail industries. The designs of chairs and tables have stayed relatively unchanged for hundreds of years, and the industry has experienced little disruption,⁸⁶ unlike more dynamic sectors such as technology. According to Anders Dahlvig, a former CEO of IKEA, most of the innovation in home furnishings retail has, in fact, been driven by IKEA. The static nature of the industry provided an environment where IKEA could develop at its own pace, facing minimal external pressure. A consultant in the home furniture industry remarks that "Before IKEA came along, furniture shopping was a laborious task that a lot of people dreaded because they felt like they were making a decision they had to live with for 30 years... Then IKEA showed up and said, you can buy something and use it for a couple of years – or you can keep it longer – but this isn't necessarily something you're going to pass down to your kids or your grandkids. That was a remarkable transition."⁸⁷

IKEA also revolutionized the shopping experience in furniture by creating a destination rather than just a typical furniture store. Instead of grouping similar furniture, such as sofas or beds, in one section, IKEA arranges its furniture by rooms to show how different pieces work together, making it easy for customers to envision them in their own homes. Beyond furniture, IKEA provides a full experience, including display ideas, decor inspiration, and an in-store cafeteria for customers to enjoy while they shop. IKEA also made well-designed furniture accessible to people of all income levels, transforming a previously bulky, expensive market with weeks-long delivery times into a simple experience where customers could purchase and take home their new furniture directly from the store in flat packs.

⁸⁶ Differentiation through Control of The Value Chain. *The IKEA Edge*.

⁸⁷ Ikea Has Changed The Way We Think about Furniture. The Washington Post.

https://web.archive.org/web/20180128204625/https://www.washingtonpost.com/news/business/wp/2018/01/28/ikea-has-changed-the-way-we-think-about-furniture/?utm_term=.f85ae585e614

As mentioned in the beginning of this article, Ingvar Kamprad initially started IKEA as a mail-order business, taking orders from customers and delivering goods from manufacturers. He soon realized that many products, though inexpensive to produce, became costly by the time they reached customers due to inefficiencies in distribution, such as packaging and transportation. **IKEA saw the benefits of self-assembled furniture and the cost-saving potential of flat-pack designs, which significantly reduced storage and shipping costs.**⁸⁸

Some of IKEA's other innovations extended to transportation. For instance, in 2011, IKEA introduced cardboard crates to replace traditional wooden ones in its shipping containers as a cost-cutting measure. Although this change required a company-wide shift to forklifts compatible with the new crates, the cardboard crates were only half as tall, allowing IKEA to load more products into stores and containers than before. While the exact cost savings were not disclosed, IKEA noted that a 2%-3% price reduction was achieved across its 10,000+ product range in 2011, with further reductions expected in 2012. This took place during a time when many other retailers were raising prices due to higher commodity costs.⁸⁹ **IKEA's relentless pursuit of thousands of small improvements, which Mikael Ohlsson, then CEO at IKEA, called "IKEA's engine," applies to every aspect of the company's operations, from sourcing raw materials to the customer's role in transporting and assembling furniture. Prior to that, between 1999 and 2009, IKEA also managed to reduce prices by 20%.**⁹⁰

Although detailed data on the furniture industry from the 1950s and 1960s is limited, several general characteristics are evident. During this period, the furniture and home furnishings business was conservative and fragmented.⁹¹ The designs were mostly traditional, catering to older, more established households. The market was dominated by small specialty shops, often located in city centers, and focused on high-priced furniture. Merchants typically offered fully assembled furniture, produced locally and ready for immediate use.

While it is difficult to measure IKEA's total addressable market globally, or even just in Europe, at its founding in the 1950s, Anders Dahlvig, IKEA's former CEO, noted that the furniture market has remained fragmented and local,⁹² a trend that largely continues today. In 1999, with over 80% of its sales from Europe, IKEA's market share ranged from 3% to 5% in most European markets outside Sweden,⁹³ with total sales under \$8 billion. As of fiscal year 2024, IKEA holds a 5.7% global market share, maintaining the same share as in fiscal year 2023,⁹⁴ with total global sales reaching \$50 billion.

By the late 1980s, Europe had emerged as a significant player in the global furniture market. A 1989 report from the European Commission (EC), the predecessor of the European Union, revealed that the EC was the largest regional market in terms of furniture production, surpassing major economies such as the United States and Japan.⁹⁵ From 1980 to 1989, the production value in the EC grew at a 3% CAGR, compared to 9% in the U.S. and 12% in Japan. This highlights the international opportunities available for European home furniture companies at that time, especially as the global market for home furnishings continued to expand.

⁸⁸ Chapter 3. *Leading By Design*.

⁸⁹ Frugal Mindset Continues to Guide IKEA. WSJ. <https://www.wsj.com/articles/SB10001424052702304584004576417691081469746>

⁹⁰ Chapter 6. *The IKEA Edge*.

⁹¹ Differentiation through Control of The Value Chain. *The IKEA Edge*.

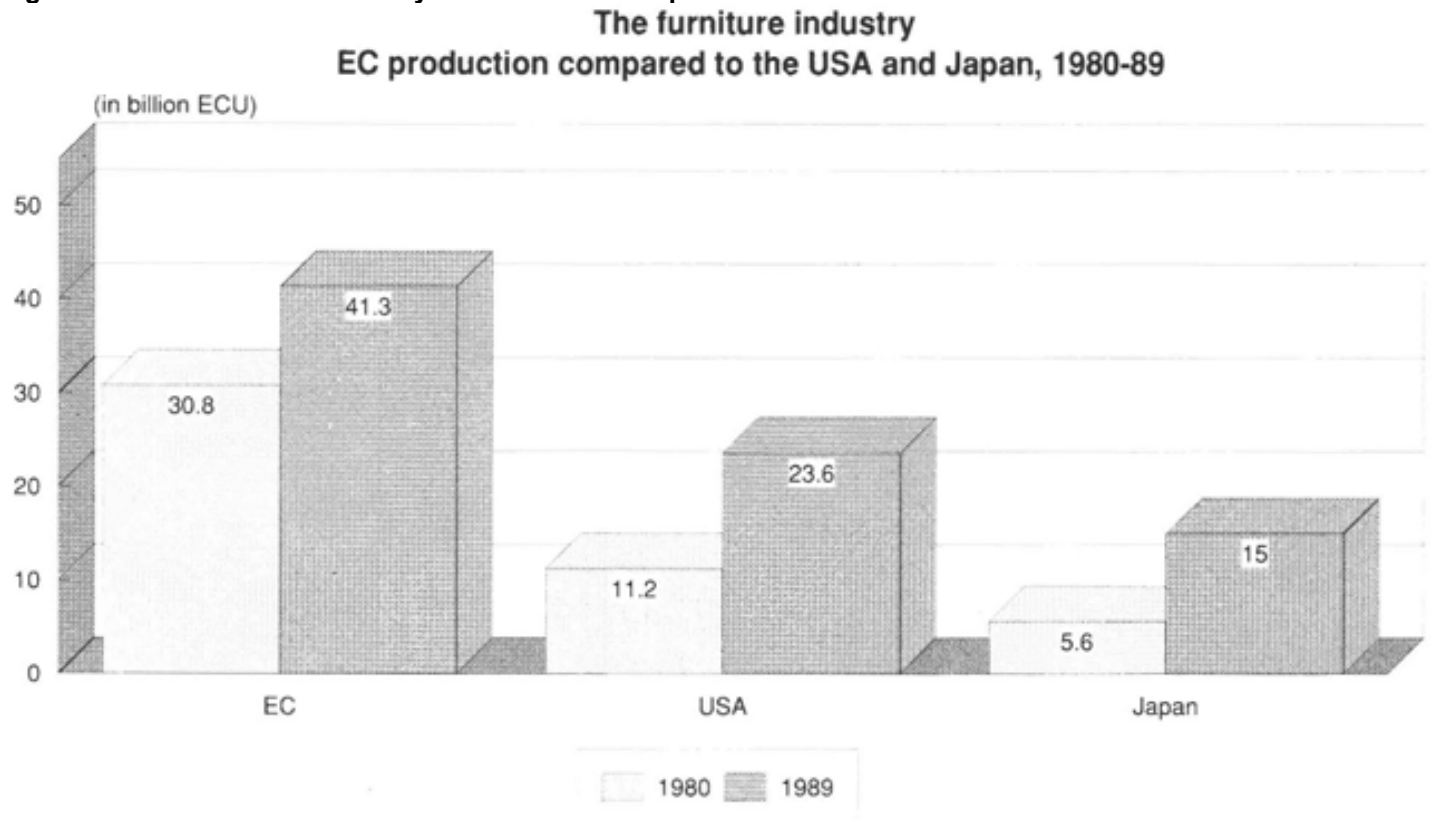
⁹² Chapter 12. *The IKEA Edge*.

⁹³ Chapter 13. *The IKEA Edge*.

⁹⁴ Chapter 13. *The IKEA Edge*.

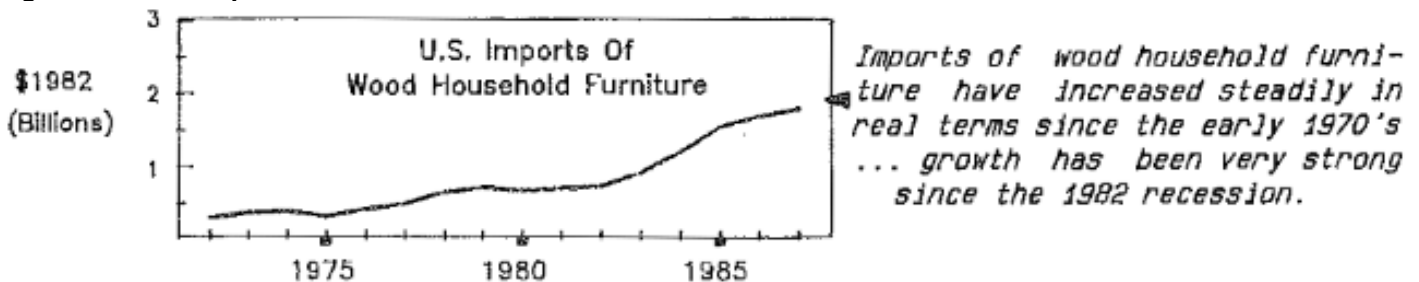
⁹⁵ EC Furniture Industry 1989. NACE 467, 316.6.

Figure 5-1: The Furniture Industry EC vs. U.S. and Japan 1980 – 1989⁹⁶



Source: Eurostat, DRI Europe

Figure 5-2: U.S. Imports of Wood Household Furniture 1972 – 1987⁹⁷



Furthermore, a dataset cited by the Forest and Wildlife Research Center at Mississippi State University in a 2002 study showed that, from 1970 to 1999, sales of furniture and home furnishings in the U.S. grew from approximately \$26 billion to \$45 billion (indexed to 1983 dollars),⁹⁸ representing a CAGR of about 2%, indicating a large addressable market for IKEA to potentially enter, given that the company's overall sales were estimated to be only \$150 million in 1974.⁹⁹

A dataset on retail sales in U.S. furniture and home furnishings stores shows that the market grew from \$52 billion in 1992 to \$139 billion in 2023, reflecting a CAGR of 3.2%. Based on these figures, IKEA's U.S. market share in the furniture and home furnishings segment was under 5% in 2023, with \$6.3 billion in sales.¹⁰⁰

⁹⁶ EC Furniture Industry 1989. NACE 467, 316.6.

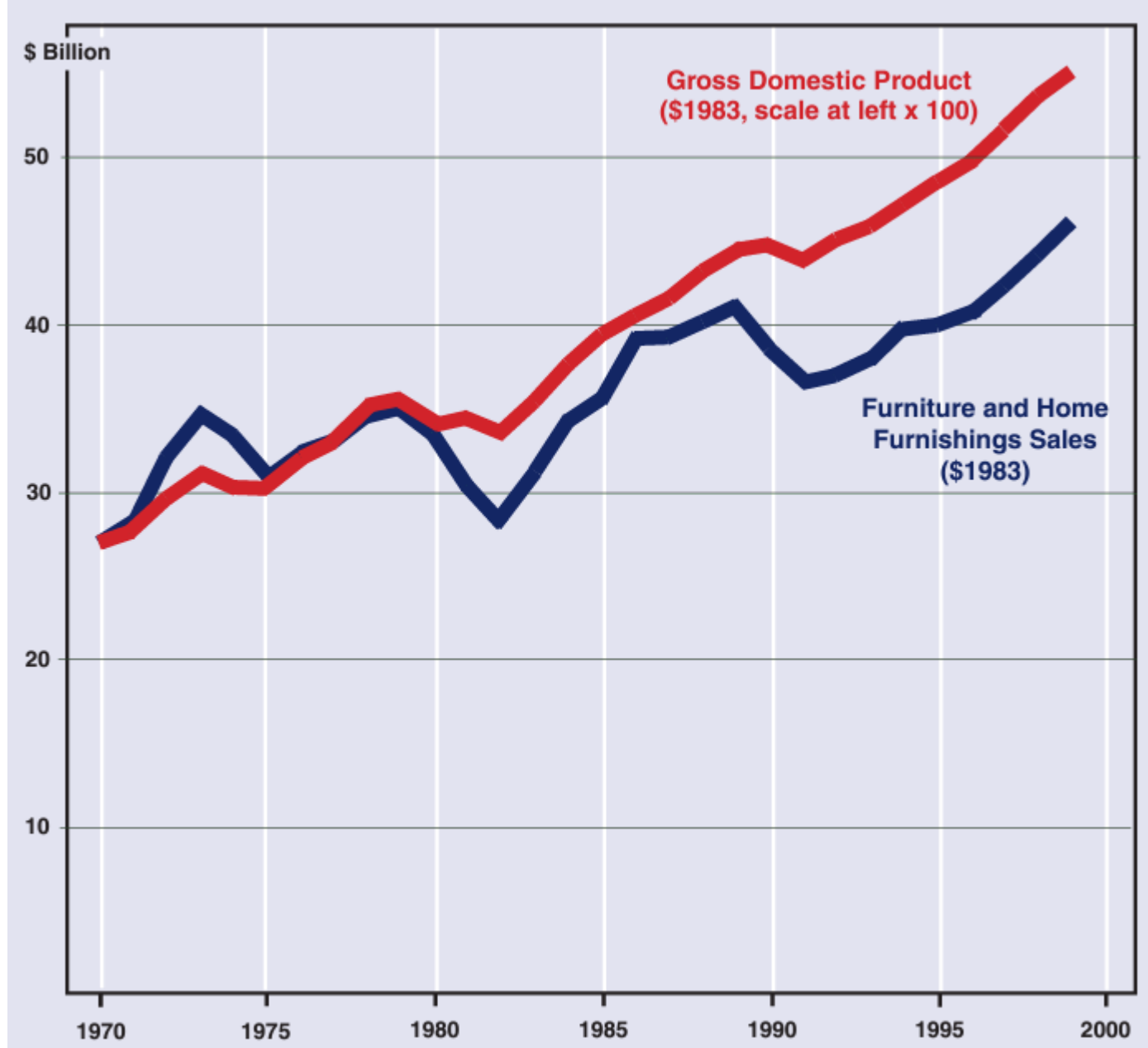
⁹⁷ Furniture manufacturing and marketing in the American Economic Transition. Austin State University. 1989.

⁹⁸ Furniture Manufacturing & Marketing - Eight Strategic Issues for The 21st Century. Forest and Wildlife Research Center at Mississippi State University. <https://scholarworks.sfasu.edu/forestry/43/>

⁹⁹ Case Study: Ingvar Kamprad and IKEA. Harvard Business School.

¹⁰⁰ IKEA U.S. Annual Summary 2023.

Figure 6-1: U.S. GDP and Sales of Furniture and Home Furnishings Stores, in Real Terms, 1970–1999.¹⁰¹

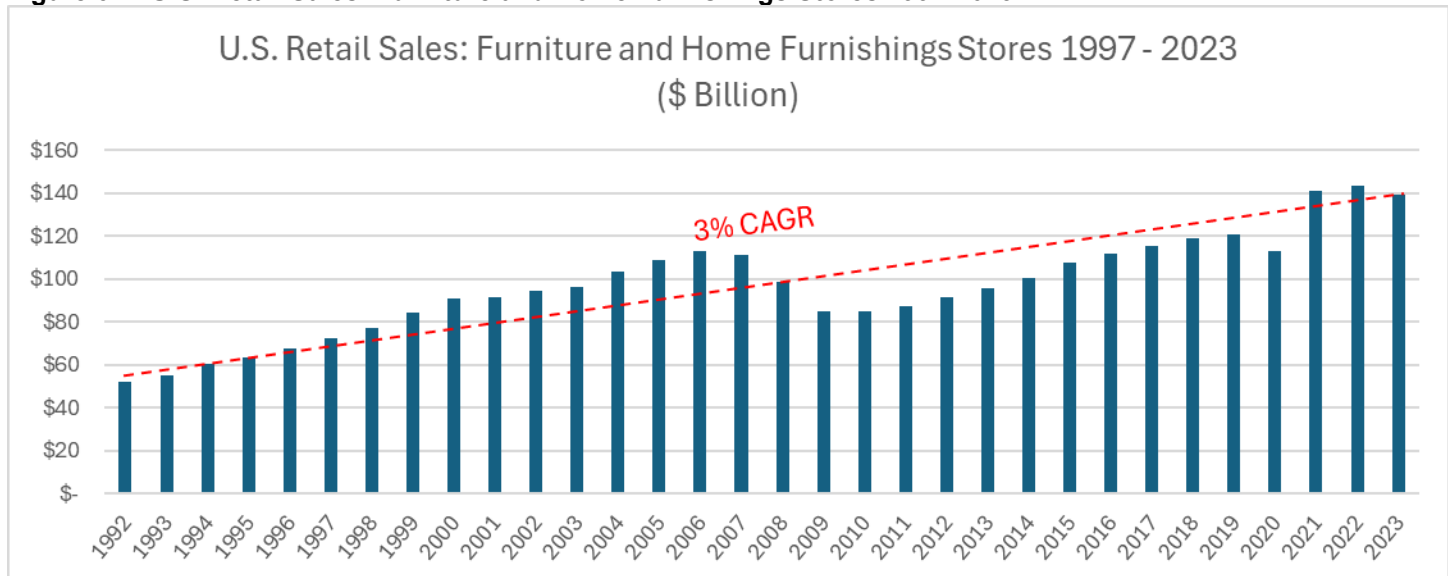


Notes:

1. The original research paper does not provide raw data for each year.
2. The sales of furniture and home furnishing in the above chart are in 1983 dollars.

¹⁰¹ Furniture Manufacturing & Marketing - Eight Strategic Issues for The 21st Century. Forest and Wildlife Research Center at Mississippi State University. <https://scholarworks.sfasu.edu/forestry/43/>

Figure 6-2: U.S. Retail Sales: Furniture and Home Furnishings Stores 1997-2023¹⁰²



Before IKEA entered the U.S. market in 1984, total furniture sales in the U.S. were expected to reach around \$18 billion,¹⁰³ while IKEA's overall sales were under \$1 billion, primarily from Europe, indicating a significant addressable market.

In the United States (where things are going better and better), an expensive marketing strategy demands a higher marketing cover. But elsewhere as well, the rule is, the deeper the penetration, the better the cost structure, the more IKEA can invest in the volume that is its trump card in competition.¹⁰⁴

- Anders Moberg, former IKEA CEO

IKEA opened its first U.S. store in Philadelphia in 1985,¹⁰⁵ at a time when the company operated around 70 stores across 19 countries.¹⁰⁶ IKEA found that the U.S. was one of the world's most challenging markets for retail businesses, primarily due to much higher costs than in Europe and limited local furniture production, though competition in the furniture sector was modest. Throughout much of the 1990s, IKEA faced financial challenges, often posting losses or barely breaking even. However, the company focused on expanding its market share by aligning with its company-wide strategy of reducing sales prices, implementing cost-cutting measures, and improving operations. By 2006, IKEA became the leading furniture retailer in the U.S. in terms of sales, as illustrated in Figure 7. As of 2024, IKEA has over 50 stores in the U.S.¹⁰⁷

In the U.S., IKEA became the largest furniture retailer by market share, with 6.4% as of 2015.¹⁰⁸

STØR Furnishings International Inc.

STØR, an American flatpack furniture company established in 1987 in California, had operated unprofitably since inception.¹⁰⁹ While STØR's sales were \$72.2 million in 1990, IKEA reached \$3.9 billion globally. By 1991, STØR had incurred a \$10.7 million loss on \$70.4 million in sales, while IKEA's U.S. sales surged 68% to \$284 million and became

¹⁰² Retail Sales: Furniture and Home Furnishings Stores (MRTSSM442USS). Federal Reserve Bank of St. Louis.

<https://fred.stlouisfed.org/series/MRTSSM442USS>

¹⁰³ Business Conditions; A Revival for Furniture. The New York Times.

¹⁰⁴ Chapter 6. *Leading By Design*.

¹⁰⁵ Chapter 14. *The IKEA Edge*.

¹⁰⁶ IKEA Sues a Competitor Over Design of Its Stores. The New York Times.

<https://web.archive.org/web/20120206112539/https://www.nytimes.com/1988/06/16/garden/currents-ikea-sues-a-competitor-over-design-of-its-stores.html>

¹⁰⁷ Find A Furniture Store Near You. <https://www.ikea.com/us/en/stores/>

¹⁰⁸ Shorten The Value Chain. Deloitte.

¹⁰⁹ Ikea Buys Furnishing Competitor Stor in Further Consolidation of Industry. <https://www.baltimoresun.com/1992/01/02/ikea-buys-furnishing-competitor-stor-in-further-consolidation-of-industry/>

profitable in that market.¹¹⁰ In the first half of 1992, STØR reported an additional \$3.8 million loss on \$35.1 million in sales. In 1992, IKEA acquired STØR Furnishings for \$20 million,¹¹¹ adding three stores to its U.S. operation.

Both STØR and IKEA offered affordable, European-style, unassembled furniture and had similar store layouts, with showrooms connected to huge warehouse space.¹¹² IKEA noticed this “copycat” and took legal action against STØR, filing a copyright infringement lawsuit. While the lawsuit was not about the concept of flatpack furniture itself, IKEA’s lawyer argued that STØR’s catalog and store design closely mimicked IKEA’s. When customers entered stores of either one of them, they were given a map of the store layout and a tape measure. The similarities, including the locations of each department such as rugs, blinds, and textiles, to checkout counters, between the two companies made customers familiar with IKEA think that STØR was IKEA.¹¹³ IKEA also pointed out that even the shopping carts of the two companies were sourced from the same German supplier. The lawsuit was settled with STØR agreeing to modify its layout and advertising.

STØR opened four stores during its short operational span from 1987 to 1992 – three in California and one franchised location in Houston.¹¹⁴ Although the chain had planned to expand further through franchising and new company-owned stores, it faced debt issues largely from lawsuit-related costs and remodeling expenses. A few months before the settlement, STØR reached out to IKEA for financing or acquisition.¹¹⁵ According to the then-president of IKEA U.S., the acquisition aligned well with IKEA’s plans for U.S. expansion, making the deal strategically beneficial.¹¹⁶ In February, IKEA finalized the acquisition, liquidated STØR’s inventory, and rebranded the stores. In 2005, IKEA opened a new store behind the original STØR building, which was eventually demolished to expand parking space.

¹¹⁰ Ikea Is Buying Rival In a \$20 Million Deal. The New York Times. <https://www.nytimes.com/1992/01/01/business/company-news-ikea-is-buying-rival-in-a-20-million-deal.html>

¹¹¹ Ikea Buys Furnishing Competitor Stor in Further Consolidation of Industry. <https://www.baltimoresun.com/1992/01/02/ikea-buys-furnishing-competitor-stor-in-further-consolidation-of-industry/>

¹¹² IKEA Sues a Competitor Over Design of Its Stores. The New York Times. <https://web.archive.org/web/20120206112539/https://www.nytimes.com/1988/06/16/garden/currents-ikea-sues-a-competitor-over-design-of-its-stores.html>

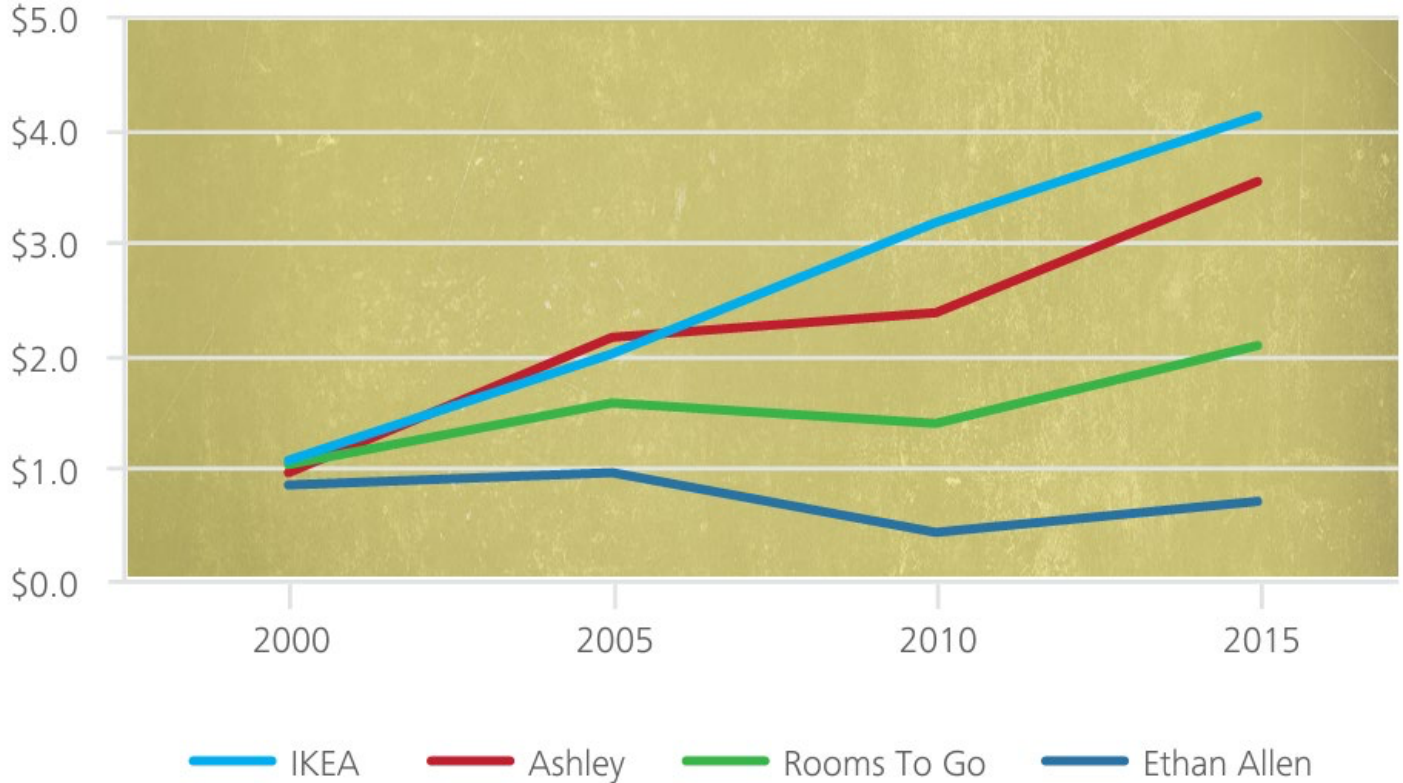
¹¹³ IKEA Sues a Competitor Over Design of Its Stores. The New York Times. <https://web.archive.org/web/20120206112539/https://www.nytimes.com/1988/06/16/garden/currents-ikea-sues-a-competitor-over-design-of-its-stores.html>

¹¹⁴ STØR – Houston Historic Retail. <https://houstonhistoricroetail.com/furniture-stores/stor/>

¹¹⁵ Ikea Is Buying Rival In a \$20 Million Deal. The New York Times. <https://www.nytimes.com/1992/01/01/business/company-news-ikea-is-buying-rival-in-a-20-million-deal.html>

¹¹⁶ Ikea Is Buying Rival In a \$20 Million Deal. The New York Times. <https://www.nytimes.com/1992/01/01/business/company-news-ikea-is-buying-rival-in-a-20-million-deal.html>

Figure 7: Top U.S. Furniture Retailer Sales (\$ Billion)



Source: Deloitte analysis of third-party data.

By 1988, IKEA had already established itself as a dominant player in the home furnishings industry,¹¹⁷ with over 80 outlets across 19 countries, making it the world's largest home furnishings retailer. According to a European Commission report, IKEA held the largest market share among furniture retailers in EC countries,¹¹⁸ with over 20% of the market share among the top 20 retailers. IKEA was nearly 1.5 times the size of the second-largest player, Conforama, a French retailer.

In 2023, a study by a European research firm specializing in the furniture industry reported that household consumption of furniture in 15 European countries had reached €165 billion,¹¹⁹ up from about €115 billion in 2014, reflecting a 4% CAGR. Europe has consistently been a major market for IKEA, accounting for 71.4% of its overall sales in 2023,¹²⁰ compared to 86% in 1986, based on limited publicly available data.¹²¹

¹¹⁷ Case Study: Ingvar Kamprad and IKEA. Harvard Business School.

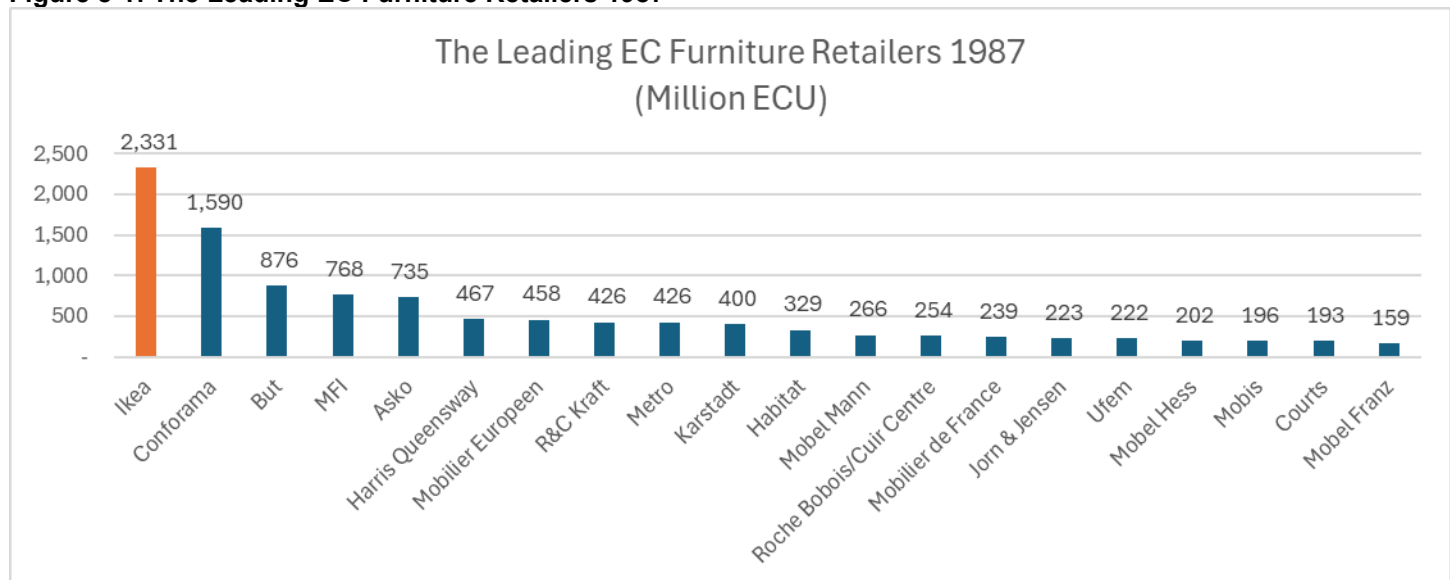
¹¹⁸ EC Furniture Industry 1989. NACE 467, 316.6.

¹¹⁹ 15 countries include: Austria, Belgium, Czech Republic, Denmark, Finland, France, Germany, Italy, the Netherlands, Norway, Poland, Spain, Sweden, Switzerland and the United Kingdom. The Highly Competitive European Furniture Market. World Furniture Online. <https://www.worldfurnitureonline.com/news/the-highly-competitive-european-furniture-market/>; Furniture Retailing in Europe. <https://www.worldfurnitureonline.com/report/furniture-retailing-in-europe/>

¹²⁰ INGKA Group Annual Summary 2023.

¹²¹ Case Study: Ingvar Kamprad and IKEA. Harvard Business School.

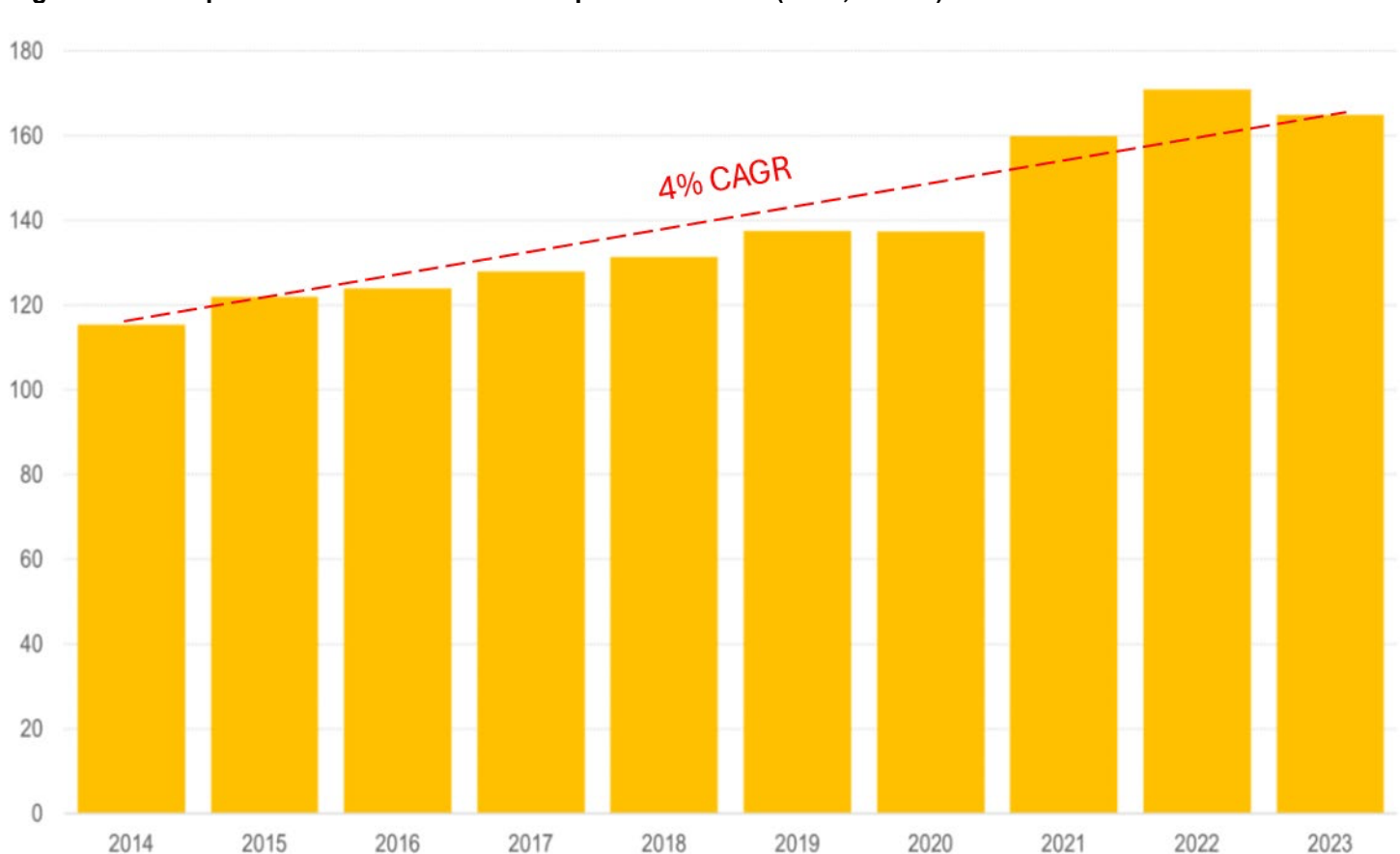
Figure 8-1: The Leading EC Furniture Retailers 1987¹²²



Note:

1. The ECU was an artificial 'basket' currency used by the member states of the European Union (EU) as an internal accounting unit. It was launched in 1979 and was replaced by the Euro at par in 1999.¹²³

Figure 8-2: European Home Furniture Consumption 2014-2023 (Euro, Billion)



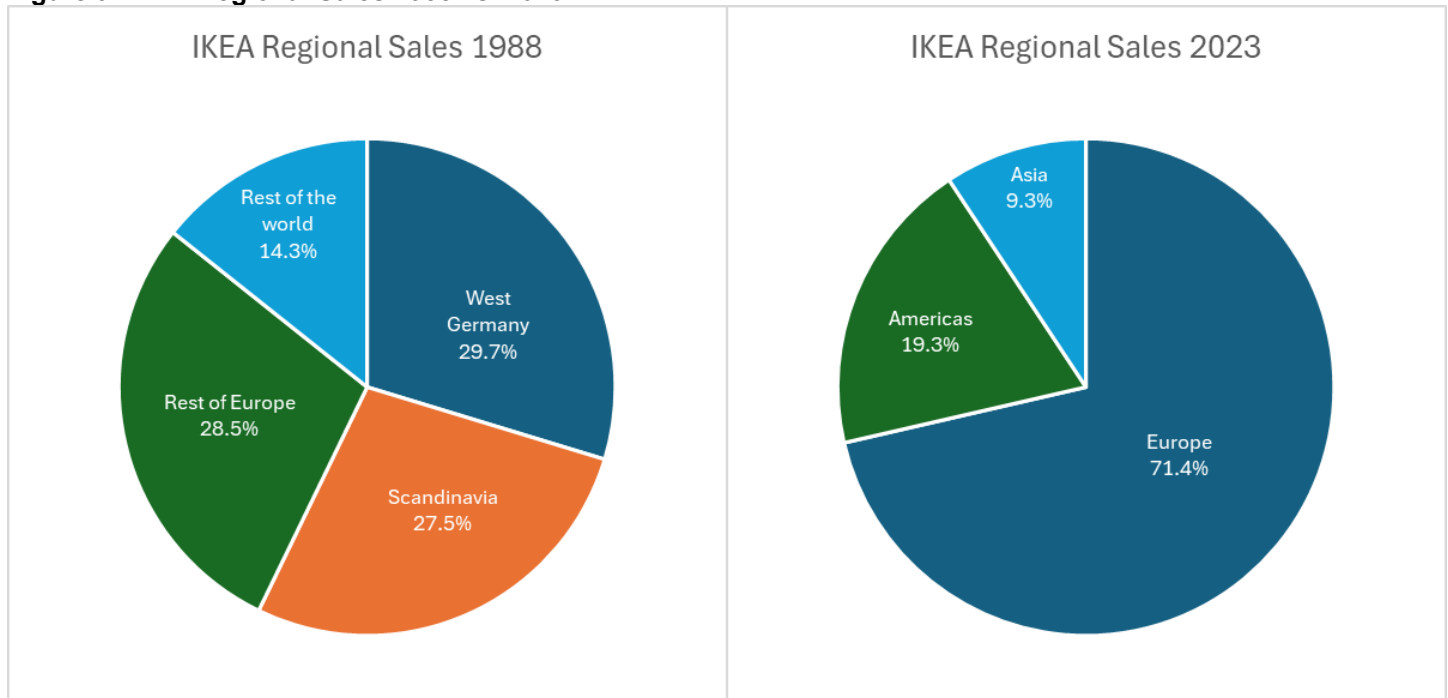
Notes:

¹²² EC Furniture Industry 1989. NACE 467, 316.6.

¹²³ European Currency Unit (ECU). <https://fx.sauder.ubc.ca/ECU.php>

1. According to CSIL, a research and consulting firm founded in Milan in 1980 specializing in the furniture, lighting, and furnishing sectors, the European retail furniture market is valued at EUR 165 billion in 2023.¹²⁴ The market value in 2014 was approximately EUR 115 billion.
2. Data from the research includes only 15 European countries – Austria, Belgium, Czech Republic, Denmark, Finland, France, Germany, Italy, the Netherlands, Norway, Poland, Spain, Sweden, Switzerland and the United Kingdom.

Figure 9: IKEA Regional Sales 1988 vs. 2023



A 1996 Harvard case study provides insights into IKEA's customer base in 1975.¹²⁵ In Stockholm, 47% of IKEA customers were under the age of 25, and 32% were between the ages of 25 and 35, meaning nearly 80% of IKEA's customers were younger than 35. In addition, 65% of its customers were married, with 55% having no children. Most IKEA customers lived in apartments (63%), while 25% lived in houses and 12% in condominiums. These data suggest that IKEA's primary customer base consisted of young adults who were about to start or had just started their families, as well as early middle-aged individuals likely furnishing their first homes.

This customer profile has remained relatively consistent in other countries over the past four decades. According to a 2016 survey by Earnest,¹²⁶ IKEA's core customer base is typically in their mid-20s to early 30s.¹²⁷ **The survey, conducted among Earnest's clients, revealed that age 24 is the most common age for purchasing from IKEA. While IKEA remains popular among customers through their late 20s and early 30s, its appeal declines after age 34, as older customers increasingly prefer traditional furniture stores or home improvement retailers, likely due to increased homeownership and related projects. Notably, IKEA was the only retailer in the study whose peak customer age was under 30.**

However, the survey did not address the underlying reasons for this shift in preferences. It is possible that older clients in the sample already owned the necessary furniture, reducing their need to shop at IKEA, while turning to stores such as Home Depot and Lowe's for home improvement needs. Further studies are needed to explore these trends.

There is no universal rule for how often people should replace their furniture, as wear and tear depend on many factors, including the type of furniture, materials, quality, usage, and care. However, many furniture retailers suggest a general

¹²⁴ The Highly Competitive European Furniture Market. World Furniture Online. <https://www.worldfurnitureonline.com/news/the-highly-competitive-european-furniture-market/>

¹²⁵ Case Study: Ingvar Kamprad and IKEA. Harvard Business School.

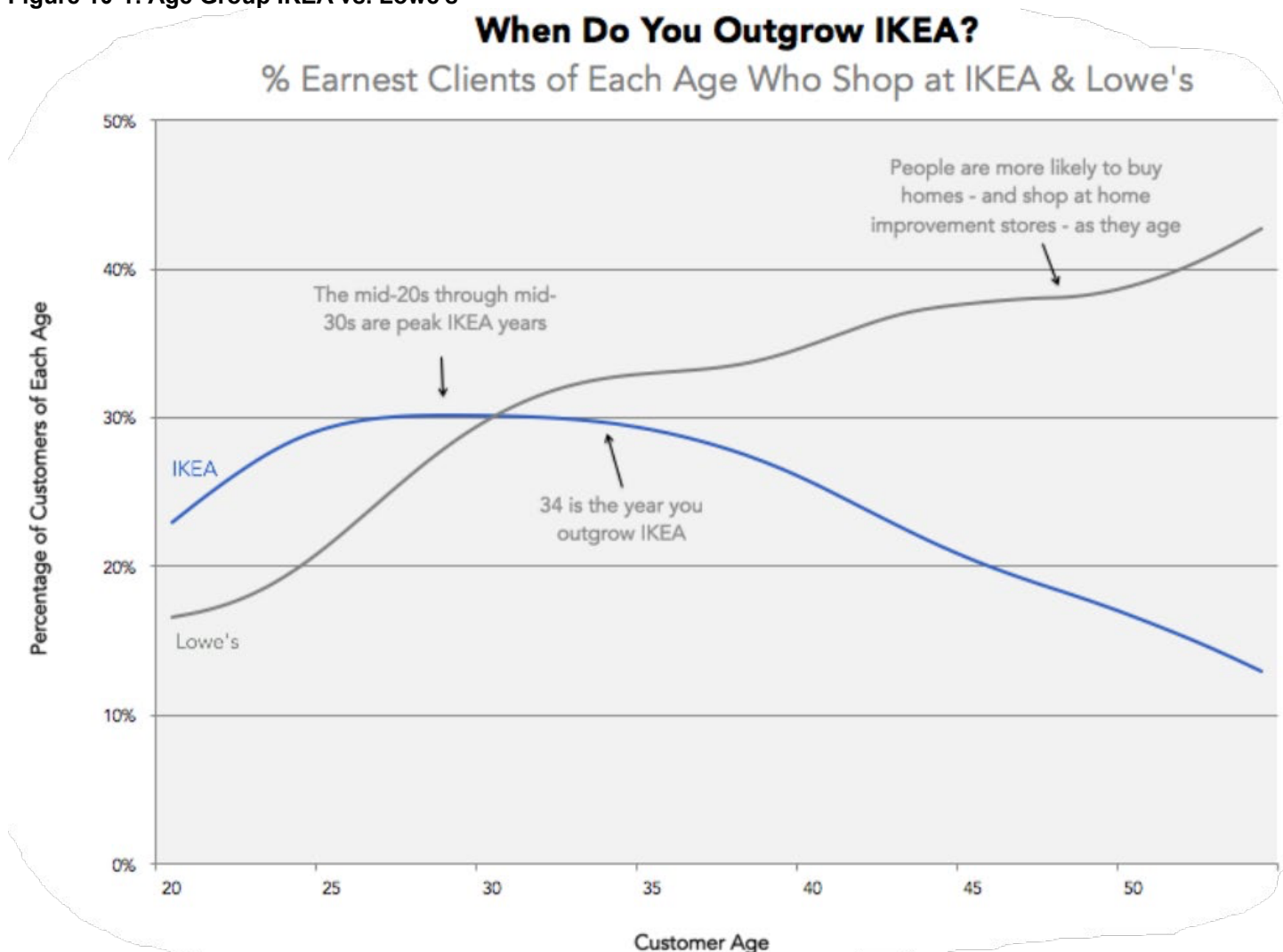
¹²⁶ A U.S. fintech company that offers student loans.

¹²⁷ When Do You Outgrow Shopping at IKEA.

<https://web.archive.org/web/20170619131454/https://www.earnest.com/blog/shopping-at-ikea/>

lifespan of 10 to 15 years for most pieces,¹²⁸ with specific ranges varying by item. For example, sofas typically last 7 to 15 years, tables range from 15 to 50 years, chairs last 10 to 30 years, and beds have a lifespan of about 8 to 20 years, depending on the aforementioned factors.

Figure 10-1: Age Group IKEA vs. Lowe's¹²⁹



Note:

1. The surveyor picked only Lowe's to demonstrate the changes in customer age groups.

Figure 10-2: Peak Customer Age At Furniture/Home Improvement Retailers

Where Are You Most Likely To Shop as You Age?		
Retailer	Peak Customer Age	Percentage of Peak-Ages Customers Who Shop at Store
IKEA	24	35%
Bed Bath & Beyond	31	29%
Crate & Barrel	31	12%
Container Store	33	9%
West Elm	33	7%
Williams – Sonoma	33	7%
CB2	35	2%

¹²⁸ How Long Should Furniture Last. <https://auramodernhome.com/blogs/the-modern/how-long-should-furniture-last>; When Is It Time to Replace Your Furniture. <https://www.parachutehome.com/blog/when-to-replace-furniture-couches-chairs-beds>; How Long Should Furniture Last. https://www.prime-furniture.com.au/blogs/inspiration-trends-how-tos/how-long-should-furniture-last?srsltid=AfmBOooAjPi44PwHC7pITX6UAXlt4t5FGThD1mQAiMBD_ZGRU-8oqHaB

¹²⁹ When Do You Outgrow Shopping at IKEA.

<https://web.archive.org/web/20170619131454/https://www.earnest.com/blog/shopping-at-ikea/>

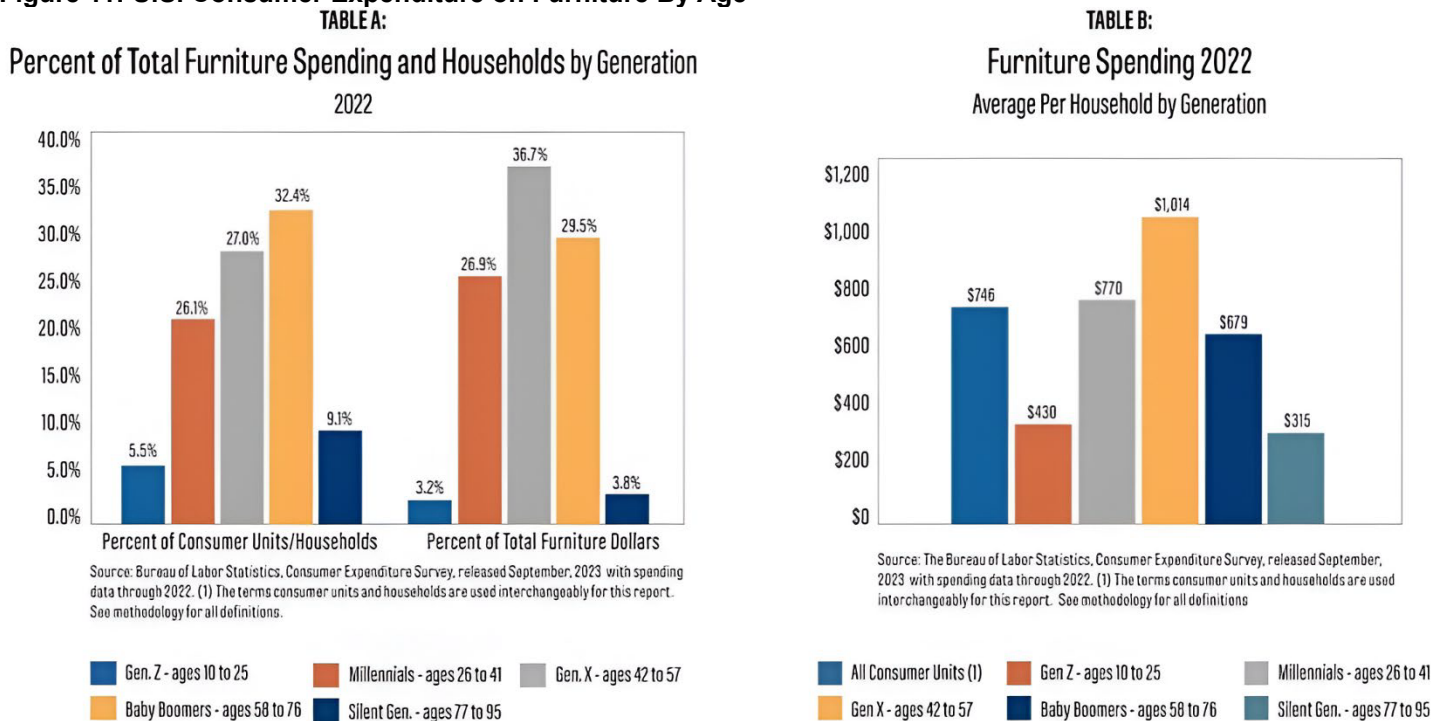
Raymour & Flanigan	41	1%
Restoration Hardware	44	3%
Pier 1 Imports	45	6%
Rooms To Go	47	2%
Home Depot	48	79%
Ashley Furniture	54	3%
Lowe's	54	44%

Note:

1. The above survey was conducted among Earnest's loan applicants.¹³⁰

The 2023 U.S. Consumer Expenditure Survey (CEX) by the Bureau of Labor Statistics, which analyzes household spending by age and income, shows that IKEA's primary customer age groups, approximated here by Millennials (ages 26 to 41 in 2022) and Gen-Z (ages 10 to 25) combined, represented nearly 30% of U.S. households.¹³¹ These two groups combined also accounted for 30% of total U.S. furniture spending in 2022, compared to Gen-X (ages 42 to 57) at 37% and Baby Boomers (ages 58 to 76) at 30%. The average household furniture expenditure across all age groups in 2022 was \$746. Among individual age groups, Gen-Z and Millennials spent an average of \$430 and \$770, respectively, while Gen-X and Baby Boomers spent \$1,014 and \$679, respectively. These figures highlight that while Gen-X leads in per-household furniture spending, Millennials and Gen-Z collectively represent a substantial share of the U.S. furniture market.

Figure 11: U.S. Consumer Expenditure on Furniture By Age¹³²



Since Ingvar Kamprad opened IKEA's first furniture showroom in Sweden in 1953, the global population under the age of 34 has increased from 1.8 billion to nearly 4.5 billion,¹³³ representing a significant potential customer base for IKEA.

¹³⁰ When Do You Outgrow Shopping at IKEA.

<https://web.archive.org/web/20170619131454/https://www.earnest.com/blog/shopping-at-ikea/>

¹³¹ Generation X Dominates The Furniture Industry As Millennials Make Their Move. Home Furnishings Business.

<https://hfbusiness.com/CurrentIssue/CurrentIssueModule/articleid/24754/statistically-speaking-generation-x-dominates-the-furniture-industry-as-millennials-make-their-move>

¹³² Generation X Dominates The Furniture Industry As Millennials Make Their Move. Home Furnishings Business.

<https://hfbusiness.com/CurrentIssue/CurrentIssueModule/articleid/24754/statistically-speaking-generation-x-dominates-the-furniture-industry-as-millennials-make-their-move>

¹³³ World Population Prospects - Population Division - United Nations.

<https://population.un.org/wpp/Download/Standard/Population/>

Another driving factor is the world's growing urban population since World War II, rising from 1.02 billion in 1960 to 4.6 billion in 2023,¹³⁴ with the urbanization rate increasing from 34% to 57%.¹³⁵

Figure 12-1: World Population Age 0-34 1953 – 2023¹³⁶

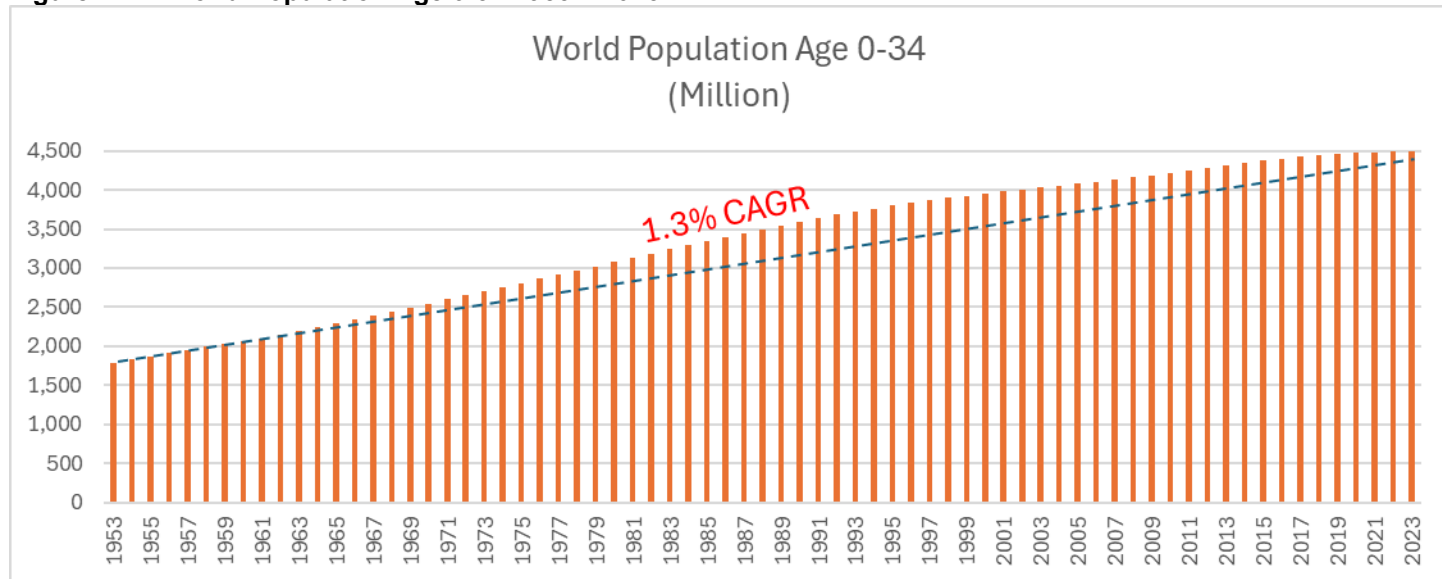
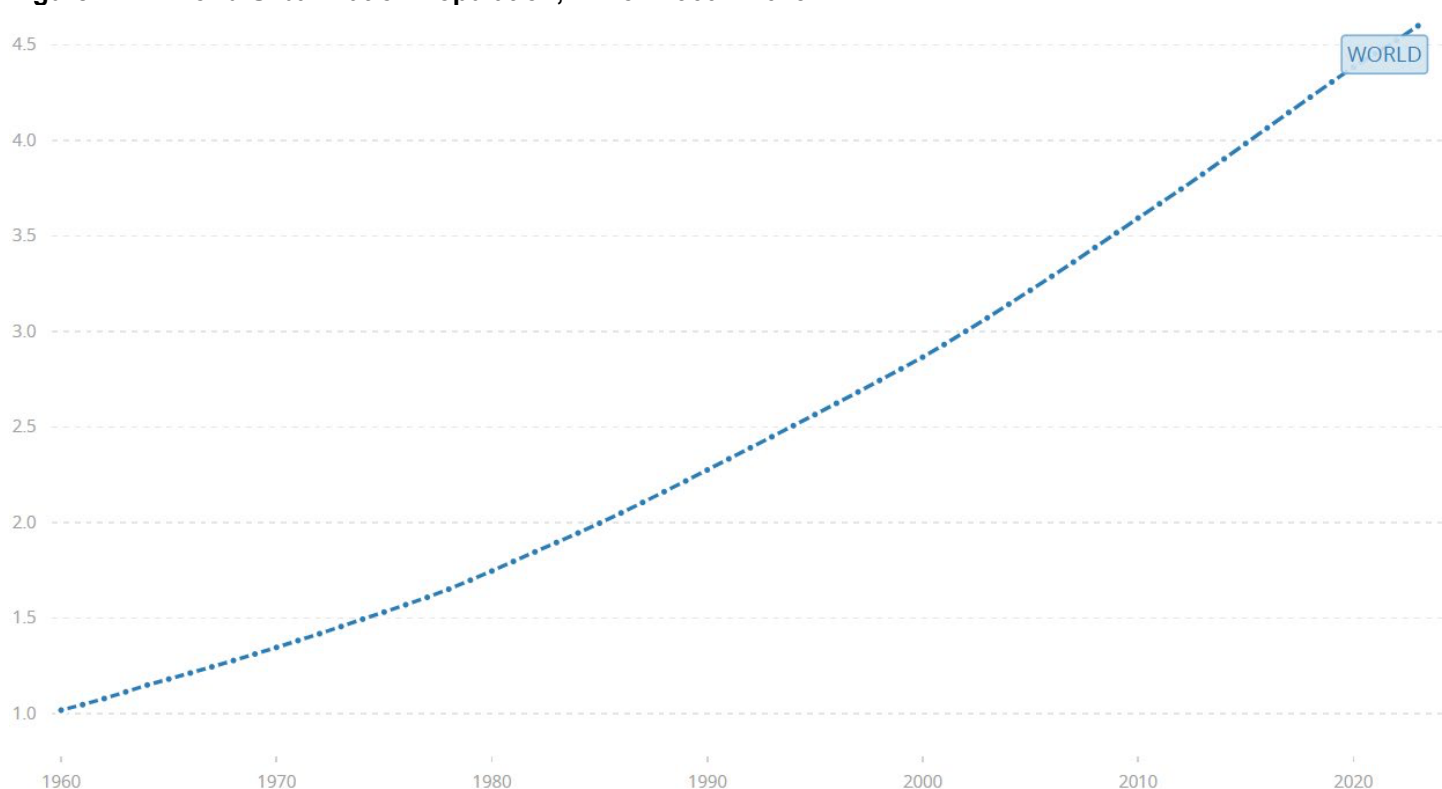


Figure 12-2: World Urbanization Population, Billion 1960 – 2023¹³⁷



¹³⁴ Urban Population. World Bank. <https://data.worldbank.org/indicator/SP.URB.TOTL>

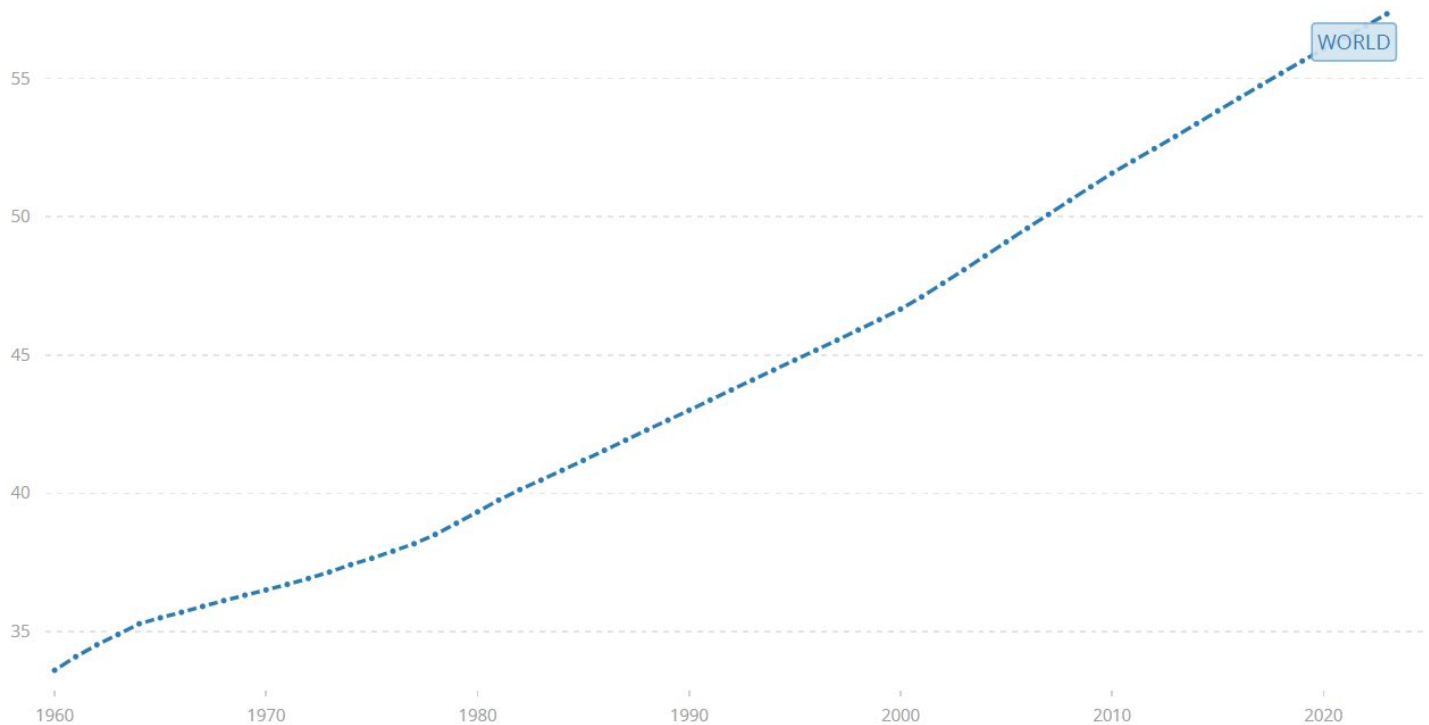
¹³⁵ Urban population (% of total population) – World. <https://data.worldbank.org/indicator/SP.URB.TOTL.IN.ZS?locations=1W>

¹³⁶ World Population Prospects - Population Division - United Nations.

<https://population.un.org/wpp/Download/Standard/Population/>

¹³⁷ Urban Population. World Bank. <https://data.worldbank.org/indicator/SP.URB.TOTL>

Figure 12-3: World Urbanization Rate 1960 – 2023¹³⁸



Value Proposition – Affordable Prices with Design, Function, and Quality.

With its vision "to create a better everyday life for the many people,"¹³⁹ IKEA's value proposition centers around offering a wide range of well-designed, affordable, and functional home furniture, including other settings such as workspace, with a Scandinavian aesthetic, at prices so low that as many people as possible can afford them.¹⁴⁰ **The company keeps prices low through cost-efficient production and its signature DIY assembly model, while maintaining a strong focus on quality and modern design.**

While most furniture retailers cater to one or two specific customer needs – such as high-street shops focusing on design and inspiration, out-of-town low-cost retailers focusing on price, or department stores offering a wide selection – IKEA meets all of these demands in one place. It combines design, functionality, quality, and affordability while offering unique Scandinavian design, complete solutions, and a "day-out" shopping experience,¹⁴¹ all of which we will discuss below.

The "IKEA Way" ¹⁴²

Right from the beginning we did the complete opposite of what you might read in the books on 'how to succeed in business'. Instead of analyzing the market and finding out people's shopping behaviors, we started looking for skilled manufacturers. Instead of planning clever marketing plans, we went looking for good raw materials that we knew we could turn into good-quality furniture. We figured that we liked and needed the furniture we made, so why wouldn't others? And because our manufacturers, the down-to-earth ordinary people who actually made the furniture, liked the furniture – why wouldn't others? This straightforward approach to the furniture business, which developed furniture by starting at the 'wrong' end, gave us two huge advantages. First, our manufacturers and our product developers figured out how to maximize the use of raw materials and production processes while simultaneously fulfilling people's needs and preferences. Second,

¹³⁸ Urban population (% of total population) – World. <https://data.worldbank.org/indicator/SP.URB.TOTL.IN.ZS?locations=1W>

¹³⁹ The IKEA vision, Values And Business Idea. <https://www.ikea.com/us/en/this-is-ikea/about-us/the-ikea-vision-and-values-pub9aa779d0#:~:text=%E2%80%9CTo%20create%20a%20better%20everyday,more%20sustainable%20life%20at%20home.>

¹⁴⁰ Appendix B. *Leading By Design*.

¹⁴¹ Chapter 6. *The IKEA Edge*.

¹⁴² Value-Based Service for Sustainable Business. Bo Edvardsson, Bo Enquist. Routledge Studies in Management, Organizations and Society.

the costs became exceptionally low. Now, if your costs are exceptionally low, you can do two things. You can sell your goods for as high a price as possible (which is what most companies do, of course), or you can sell at the lowest possible price (which is what no-one does – at least until we entered the scene). By reading our story, understanding our vision, and sharing the values behind our business idea, you will understand why doing it all ‘wrong’ is actually the ‘right’ way to do it!

- Adapted from Inter IKEA Systems BV (1999) by researchers at Karlstad University

In its first few years after founding, IKEA developed three key strategies to maintain its reputation for low prices and stable catalog pricing,¹⁴³ which it has implemented throughout its development. First, the company sought out inexpensive materials without compromising quality. For example, in the 1960s, IKEA switched from more expensive teak wood to less costly oak, and by the 1970s, it was using low-cost pine. Second, instead of setting volume targets for its suppliers, IKEA allowed them to maximize production based on their capacity. IKEA even employed unconventional suppliers such as ski manufacturers to produce tables and shirt makers to craft cushion covers. This approach ensured reliable delivery and kept prices low by utilizing manufacturers' excess capacity. In addition, IKEA cultivated long-term relationships with suppliers, offering financial and technical support, including factory design, machinery procurement, and operational assistance.

By working two to three years ahead of its current product lines, IKEA ensures a steady supply of materials at favorable prices.¹⁴⁴ Instead of minimizing stock levels, IKEA prioritizes product availability and logistical efficiency, with minimizing working capital being a lesser focus to the company.¹⁴⁵ **IKEA's policy of paying suppliers within 30 days is also notable,¹⁴⁶ as it contrasts with the Net 30/60/90-day payment terms common in the retail industry. This approach can lead to lower prices and strong relationships with suppliers.**

IKEA's founder, Ingvar Kamprad, adopted this principle since the 1950s as a response to boycotts from larger competitors, who pressured suppliers not to sell to IKEA. In order to continue purchasing from these suppliers and to get a discount, IKEA had to pay them much earlier than other businesses typically would. A 1957 report by the National Price and Cartel Commission highlighted that IKEA paid suppliers within 10 days, taking a 3% cash discount, whereas other manufacturers took the same discount but were able to delay payments for three to four months.¹⁴⁷ Nurturing supplier relationships became one of Ingvar Kamprad's principles. By the late 1980s, IKEA was working with 1,500 suppliers across more than 40 countries. By 2024, this network had expanded to over 1,600 suppliers in 55 countries, including around 1,000 home furnishing suppliers, with an average supplier relationship lasting over 11 years.¹⁴⁸

IKEA's limited focus on working capital management is evident in its inventory turnover ratios, which historically have not significantly outperformed those of its competitors in the public sector. From 2010 to 2015, IKEA's inventory turnover was around 3.5x, comparable to many competitors, which generally maintained rates around 3.0x. However, unlike IKEA, which is a truly global furniture retailer, these competitors are mostly regional, concentrating on North America and Europe.

After 2016, when INGKA Group, which owns most IKEA stores, sold its product development and supply chain companies to Inter IKEA Group (the franchisor that owns the IKEA Concept), the turnover rate increased to approximately 12.0x. This change transferred most inventory responsibility to Inter IKEA Group, allowing retail stores to hold less inventory on their balance sheets. This shift enhanced store efficiency, enabling them to focus on core business areas, including customer experience, retailing, and distribution.

¹⁴³ Case Study: Ingvar Kamprad and IKEA. Harvard Business School.

¹⁴⁴ Case Study: Ingvar Kamprad and IKEA. Harvard Business School.

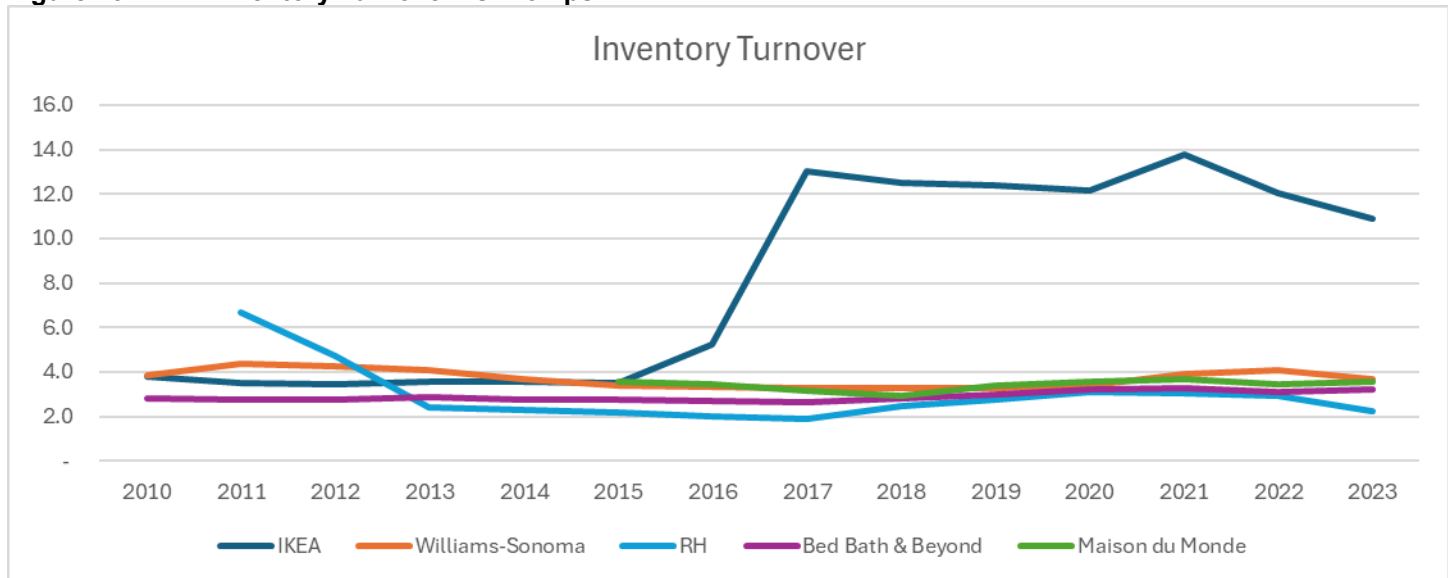
¹⁴⁵ Chapter 18. *The IKEA Edge*.

¹⁴⁶ Chapter 18. *The IKEA Edge*.

¹⁴⁷ Chapter 3. *Leading By Design*.

¹⁴⁸ Where Do Your Products Come From. IKEA. <https://www.ikea.com/ca/en/customer-service/knowledge/articles/1dddf7bc-6244-4f73-b3b3-0747c0ef1b2f.html>; Where are IKEA Products Manufactured. <https://www.ikea.com/es/en/customer-service/knowledge/articles/4g3g7c5c-f5c1-4g22-808f-9bb81g8b3ecb.html>; Let's Grow Together Become An IKEA Supplier. <https://www.ikea.com/global/en/our-business/how-we-work/for-suppliers/#:~:text=We%20cooperate%20with%20approximately%201%2C600,those%20are%20home%20furnishing%20suppliers>

Figure 13: IKEA Inventory Turnover vs. Comps



Notes:

1. Inventory turnover ratios of comps are from FactSet.
2. The increase in IKEA's inventory ratio after 2016 was because of transferring the product development and supply chain companies from the retail group (the franchisee, INGKA Group) to the IKEA concept owner (the franchisor, Inter IKEA Group). This transfer shifted IKEA's inventory out of the balance sheets of its retail stores, significantly impacting both groups' reported inventory levels. As a result, INGKA Group's inventory dropped from €5.5 billion to €1.7 billion between 2015 and 2016, while Inter IKEA Group's inventory increased from €15 million to €4.3 billion.¹⁴⁹

Retail Innovation – Low Price through Flat-pack, Customer-Driven Cost Efficiency, Real Estate, In-house Design

Former IKEA CEO Anders Dahlvig attributes a significant strength of the company to its ability to deliver good design, functionality, and quality at extremely low prices.¹⁵⁰ IKEA has always focused on keeping costs down. Its large sales volumes enable it to buy materials at lower prices, which translates into lower retail prices. **Although it is challenging to compare the prices of IKEA's extensive product range, over 12,000 items globally,¹⁵¹ the company has an internal goal of pricing its products at least 20%, and often 50%, lower than the competition for comparable items with similar design.**¹⁵² Furthermore, IKEA strives to continuously reduce prices, a practice inherited from Ingvar Kamprad. Håkan Eriksson, former head of purchasing at IKEA in Poland,¹⁵³ explained the company's success is partly attributes to Ingvar Kamprad's endless question: "How can we make it a little cheaper? What do you think? Of course we can."¹⁵⁴ This obsession is instrumental in driving IKEA's cost efficiency.

One of the most significant innovations in IKEA's history, enabling the continuous offering of low-price products, was the development of flat-pack furniture and the self-assembled model, which revolutionized the furniture retail industry. Traditionally, customers transported fully assembled furniture from the store to their homes.¹⁵⁵ However, after a photoshoot of IKEA furniture, an employee discovered that removing the legs of a table saved a lot of space. **In the 1953 catalog, IKEA's very first self-assemble table, Max, was introduced, followed by a series of other flat-pack furniture items.**¹⁵⁶ This led to IKEA's signature flat-pack furniture concept, which became central to its business model in 1956. **Flat packing not only reduces transportation costs, saves space, and prevents damage but also lowers prices for customers.**

¹⁴⁹ INGKA Group Yearly Summary 2016; Inter IKEA Group Financial Summary 2016.

¹⁵⁰ Chapter 6. *The IKEA Edge*.

¹⁵¹ Where Do Your Products Come From. IKEA. <https://www.ikea.com/ca/en/customer-service/knowledge/articles/1dddf7bc-6244-4f73-b3b3-0747c0ef1b2f.html>

¹⁵² Differentiation through Control of The Value Chain. *The IKEA Edge*; Chapter 6. *The IKEA Edge*.

¹⁵³ Fall of Iron Curtain Erases IKEA Strategies. <https://ikeamuseum.com/en/explore/the-story-of-ikea/everything-falls-apart/>

¹⁵⁴ Chapter 3. *Leading By Design*.

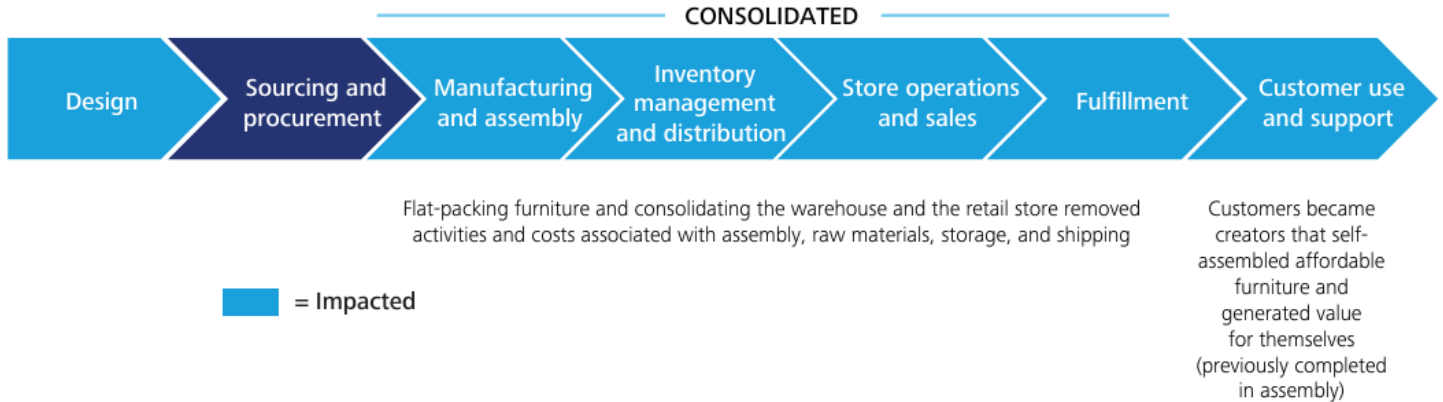
¹⁵⁵ Case Study: IKEA: Past, Present, And Future. International Institute for Management Development, Lausanne, Switzerland.

¹⁵⁶ Chapter 3. *Leading By Design*.

Moreover, rather than setting retail prices based on production costs, IKEA takes the opposite approach, first setting a target price and then selecting materials and processes to meet that price, minimizing waste and ensuring efficiency.¹⁵⁷ By setting the price tag first and streamlining the subsequent design and sourcing process, IKEA saves costs by up to 30%, passing these savings on to consumers,¹⁵⁸ and ultimately making its value chain shorter than that of typical retailers.

Figure 14 illustrates IKEA's streamlined value chain, which starts by determining the product price at the design stage, followed by optimizing the subsequent processes, from manufacturing to customer delivery. IKEA's strategy of flat-packing furniture and attaching warehouses to retail stores reduces costs and activities related to assembly, raw materials, storage, and transportation. Moreover, by requiring customers to transport and assemble the furniture themselves, IKEA not only reduces its own costs but also provides value to customers through passing on those cost savings.

Figure 14: IKEA Consumer Furniture Value Chain¹⁵⁹



Ingvar Kamprad once said, “[With] the innovation of self-assembly, we could save a great deal of money in the factories and on transport, as well as keep down the price to the customers.”¹⁶⁰ IKEA believes that people have more time than money, and it rewards customers for their participation in the distribution process. The more customers do, the less they pay. By choosing, picking, paying for, transporting, and assembling the products themselves, customers directly contribute to keeping prices low.¹⁶¹ IKEA has changed how businesses interact with customers by cultivating a shift in customer perception from being passive buyers of ready-to-use furniture to active participants who need to assemble furniture themselves before using, mobilizing customers to create product value by taking on responsibilities traditionally owned by manufacturers and retailers.¹⁶²

In addition, understanding the impact of automobiles on shopping habits, Ingvar Kamprad prioritized building stores with ample parking rather than focusing on expensive downtown locations, as many traditional retailers did.¹⁶³ IKEA stores were strategically placed on inexpensive sites, initially designed for midweek crowds. Under former CEO Anders Moberg in 1986, store capacities were adjusted to accommodate weekend traffic.

When making investment decisions on store locations, one key aspect of IKEA's policy is to always own its store real estate and acquire more space than needed for short-term operations to prepare for the long term. The company believes that when making a new store investment, land prices are unlikely to be lower in the future.¹⁶⁴ **Therefore, it is wise to purchase as much land as possible and build larger than initially required for future flexibility. This approach ensures that IKEA is not dependent on landlords, enabling control over rental costs.**¹⁶⁵ **Additionally, owning property allows IKEA to update or expand stores as needed and retain potential capital gains from property value appreciation.**

¹⁵⁷ Our Lowest Prices. <https://www.ikea.com/sg/en/cat/lowest-price/>

¹⁵⁸ Shorten The Value Chain. Deloitte.

¹⁵⁹ Shorten The Value Chain. Deloitte.

¹⁶⁰ How IKEA's Strategy Was Formed. INSEAD.

¹⁶¹ Chapter 2. *The IKEA Edge*.

¹⁶² Shorten The Value Chain. Deloitte.

¹⁶³ Case Study: IKEA: Past, Present, And Future. International Institute for Management Development, Lausanne, Switzerland.

¹⁶⁴ Chapter 12. *The IKEA Edge*.

¹⁶⁵ Chapter 18. *The IKEA Edge*.

Furthermore, IKEA designs its own products through in-house designers and partnered designers across the entire product range,¹⁶⁶ ensuring aesthetic consistency across its product lines.

When IKEA began its international expansion in the 1970s, it maintained its Scandinavian design style, which at the time was more distinctive than it is today.¹⁶⁷ Scandinavian design emphasizes minimalism, clean lines, and the use of natural materials.¹⁶⁸ IKEA has leveraged this design philosophy to create timeless, functional space.¹⁶⁹ **To attract customers, especially in new markets unfamiliar with Scandinavian aesthetics, IKEA offers inspiration and solutions through its stores and catalogs, showcasing rooms fully furnished with IKEA products in various styles.** Historically, the company has limited local adaptations to their products.¹⁷⁰ The international expansion has increased the need for more local adaptations.

IKEA Catalog

The first IKEA catalog was published in 1950. Ingvar Kamprad saw an opportunity to sell furniture on a larger scale through a catalog, marking the beginning of what would become a central part of IKEA's marketing strategy.¹⁷¹ The catalog started as a simple brochure and grew over the years into a source of inspiration for customers around the world. They are distributed by mail to households throughout the locality of each store,¹⁷² as well as being available in-store and online.

Externally, the IKEA catalog became an important tool for positioning IKEA as a brand,¹⁷³ showcasing not only the products but also a lifestyle. At its peak, 220 million copies were printed across 69 versions, 32 languages, and over 50 markets. Although there was a main version, each market, whether the USA, Norway, South Korea, or Australia, received slight adaptations to the local markets. Each year's catalog typically embraced a theme related to home life, promoting IKEA's compact, Scandinavian aesthetic across a range of products from affordable futons to custom kitchen designs that could cost thousands of dollars.¹⁷⁴ The catalog release each autumn was a significant media event in Sweden, with major newspapers covering it in both the culture and financial sections.

In the early years, Ingvar Kamprad wrote most of the text himself and directed the visuals. In 1961, led by Brita Lang,¹⁷⁵ the catalog began transforming into more than just a product showcase. Lang, an adwoman at IKEA, "created vibrant, inviting room settings and described the products in a way that turned the catalogue into something that was more about interior design than just a showcase for products you could buy."

Lena Simonsson Berge, former head of communication and brand identity at IKEA, emphasized the catalog's role in presenting complete home furnishing solutions, allowing people to explore ideas for interiors that suited them. She remarks that "people could explore home interiors and find furniture, details, ideas and solutions that suited them. And historically speaking, printed matter was viewed as an authority. What was printed was true, and this made the IKEA catalogue an early authority on home furnishing, especially in Sweden...People waited for the IKEA catalogue to turn

¹⁶⁶ IKEA to Double Its in-house Design Department. <https://www.ikea.com/global/en/newsroom/corporate/ikea-invests-in-doubling-its-inhouse-design-department-200311/>

¹⁶⁷ Differentiation through Control of The Value Chain. *The IKEA Edge*.

¹⁶⁸ Scandinavian Design. <https://www.scandinaviastandard.com/what-is-scandinavian-design/>

¹⁶⁹ Scandinavian Style- Interior Design & Home Furnishing. <https://www.ikea.com/ch/en/ideas/styles/scandinavian/>

¹⁷⁰ Chapter 6. *The IKEA Edge*.

¹⁷¹ 1940s-1950s – IKEA.

https://web.archive.org/web/20200101003514/https://www.ikea.com/ms/en_AU/about_ikea/the_ikea_way/history/1940_1950.html; Time Travelling with IKEA Catalogues 1951-2021 - IKEA Museum. <https://ikeamuseum.com/en/explore/ikea-catalogue/>

¹⁷² How IKEA's Strategy Was Formed. INSEAD.

¹⁷³ The End of The Iconic IKEA Catalogue on Paper. <https://ikeamuseum.com/en/explore/the-story-of-ikea/an-icon-is-retired/#:~:text=The%20final%20push,Norway%2C%20South%20Korea%20or%20Australia.>

¹⁷⁴ The IKEA Catalog Defined Home for Millions. <https://www.wsj.com/articles/the-ikea-catalog-defined-home-for-millions-now-its-gone-11607607536>

¹⁷⁵ Modernisation of IKEA Catalogues in the 1960s. <https://ikeamuseum.com/en/explore/the-story-of-ikea/dear-brita/>; The End of The Iconic IKEA Catalogue on Paper. <https://ikeamuseum.com/en/explore/the-story-of-ikea/an-icon-is-retired/#:~:text=The%20final%20push,Norway%2C%20South%20Korea%20or%20Australia>

up in the post so they could find out what was right and what was wrong. Not that everyone had the same taste, but the catalogue was a trend-setter, realistic and life-like, so a lot of people could relate. And of course, it was free!”¹⁷⁶

Internally, the catalog also served as a tool for guiding company direction. According to Berge, “By placing a certain product on the cover, or giving it an important place inside, IKEA sent a signal to all its co-workers which products were expected to sell well.”

The final printed IKEA catalog was published in fall 2020 for the 2021 edition. From then on, the catalog shifted to a fully digital format, not because its content was outdated but because consumer behavior and the media landscape had evolved, as the company states.¹⁷⁷

Figure 15-1: IKEA Showrooms In-Store¹⁷⁸

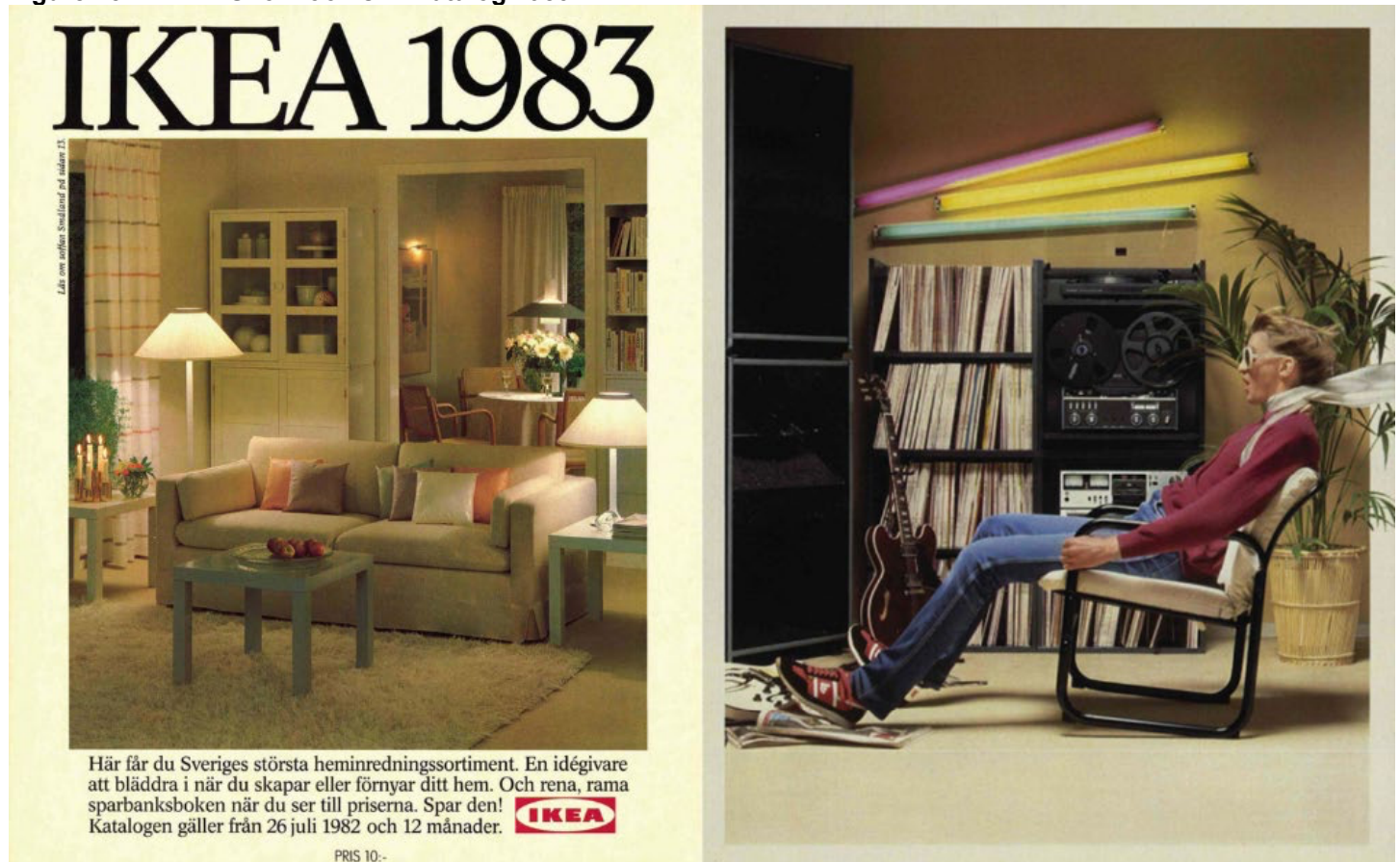


¹⁷⁶ The End of The Iconic IKEA Catalogue on Paper. <https://ikeamuseum.com/en/explore/the-story-of-ikea/an-icon-is-retired/#:~:text=The%20final%20push,Norway%2C%20South%20Korea%20or%20Australia>

¹⁷⁷ The End of The Iconic IKEA Catalogue on Paper. <https://ikeamuseum.com/en/explore/the-story-of-ikea/an-icon-is-retired/#:~:text=The%20final%20push,Norway%2C%20South%20Korea%20or%20Australia>

¹⁷⁸ Rating the Showrooms at IKEA Woodbridge. <https://offbeatnova.com/2022/12/17/rating-the-showrooms-at-ikea-woodbridge-part-i/>

Figure 15-2: IKEA Showrooms in Catalog 1983¹⁷⁹



¹⁷⁹ Living in An 80s IKEA Catalog. <https://www.missmoss.co.za/2020/11/80s-ikea/>
Worldly Partners For Informational Purposes Only

Figure 15-3: IKEA Catalog 1983



IKEA believes that to keep on trend with people's desire for change in the home, one effective approach is to supplement its range of simple, timeless furniture with affordable, easy-to-swap textiles and accessories.¹⁸⁰ Another way IKEA stays curious and explore different aspects of design is through temporary collections in collaboration with well-known designers and fashion designers. These collaborations allow IKEA to not only explore new aspects of design but also reach more trend-oriented customers.

According to a former product developer and creative leader at IKEA, **"We are curious and keep up with what's happening in design, art and fashion... We visit cities around the globe to get inspiration and find new expressions, but then they have to be adapted to our own identity and be possible to mass produce. This teaches us a lot about the latest trends, but that doesn't mean we have to follow them."**¹⁸¹

For IKEA, these temporary collections serve as an opportunity to experiment with new ideas, materials, and distribution methods. The company maintains that timeless furniture is more sustainable over the long term, as people do not change their furniture every two years. While there were periods, such as in the 1980s, when some markets leaned toward "luxurious" designs such as leather sofas and glass tables, IKEA has consistently stayed with its minimalist style and use of simple materials.

IKEA also incorporates customer feedback into its designs. **Each year, IKEA employees conduct hundreds of home visits and Life at Home surveys worldwide to understand how people live and identify their frustrations and needs.**¹⁸² **The data collected serves as valuable input for developing new IKEA products and services. These insights reveal unique needs across different markets, allowing IKEA to adapt its offerings to specific cultural preferences and traditions. For example, when IKEA opened its first store in India, it introduced more flexible seating options, having learned that families often receive unannounced guests and require additional seating arrangements. In 2023, IKEA worked with third-party surveyors and surveyed over 37,000 people aged 18+ across 38 countries.**¹⁸³

As of 2024, IKEA offers over 12,000 products, from furniture and bedding to kitchenware and home décor, sourced from over 1,600 suppliers across 55 countries, of which about 1,000 of those are home furnishing suppliers, with an average

¹⁸⁰ IKEA And Its Relationship with Trends. <https://ikeamuseum.com/en/explore/the-story-of-ikea/trendswhat-trends/#:~:text=The%20temporary%20collections%20in%20collaboration,oriented%20audience%20can%20be%20reached>

¹⁸¹ IKEA And Its Relationship with Trends. <https://ikeamuseum.com/en/explore/the-story-of-ikea/trendswhat-trends/#:~:text=The%20temporary%20collections%20in%20collaboration,oriented%20audience%20can%20be%20reached>

¹⁸² Inspired by Real Life at Home.

¹⁸³ Life at Home Report 2023. IKEA.

length of supplier relationship over 11 years.¹⁸⁴ China and Poland have remained the top home furnishing suppliers that IKEA purchased from in terms of volume, 25% and 20% of total volume purchased, respectively, followed by Italy's 9% and Lithuania's 8%.¹⁸⁵

Suppliers enjoyed working with IKEA, especially when it first established overseas sourcing in Poland, for a few reasons.¹⁸⁶ One reason was the clarity and consistency of decision-making, as decisions rested with one person, making them reliable in the long term. More importantly, IKEA offered long-term contracts, allowing suppliers to plan with stability. Additionally, IKEA invested in discovering cost-saving technologies, such as advanced wood surface treatments, which it shared with manufacturers to boost efficiency and lower costs.

As of 2023, IKEA Industry AB, a strategic manufacturer of IKEA under Inter IKEA, produces approximately 10% of IKEA's product range, primarily focusing on wood-based furniture,¹⁸⁷ while the rest is sourced from suppliers. IKEA uses a large-volume production strategy so that it can drive down costs as production scales, enabling it to offer lower-priced products that, in turn, boost sales volumes.

IKEA manufactures some of its products for three main reasons: 1) in certain furniture categories, IKEA has grown too large to find suitable external producers; 2) for critical categories such as board and solid wood products, IKEA retains specific production methods to protect its proprietary techniques; 3) IKEA's in-house production serves as a reference and standard for its suppliers, while also functioning as a competency center for material and production innovation.¹⁸⁸

Although public information on IKEA's global production planning is limited, a 2012 study by two Swedish university researchers, along with Stefan Holmberg, a former IKEA process development manager, reveals insights on IKEA's production forecasting approach. It consists of two key processes – Sales Frame Planning, which is done on a five-year rolling horizon based on aggregate sales volumes and is updated three times per year; and Tactical Forecasting, a weekly forecast with an 84-week rolling horizon based on store-level sales. These two sub-processes combine through a pyramid forecasting approach to reconcile forecasts into a single set of demand data, which drives IKEA's supply chain activities, including materials planning and supplier capacity management.¹⁸⁹

In 2021, IKEA integrated an AI-based technology developed in-house called Demand Sensing into its forecasting processes. IKEA has relied on statistical sales data such as historical sales and demand patterns in the past years. Demand Sensing uses up to 200 data sources for each product to make more accurate demand predictions. These data sources include seasonal shopping trends, the influence of festivals, weather forecasts, salary cycles, and holiday purchasing patterns, among others. It can even understand when store visits will increase during a specific period of time such as customers' pay days and buying patterns during festivals and holidays.¹⁹⁰

Since implementing the AI technology, IKEA's forecast accuracy has significantly improved, moving from approximately 92% forecast acceptance to nearly 98% acceptance and only 2% correction, according to IKEA's supply chain development area manager.¹⁹¹

IKEA's minimalist furniture design also plays a key role in reducing costs. A professional interior designer explains, "IKEA's aesthetic is pared down and minimal, which is not an accident. Uncomplicated forms with very little applied decoration are easier to manufacture. More can be produced in a shorter amount of time, increasing efficiency and decreasing production costs... The Malm bed is an excellent example of simple rectangular shapes combined to create a very chic

¹⁸⁴ Where Do Your Products Come From. IKEA. <https://www.ikea.com/ca/en/customer-service/knowledge/articles/1dddf7bc-6244-4f73-b3b3-0747c0ef1b2f.html>; Where are IKEA Products Manufactured. <https://www.ikea.com/es/en/customer-service/knowledge/articles/4g3g7c5c-f5c1-4g22-808f-9bb81g8b3ecb.html>; Let's Grow Together Become An IKEA Supplier. <https://www.ikea.com/global/en/our-business/how-we-work/for-suppliers/#:~:text=We%20cooperate%20with%20approximately%201%2C600,those%20are%20home%20furnishing%20suppliers>

¹⁸⁵ IKEA Sustainability Report 2023.

¹⁸⁶ Chapter 3. *Leading By Design*.

¹⁸⁷ Inter IKEA Group. Financial Summary 2023.

¹⁸⁸ Chapter 7. *The IKEA Edge*.

¹⁸⁹ Jonsson, P., Rudberg, M., Holmberg, S. (2013), "Centralised supply chain planning at IKEA", *Supply Chain Management: An international journal*, Vol. 18, No. 3, pp. 337-350.

¹⁹⁰ Using AI for Smarter Demand Forecasting. <https://www.ikea.com/global/en/stories/design/using-artificial-intelligence-for-smarter-demand-forecasting-210527/>

¹⁹¹ Using AI for Smarter Demand Forecasting. <https://www.ikea.com/global/en/stories/design/using-artificial-intelligence-for-smarter-demand-forecasting-210527/>

bed...most of Ikea's furniture is available in black, white, or unfinished wood. By producing more items in fewer finishes, Ikea takes advantage of economies of scale."¹⁹²

An example of IKEA's effective executions to lower pricing and continuous efforts to deliver value to customers is the iconic Poäng chair, which sells over 1.5 million units annually. Introduced in 1976, the Poäng chair had sold more than 30 million units by 2016.¹⁹³ Through economies of scale, IKEA has steadily reduced its price over the years. **In 1990, the Poäng chair cost over \$300 (in inflation-adjusted dollars indexed to 2016), but by 2016, it was priced at \$79—a reduction of more than 70%, according to ABC News.**¹⁹⁴ **Even in 2024, the Poäng chair remains over 90% cheaper than a similar chair offered by a competitor.**

Another example is IKEA's famous Lack table, which saw its price drop by nearly 75% over 15 years, driven by the company's ongoing pursuit of better materials and more efficient transportation.¹⁹⁵

An economist from Boston University, who studied old IKEA catalogs, attributed this price decline to IKEA's innovative cost structure and economies of scale.¹⁹⁶ For example, by switching from steel to wood for certain parts of the chair, IKEA increased shipping efficiency and reduced production costs. Additionally, using "honeycomb" construction for tables decreased production costs and improved shipping efficiency.

¹⁹² Psychology Behind IKEA's Huge Success. CNBC. <https://www.cnn.com/2019/10/05/psychology-behind-ikeas-huge-success.html>

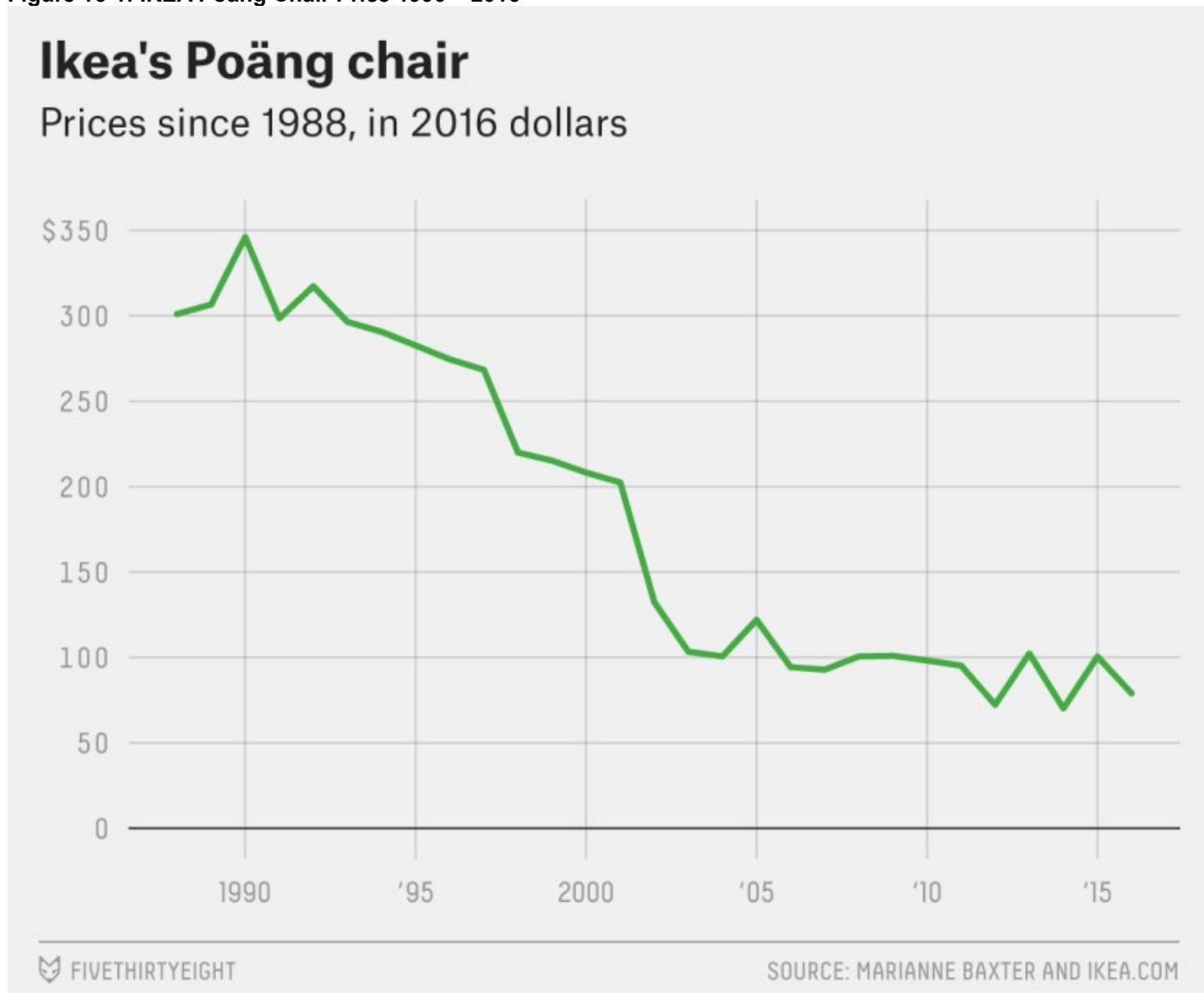
¹⁹³ Poäng The Little-Known History Of Ikea's Most Famous Chair. <https://www.fastcompany.com/3063312/poang-the-little-known-history-of-ikeas-most-famous-chair>

¹⁹⁴ The Weird Economics Of IKEA. <https://fivethirtyeight.com/features/the-weird-economics-of-ikea/>

¹⁹⁵ Frugal Mindset Continues to Guide IKEA. WSJ. <https://www.wsj.com/articles/SB10001424052702304584004576417691081469746>

¹⁹⁶ The Weird Economics Of IKEA. <https://fivethirtyeight.com/features/the-weird-economics-of-ikea/>

Figure 16-1: IKEA Poäng Chair Price 1990 – 2016¹⁹⁷



¹⁹⁷ The Weird Economics Of IKEA. <https://fivethirtyeight.com/features/the-weird-economics-of-ikea/>
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Figure 16-2: IKEA Chair vs. Competitor¹⁹⁸

Best seller



POÄNG
Armchair

\$129.⁰⁰



Wingback 36/401 cantilever lounge
chair by Alvar Aalto for Artek

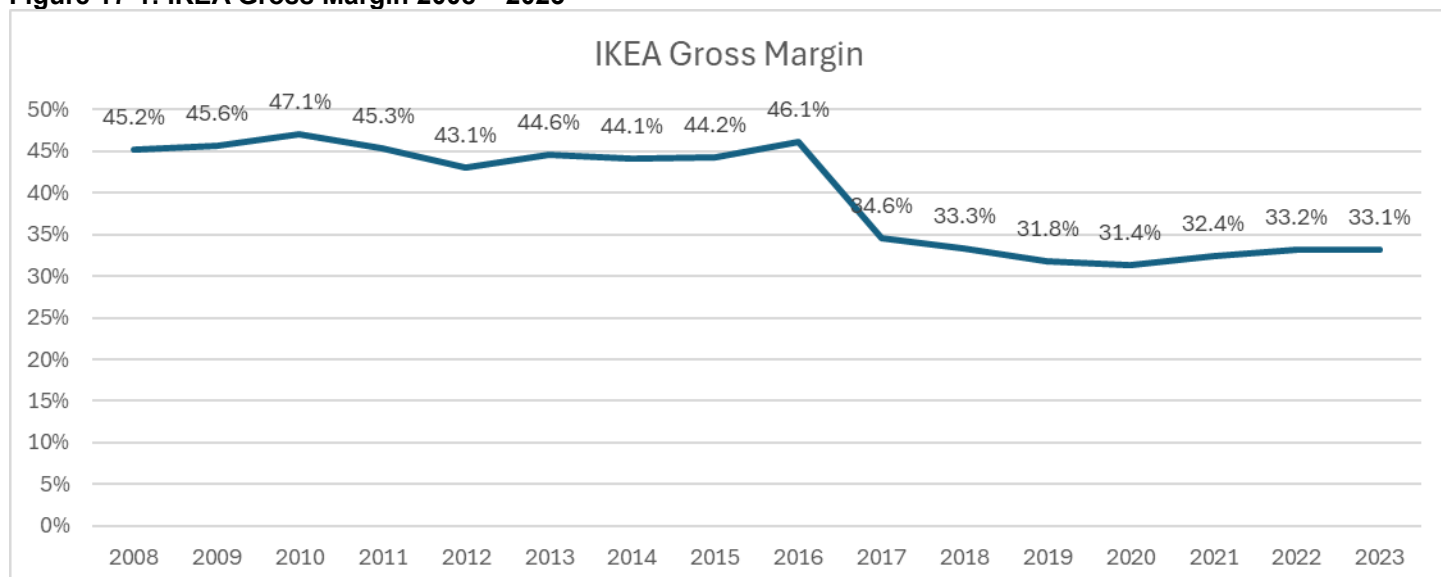
\$2,850

Although IKEA has continuously driven down its costs, the company does not prioritize improving gross margins. Instead, the company reinvests any cost savings into further lowering retail prices. The company believes in developing its top-line revenue through lower prices,¹⁹⁹ delivering higher sales volume. This strategy has resulted in stable gross margins over the decades. Before 2016, IKEA's gross margin was stable at around 45%. In 2016, INGKA Group, which represents 90% of IKEA's worldwide revenue, sold its product development, supply chain, and production companies to Inter IKEA Group, the franchisor. Since then, IKEA's gross margin has stabilized at around 33%. The stable gross margin combined with lower prices in constant dollars reflect the company's commitment to reinvesting in price reductions for its customers.

¹⁹⁸ POÄNG Series Arm & Rocking Chairs. https://www.ikea.com/us/en/cat/poaeng-series-07472/?sort=PRICE_LOW_TO_HIGH; 1stDibs Antique and Modern Furniture, Jewelry, Fashion & Art. <https://www.1stdibs.com/search/furniture/seating/?oq=aalto%20406&q=aalto%20406&st=classified>

¹⁹⁹ Maintaining A Strong And Dynamic Corporate Culture. *The IKEA Edge*.

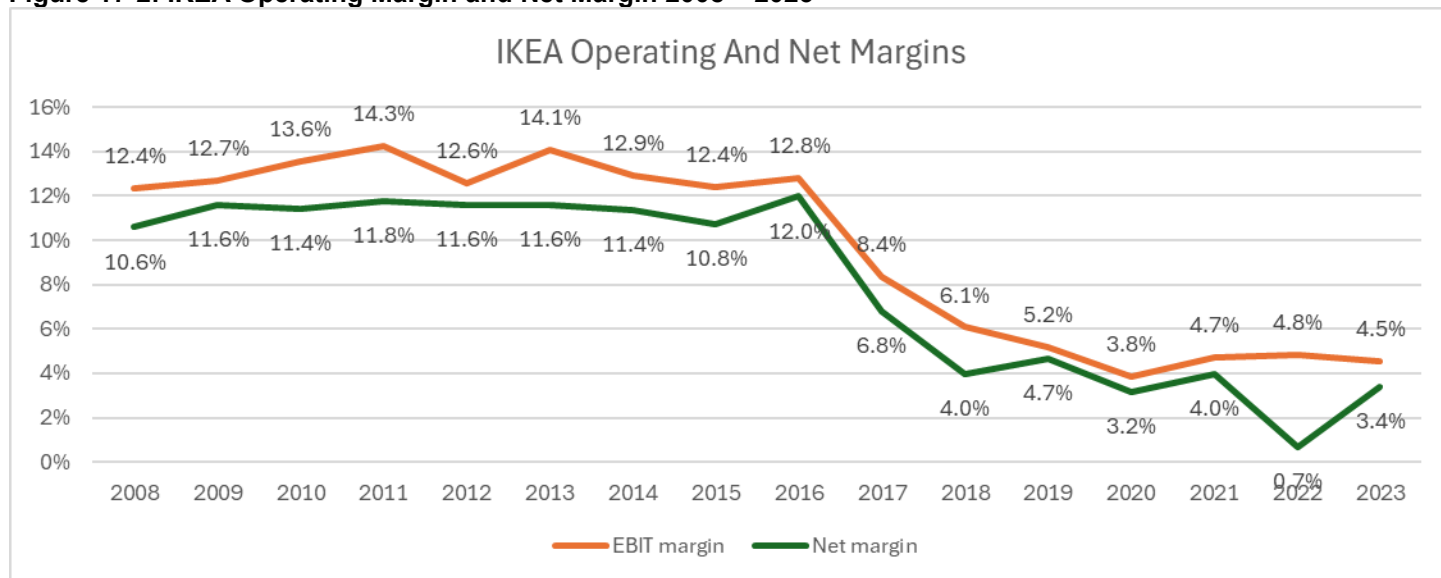
Figure 17-1: IKEA Gross Margin 2008 – 2023²⁰⁰



Notes:

1. Historically (prior to August 2016), product development and supply chain companies were owned and operated by IKEA Group under a non-exclusive agreement with Inter IKEA Group. However, as of August 31, 2016, Inter IKEA Group acquired these companies.²⁰¹ Following this transaction, IKEA Group's financial results no longer included those from the production and supply chain companies that were sold. The decline in operating results was mainly driven by the loss of profit from the companies that were sold in the transaction. As a result, in FY2017, IKEA Group's gross margin decreased by 8.6 percentage points, dropping to 34.6% of total revenue.²⁰²
2. Detailed financial data for IKEA was not available prior to 2008.

Figure 17-2: IKEA Operating Margin and Net Margin 2008 – 2023



Notes:

1. Historically (prior to August 2016), product development and supply chain companies were owned and operated by IKEA Group under a non-exclusive agreement with Inter IKEA Group. However, as of August 31, 2016, Inter IKEA Group acquired these companies.²⁰³ Following this transaction, IKEA Group's financial results no longer included

²⁰⁰ INGKA Group Yearly Summary 2009 – 2023

²⁰¹ INGKA Group Yearly Summary 2016.

²⁰² INGKA Group Yearly Summary 2017.

²⁰³ INGKA Group Yearly Summary 2016.

those from the production and supply chain companies that were sold. The decline in operating results was mainly driven by the loss of profit from the companies that were sold in the transaction.²⁰⁴

2. Detailed financial data for IKEA was not available prior to 2008.

Commitment to Quality

Despite offering low-priced products by continuously reducing costs, IKEA maintains strict standards for quality and durability. **The company's in-house product development and design teams ensure that every product is smartly designed for both function and ease of assembly. IKEA believes that product quality should adapt to consumers' need.²⁰⁵ For example, IKEA does not use solid wood on the back of drawers, where it would be unnecessary and only increase costs. Instead, product designers focus on creating simple, mistake-proof assembly processes that prevent customers from perceiving quality issues.**

Since 1972, IKEA has used Möbelfakta, a Swedish furniture industry reference system developed by the Furniture Institute,²⁰⁶ to ensure that even its low-cost furniture meets high standards for durability, safety, and functionality. IKEA has its own testing labs in Älmhult, Sweden, and Shanghai, China, and partners with independent labs worldwide.²⁰⁷ Each year, IKEA conducts over a million product tests to guarantee product quality and safety. This rigorous testing process ensures that any new or tweaked product design meets IKEA's quality standards before production begins. An IKEA employee who works in the quality department emphasizes that the company's focus on quality is actually a key driver of cost savings. By ensuring high quality from the start, IKEA avoids the significant expenses associated with fixing defects during or after production, processing returns, or dealing with dissatisfied customers airing their complaints on social media. Quality testing is thorough and rigorous. For example, sofas are repeatedly hit with heavy pieces of wood, mattresses are rolled over by 300-pound weights, and dresser drawers are slammed open and shut by robotic arms. New products, or even those with slight design modifications, undergo extensive testing before they are approved for production. A manager at one of IKEA's test labs remarked, "If there's a new color, material, or design, they need our approval before they start production... Even if a screw is increased by 2 millimeters, we need to retest the product."²⁰⁸ This attention to detail ensures that each product meets IKEA's quality standards while maintaining affordability and durability, ultimately reducing long-term costs for the company and enhancing customer satisfaction.

²⁰⁴ INGKA Group Yearly Summary 2017.

²⁰⁵ Chapter 6. *The IKEA Edge*.

²⁰⁶ Möbelfakta History. <https://www.mobelfakta.se/historik.html?lng=en>

²⁰⁷ How IKEA Develops Safe Products. <https://www.ikea.com/kr/en/life-at-home/how-ikea-develops-safe-products-pubf563d1a4>

²⁰⁸ At IKEA, Ensuring 'Quality as an Enabler of Lower Cost'. WSJ. <https://www.wsj.com/articles/at-ikea-ensuring-quality-as-an-enabler-of-lower-cost-1434536109>

Figure 18: Möbelfakta Seal 1972²⁰⁹

456 / 123

möbelfakta

Matbord för 5 personer
(utökat 8 personer)

Uppfyller Möbelinstitutets krav

SAMMANDRAG AV TESTRESULTAT	T14 A1:3		
	bas krav	höga krav	extra höga krav
Hållfasthet	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Bordsytans tålighet	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Materialkvalitet och noggrannhet i tillverkning	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

AB Möbelsvensson
Svedala

In 1993, IKEA faced a major challenge when its bookcases were discovered to contain formaldehyde, releasing harmful gases into homes – a potential crisis for the brand. IKEA responded quickly by withdrawing the entire stock, fully compensating affected customers, and banning formaldehyde in all manufacturing processes.²¹⁰ This prompt action helped maintain customer trust and minimized the impact on sales. Beyond removing formaldehyde from paints, IKEA also eliminated it from adhesives used for gluing veneer coatings,²¹¹ reinforcing its commitment to product quality and consumer safety.

Psychological Effects – The “IKEA Effect”

IKEA's business model benefits from two powerful psychological effects that may not have been aware of in its initial design, yet greatly influence customers' likelihood to purchase. First, IKEA shifted from selling fully assembled furniture to a DIY model using flatpacks. **A Psychology professor at Anglia Ruskin University explains that simply touching a product can increase its perceived value, and there is no better way to encourage touch than through assembling the furniture by customers themselves.**²¹² This phenomenon, some scholars also referred to as the “IKEA effect,” suggests that the act of building an item, despite the effort it may require such as sweat and stamina, leads to a more favorable perception of it than buying a pre-assembled version.²¹³ The more effort consumers invest, the more they tend to like the product.

A second psychological factor influencing IKEA's shoppers is the store layout, which encourages extended exploration. **IKEA showrooms are laid out in a four-leaf clover pattern (or close to that) to maximize exposure to products, arranged in familiar mock rooms that make the space feel like home. Unlike traditional furniture stores where customers can walk directly from the entrance to specific sections to pick up the furniture they need, IKEA's**

²⁰⁹ Möbelfakta History. <https://www.mobelfakta.se/historik.html?lng=en>

²¹⁰ Chapter 3. *Leading By Design*.

²¹¹ Ikea's Particle Board Off-Gases Well Under the Strictest Safety Limit. <https://www.core77.com/posts/61047/Good-News-Ikeas-Particle-Board-Off-Gases-Well-Under-the-Strictest-Safety-Limit>

²¹² The IKEA Effect How Ingvar Kamprad's Company Changed The Way We Shop. https://theconversation.com/the-ikea-effect-how-ingvar-kamprads-company-changed-the-way-we-shop-90896?utm_medium=email&utm_campaign=Latest%20from%20The%20Conversation%20for%20January%2031%202018%20-%2093597998&utm_content=Latest%20from%20The%20Conv

²¹³ The “IKEA Effect” When Labor Leads to Love. Harvard Business School.

circular, one-way layout guides customers, and most likely they have to, through every section, from Living Rooms to Kitchens, Work Spaces, and Bedrooms, before reaching the cafeteria and store exit. While there are potential shortcuts, taking them means missing out on several sections. Knowing it might be tricky to revisit an item later, customers are more likely to place items in their carts immediately, especially as touching the product fosters a sense of ownership and decreases the chance of leaving it behind.²¹⁴

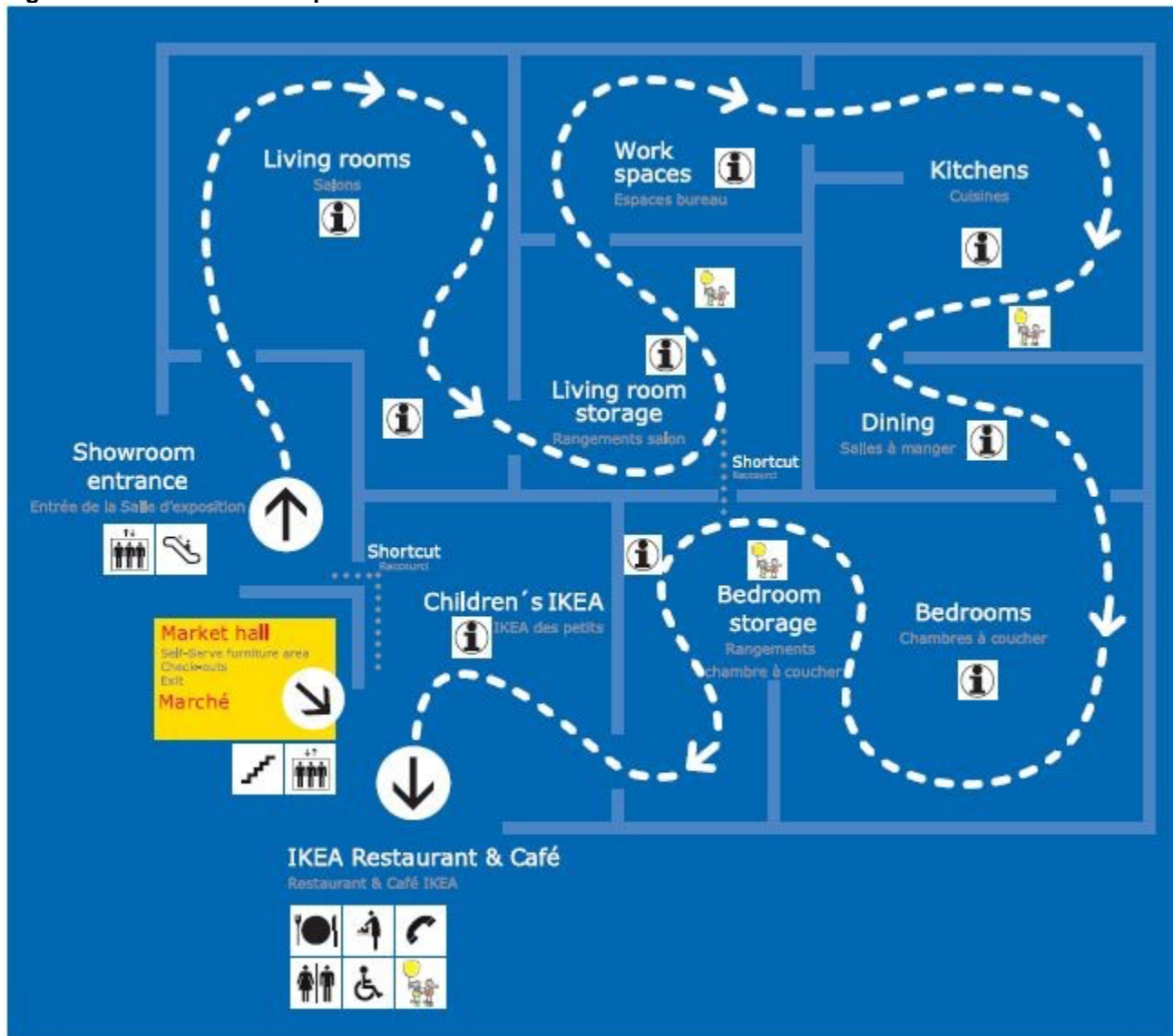
Moreover, this structured route creates a subtle sense of mystery, drawing customers further into the store.²¹⁵ Research shows that environments perceived as mysterious are generally more engaging, encouraging continued exploration. This design potentially increases the likelihood of impulse purchases, especially of smaller, lower-cost items such as candles, napkins, and picture frames, which seem inexpensive next to larger items. The longer customers browse, the more likely they are to add something to their cart, enhancing IKEA's potential for sales. A University College London professor who studied how shoppers navigate and buy at IKEA states that "Part of [IKEA's] strategy is to take you past everything... They get you to buy stuff you really hadn't intended on. And that, I think, is quite a trick... You follow the yellow brick road. You hand over control of where you are and where you go next. That's quite psychologically disruptive, and I think that's the first step toward actually buying."²¹⁶

²¹⁴ The IKEA Effect How Ingvar Kamprad's Company Changed The Way We Shop. https://theconversation.com/the-ikea-effect-how-ingvar-kamprads-company-changed-the-way-we-shop-90896?utm_medium=email&utm_campaign=Latest%20from%20The%20Conversation%20for%20January%2031%202018%20-%2093597998&utm_content=Latest%20from%20The%20Conv

²¹⁵ The IKEA Effect How Ingvar Kamprad's Company Changed The Way We Shop. https://theconversation.com/the-ikea-effect-how-ingvar-kamprads-company-changed-the-way-we-shop-90896?utm_medium=email&utm_campaign=Latest%20from%20The%20Conversation%20for%20January%2031%202018%20-%2093597998&utm_content=Latest%20from%20The%20Conv

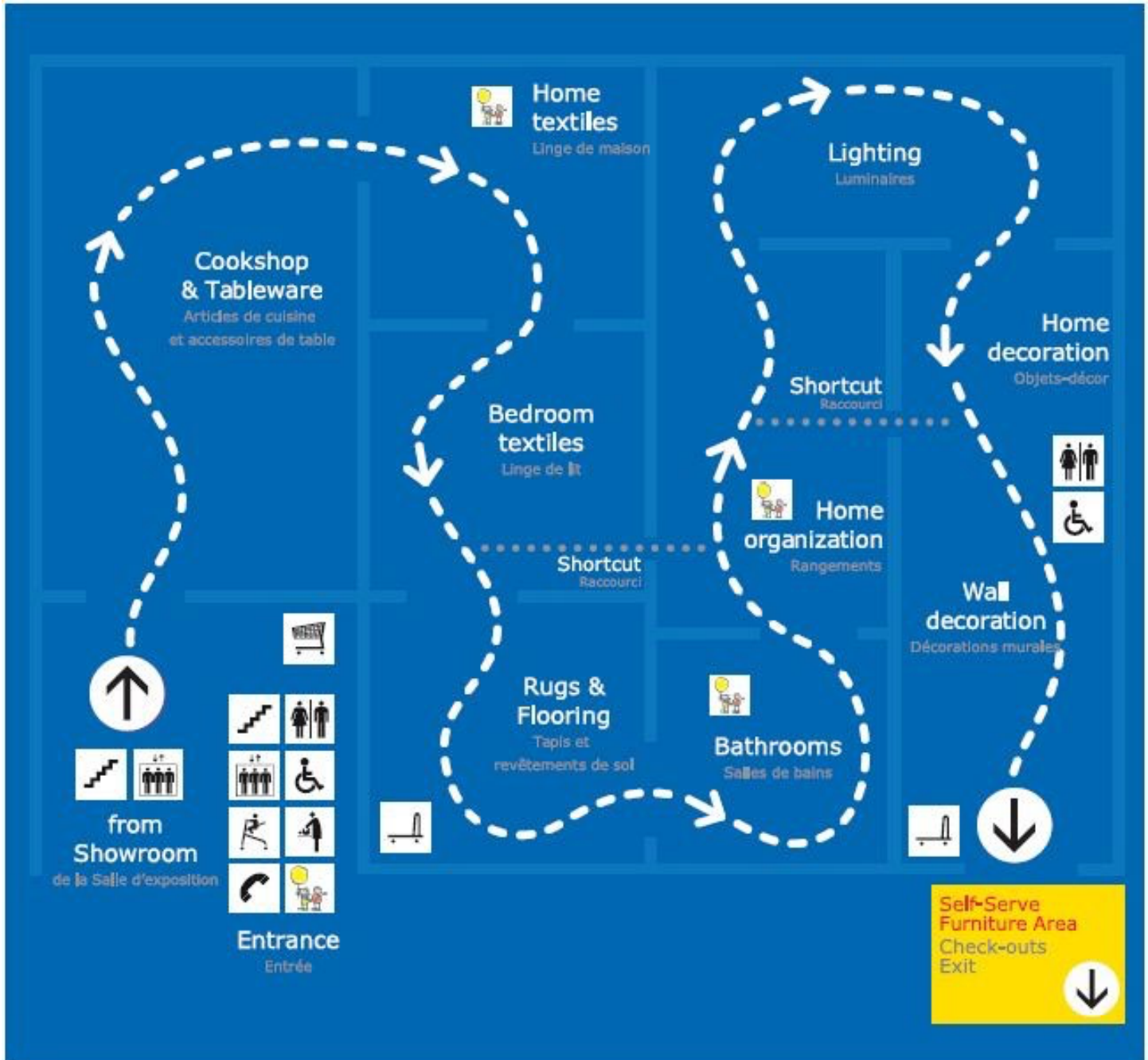
²¹⁶ Psychology Behind IKEA's Huge Success. CNBC. <https://www.cnbc.com/2019/10/05/psychology-behind-ikeas-huge-success.html>

Figure 19-1: IKEA Store Map²¹⁷



²¹⁷ The Evil Layout. <https://www.permanenthunger.com/ikea-the-evil-layout/>

Figure 19-2: IKEA Store Map



IKEA's cafeteria is another key part of its strategy. Ingvar Kamprad introduced food and beverage options in the first IKEA store in 1958, initially offering coffee and cold dishes.²¹⁸ He observed that "customers with full stomachs stay longer and buy more," and believed that "no good business is done on an empty stomach."²¹⁹ Food at IKEA also has low price tags. For example, in 1995, IKEA's hot dogs at SEK 5, roughly 50% to 70% cheaper than the usual price.²²⁰ Similar to its philosophy in selling furniture at low price, IKEA thinks that many people have small resources, "the company must be not just cheap, nor just cheaper – but very much cheaper...the stores must sell things that, in the eyes of the public, are astonishingly cheap to buy"²²¹ Ingvar Kamprad recalled that:

"Everyone, including myself, who likes sausages knows what a hot dog costs at a stand. At present it is between ten and fifteen kronor. I suggested to the directors that we sell them at five kronor. They looked at me with dismay

²¹⁸ Restaurants That Make Customers Happy. <https://ikeamuseum.com/en/explore/the-story-of-ikea/the-worlds-biggest-restaurant/>

²¹⁹ Chapter 2. *Leading By Design*.

²²⁰ Chapter 5. *Leading By Design*.

²²¹ Chapter 5. *Leading By Design*.

and surprise. Perhaps they thought the idea foolish, or perhaps I didn't explain it very clearly. Talking about selling hot dogs in a multibillion furniture store was not really on the agenda.

The next objection arose from my staff, who are always concerned with what they call the gross profit margin. We're selling hot dogs for almost the same amount it costs to make them. Shouldn't we raise the price and take six or seven kronor in profit?

In that case, the project ought to be abandoned, I replied, as the whole idea is based on the substantial price difference, the easily understood price. **The hot dog went on costing five kronor regardless of the cost of raw materials. We don't lose on the deal, nor do we make much profit, but at least we make a little on each hot dog.**

In the end, that is what matters."

As a result, hot dogs were an almost immediate success to IKEA and they are sold all over the world on the five-kronor principle. Each country set its exact price level, preferably only a single coin is necessary.

Ingvar Kamprad drew an analogy between pricing furniture and his earlier experience selling hot dogs, applying the same principle of prioritizing volume over profit.

"I'm going on with my search for new 'hot dogs' – lots of associates are involved. I recently saw a multi-plug we sell for under twenty kronor, while competitors take about fifty. My belief is that this 'hot dog' will sell millions...If we had taken ten kronor for that mug, and not five, then we would, of course, have 'earned' more on each mug – perhaps one and a half kronor – and had a better 'gross profit margin.' But we would have sold only half a million of them instead of almost twelve million, on which we now earn one krona each."²²²

An IKEA employee states that "Ingvar felt that the profit margin should be about 5% and should never exceed 10%. **He was keen to ensure that any profit over 5% in the restaurants and cafés should be used to raise quality. For him and IKEA, the restaurants were never primarily about making money. We can do that with furniture and other home furnishing products. A good meal at a low price is a way of giving back to the customers. That's an important part of the overall experience of IKEA, just like that glass of squash that Ingvar offered at the furniture showroom in Älmhult. And as already mentioned, you can sell more sofa beds to happy customers with full stomachs, and you also strengthen the Swedish link to IKEA and its brand.**"²²³

As the cafeteria's popularity grew, so did the menu. **According to a 2019 news report, IKEA sells more than one billion Swedish meatballs annually.**²²⁴ A former head of IKEA's U.S. food operations commented, "We've always called the meatballs 'the best sofa-seller... When you feed [customers], they stay longer, they can talk about their [potential] purchases, and they make a decision without leaving the store. That was the thinking right at the beginning."

In 2017, IKEA ranks as the world's sixth largest restaurant chain,²²⁵ **with over 700 million food customers annually.**²²⁶ **The largest restaurants at the stores have about 700 seats while the minimum is 450. According to a 2017 Forbes report, 30% of shoppers visit IKEA stores just to eat.**²²⁷ Despite the high volume of food sales, it was estimated in 2019 that food contributes about 5% to IKEA's overall revenue,²²⁸ estimating over \$2 billion.

In addition, IKEA stores offer baby-changing rooms, supervised play areas, information centers, and cafeterias serving meals such as its famous Swedish meatballs, as well as dessert such as ice cream. At Småland, IKEA's free play area, children are supervised by IKEA employees while their parents shop in the store. An executive noted that the goal is to "create a unique ambience that makes IKEA not just a furniture store, but a family outing destination that can compete

²²² Chapter 5. *Leading By Design*.

²²³ Restaurants That Make Customers Happy. <https://ikeamuseum.com/en/explore/the-story-of-ikea/the-worlds-biggest-restaurant/>

²²⁴ Psychology Behind IKEA's Huge Success. CNBC. <https://www.cnbc.com/2019/10/05/psychology-behind-ikeas-huge-success.html>

²²⁵ The Future of Food IKEA. <https://www.ikea.cn/cn/en/this-is-ikea/newsroom/the-future-of-food-pub4dd5a66e>

²²⁶ Restaurants That Make Customers Happy. <https://ikeamuseum.com/en/explore/the-story-of-ikea/the-worlds-biggest-restaurant/>

²²⁷ From Sofas To Meatballs Ikea May Be The Next Player In The Restaurant Business. Forbes.

<https://web.archive.org/web/20170610043442/https://www.forbes.com/sites/michelinemaynard/2017/04/17/from-sofas-to-meatballs-ikea-may-be-the-next-player-in-the-restaurant-business/#3dd86ddf3128>

²²⁸ IKEA Wants to Transition From Furniture Store to Lifestyle Brand. <https://www.eater.com/22989456/ikea-vienna-food-concept-healthy-vegetarian-sustainable-dining>

with entertainment parks and the zoo for family time.”²²⁹ IKEA’s Stockholm store has even become a main tourist attraction for the capital city.

Figure 20-1: IKEA Cafeteria²³⁰



²²⁹ Case Study: Ingvar Kamprad and IKEA. Harvard Business School.

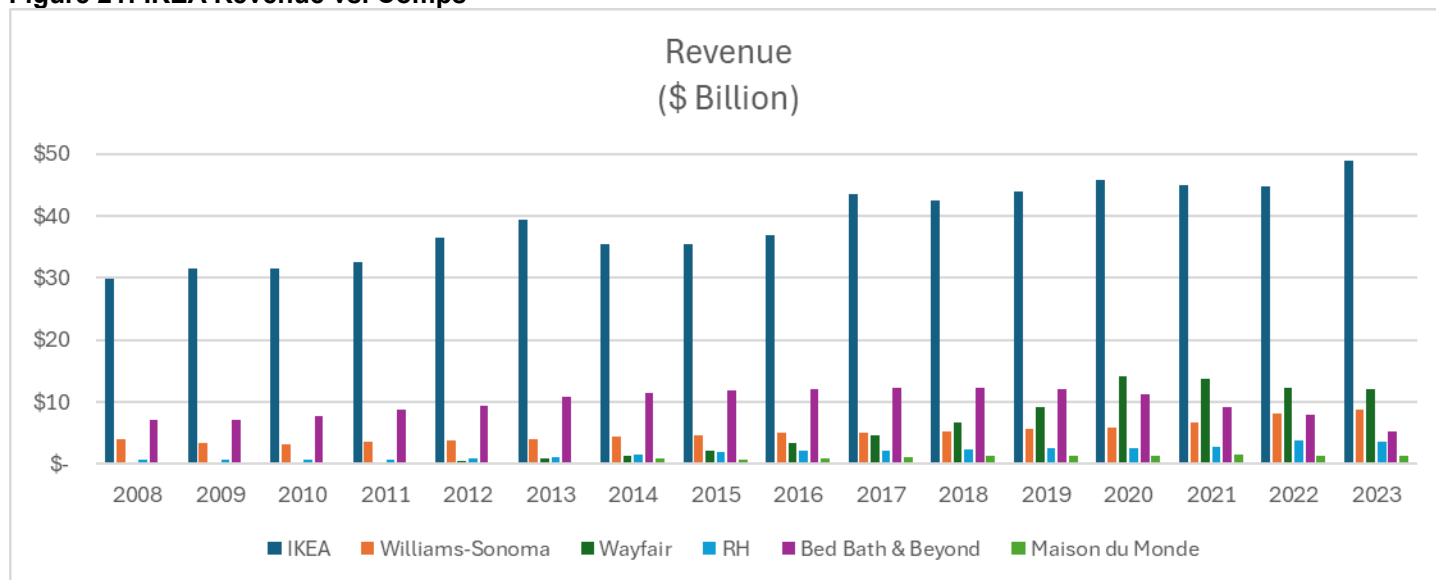
²³⁰ Inside The 600-Seat Madness of America's Largest IKEA. <https://la.eater.com/2017/2/10/14573400/ikea-burbank-new-restaurant-photos-inside>

Figure 20-2: IKEA Play Area²³¹



IKEA has been able to become a truly global furniture retailer thanks to its low-price products with good quality and designs, while most other competitors remain small in scale with regional focus. As of 2023, while IKEA has a revenue of \$49 billion, other competitors, public traded due to disclosure availability, that focus on home goods and furniture do not come any close to that scale such as Wayfair, an online furniture retailer, has \$12 billion, Williams-Sonoma \$8.7 billion, and Bed Bath & Beyond \$5.3 billion.

Figure 21: IKEA Revenue vs. Comps



Notes:

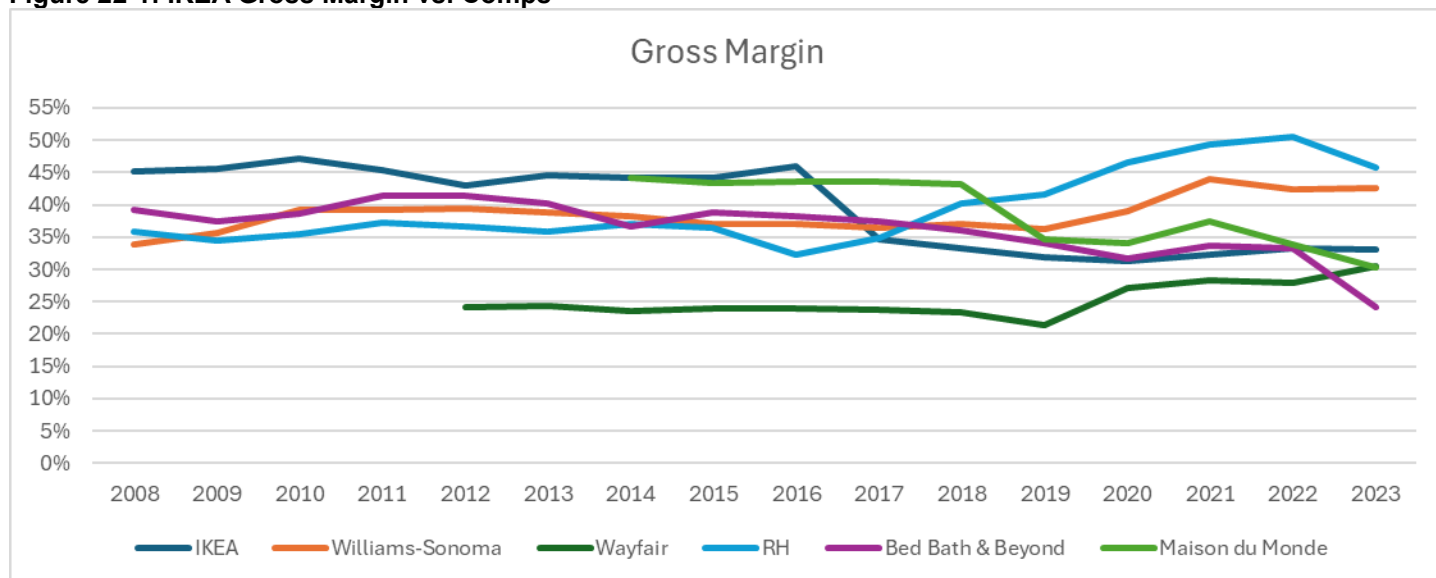
1. Detailed financial data for IKEA was not available prior to 2008.
2. Comps data is from FactSet.
3. Wayfair sales started in 2012. The company went public in 2014.

²³¹ IKEA Småland. <https://www.ikea.com/kr/en/customer-service/shopping-at-ikea/smaland/>

4. Maison du Monde went public in 2016.

IKEA's gross margin has remained relatively stable, around 45% before 2016, when the company's product development and supply chain businesses were sold to Inter IKEA Group, and about 33% since. It is difficult to find direct competitors that have a similar scale and global footprint to IKEA. Some of IKEA's comparable companies in the public market are positioned as high-end or luxury brands with much higher price points and growing gross margins. For instance, RH has worked for years to transition to a luxury brand, introducing a membership program with an annual fee of \$200.²³² As of October 2024, RH lists beds on its website starting at \$3,730 (regular price) or \$1,445 for members, with the highest-priced beds at \$21,230 (regular) and \$15,995 for members.²³³ Meanwhile, Williams-Sonoma, which also recently entered into the higher-end market,²³⁴ offers beds priced from a few thousand to over \$10,000²³⁵, based on its website listings. During the same period, IKEA bed prices range from under \$100 to around \$1,000, with most falling in the mid-to-low hundreds.²³⁶ Although Wayfair also sells beds across a broad price range, from the low hundreds up to \$60,000,²³⁷ it follows a different business model. Wayfair primarily operates through e-commerce, using a drop-ship model where suppliers fulfill orders placed on Wayfair's site, so the company does not hold inventory like traditional physical retailers do.²³⁸

Figure 22-1: IKEA Gross Margin vs. Comps



Notes:

1. Detailed financial data for IKEA was not available prior to 2008.
2. Comps data is from FactSet.

²³² RH Prospectus 2011; RH Membership. <https://rh.com/us/en/membership>; Restoration Hardware Owner Shares Soar After It Raises Profit Forecast. CNBC. <https://www.cnbc.com/2018/06/12/restoration-hardware-owner-shares-soar-after-it-raises-profit-forecast.html>

²³³ All Beds Low to High. https://rh.com/us/en/catalog/category/products.jsp/cat26780018/rh-all-beds?Ntt=rh+all+beds&sortBy=usa_min_display_price_f+asc&categoryId=cat26780018; All Beds High to Low. https://rh.com/us/en/catalog/category/products.jsp/cat26780018/rh-all-beds?Ntt=rh+all+beds&sortBy=usa_min_display_price_f+desc&categoryId=cat26780018

²³⁴ Williams-Sonoma Gains in the High-End Market. <https://businessofhome.com/articles/williams-sonoma-gains-in-the-high-end-market-is-it-coming-for-rh-s-share>

²³⁵ Bed Beds & Headboards. <https://www.williams-sonoma.com/shop/home-furniture/bed+beds-headboards/producttype-m-product-type-ff000a1119fe20-1/?sortBy=lowestPrice%20asc&isx=0.20.430>

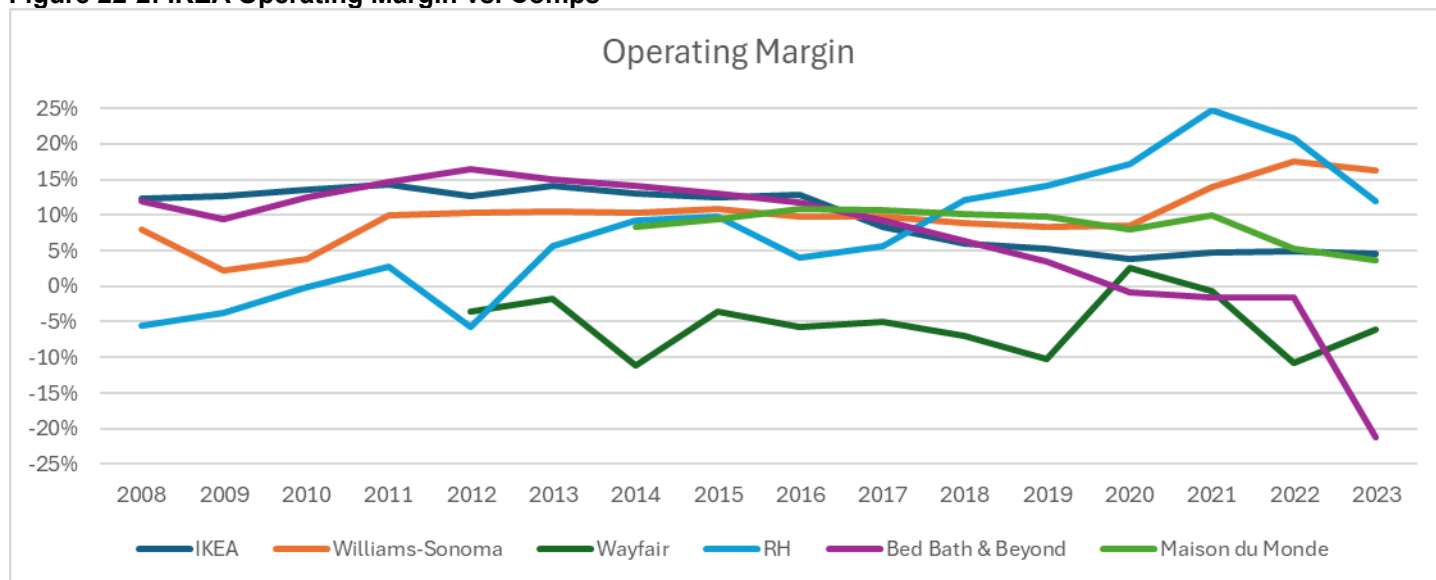
²³⁶ Beds and Bed Frames Low to High. https://www.ikea.com/us/en/cat/beds-bm003/?sort=PRICE_LOW_TO_HIGH&filters=f-subcategories%3A16284%7C16285%7C25205%7C49096&page=2. Beds and Bed Frames High to Low. https://www.ikea.com/us/en/cat/beds-bm003/?sort=PRICE_HIGH_TO_LOW&filters=f-subcategories%3A16284%7C16285%7C25205%7C49096&page=2

²³⁷ Free White Glove Delivery Beds You'll Love Low to High. <https://www.wayfair.com/furniture/sb1/free-white-glove-delivery-beds-c46122-a160478~576336.html?sortBy=2>; Free White Glove Delivery Beds You'll Love High to Low. <https://www.wayfair.com/furniture/sb1/free-white-glove-delivery-beds-c46122-a160478~576336.html?sortBy=3>

²³⁸ Dropshipping with Wayfair. <https://sell.wayfair.com/blog/learn-the-basics/dropshipping-with-wayfair>

3. Wayfair went public in 2014.
4. Maison du Monde went public in 2016.
5. Historically (prior to August 2016), product development and supply chain companies were owned and operated by IKEA Group under a non-exclusive agreement with Inter IKEA Group. However, as of August 31, 2016, Inter IKEA Group acquired these companies.²³⁹ Following this transaction, IKEA Group's financial results no longer included those from the production and supply chain companies that were sold. The decline in operating results was mainly driven by the loss of profit from the companies that were sold in the transaction. As a result, in FY2017, IKEA Group's gross margin decreased by 8.6 percentage points, dropping to 34.6% of total revenue.²⁴⁰

Figure 22-2: IKEA Operating Margin vs. Comps



Notes:

1. Detailed financial data for IKEA was not available prior to 2008.
2. Comps data is from FactSet.
3. Wayfair went public in 2014.
4. Maison du Monde went public in 2016.
5. Historically (prior to August 2016), product development and supply chain companies were owned and operated by IKEA Group under a non-exclusive agreement with Inter IKEA Group. However, as of August 31, 2016, Inter IKEA Group acquired these companies.²⁴¹ Following this transaction, IKEA Group's financial results no longer included those from the production and supply chain companies that were sold. The decline in operating results was mainly driven by the loss of profit from the companies that were sold in the transaction.²⁴²

Conservative Financial Approach

IKEA has always maintained a conservative approach to financing.²⁴³ The company follows a policy of earning money before spending it. Money is borrowed only for construction of property.²⁴⁴ Although growth is important, IKEA focuses on taking care of existing customers before expanding into new markets or opening additional stores.

For many years, some board members advised Ingvar Kamprad to raise capital through the stock exchange to support expansion into new markets. Kamprad, however, declined these suggestions. To him, IKEA was more than just capital – it was about people, ideas, culture, and history.

“Still today we want to grow at our own pace so that we keep up, not just with what is new but also develop what we already have. IKEA's strategy has long been to take at least half our resources to improve what already exists – the other half to do what is in the future, if at somewhat slower pace than if we had had access to unlimited

²³⁹ INGKA Group Yearly Summary 2016.

²⁴⁰ INGKA Group Yearly Summary 2017.

²⁴¹ INGKA Group Yearly Summary 2016.

²⁴² INGKA Group Yearly Summary 2017.

²⁴³ Differentiation through Control of The Value Chain. *The IKEA Edge*.

²⁴⁴ Chapter 18. *The IKEA Edge*.

money. IKEA cannot – as an eager member of the staff once expressed it – ‘just drive along autobahn-anas finding suitable sites on which to build IKEA stores.’”²⁴⁵

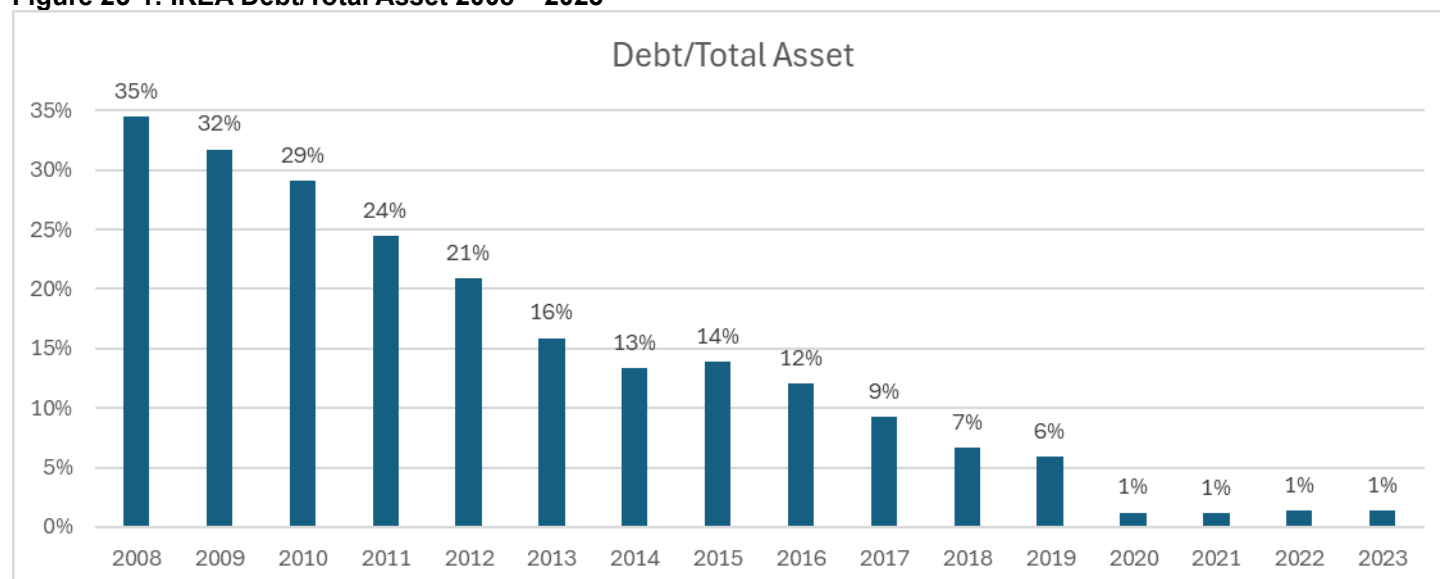
- Ingvar Kamprad

To estimate IKEA's debt level, we combined certain short-term and long-term liability items as implied by the company's documents. In 2009, although the company did not disclose a detailed composition of its balance sheet liabilities, it indicated that its liabilities were funded through equity, long-term property loans, and short-term liabilities.²⁴⁶ By approximating IKEA's debt level using short-term and long-term liabilities, excluding other payables and other non-current items, we found that debt accounted for 31% of the company's balance sheet in 2009.

In the company's 2014 and 2015 financial summary, the company stated that it continued to repay their debt. In 2023, IKEA had only €3 million in short-term loans, making up close to 0% of its €56 billion in assets. While the exact breakdown of long-term liabilities was undisclosed, they accounted for only 4% of the company's balance sheet.²⁴⁷

From 2008 to 2023, IKEA's debt to asset ratio has increased from 50% to 83%.

Figure 23-1: IKEA Debt/Total Asset 2008 – 2023



Notes:

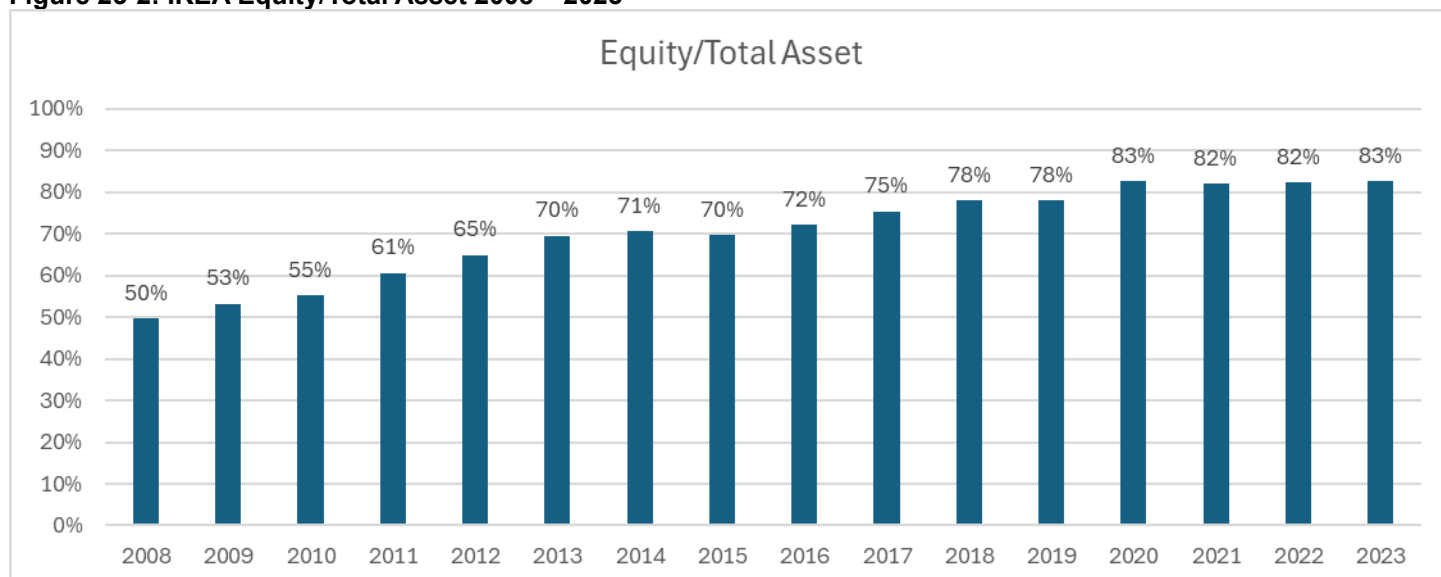
1. Detailed financial data for IKEA was not available prior to 2008.
2. IKEA's 2009 document states that “liability side are financed with equity, long-term property loans and short-term liabilities.
3. IKEA's 2014 and 2015 document states that “Liabilities consist of both long and short-term funding, as well as the payables connected with running the business. During FY14, we continued to repay our loans.”

²⁴⁵ Chapter 4. *Leading By Design*.

²⁴⁶ INGKA Group Annual Summary 2009.

²⁴⁷ INGKA Group Annual Summary 2023.

Figure 23-2: IKEA Equity/Total Asset 2008 – 2023



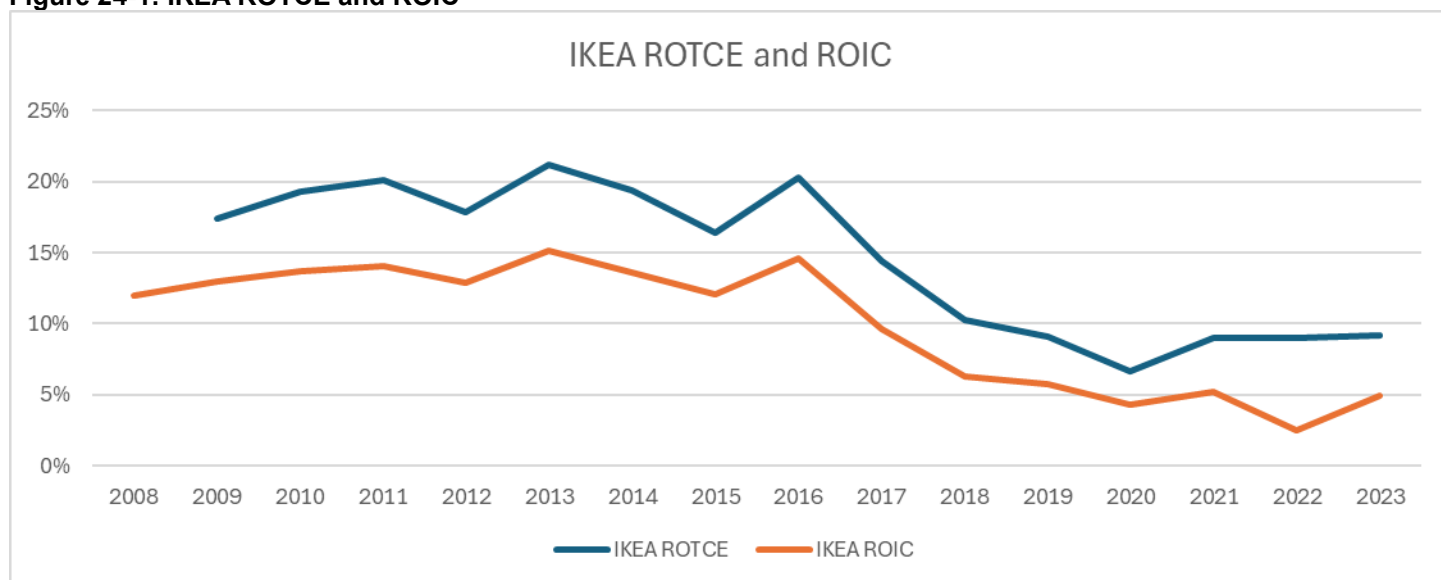
Note:

1. Detailed financial data for IKEA was not available prior to 2008.

The return on capital for IKEA's retail businesses has remained relatively stable over the years. From 2008 to 2016, we estimated that the company's return on tangible capital employed (ROTCE) ranged between 16% and 20%, while its return on invested capital (ROIC) was between 12% and 15%. However, since 2017, ROTCE declined and stabilized at around 9% after 2020, with ROIC following a similar trend, settling at approximately 5% after 2020.

The decline in returns after 2016 coincided with INGKA Group (the owner of most IKEA stores) transferring its production and development, and supply chain companies to the franchisor, Inter IKEA Group (owned by a foundation set up by Ingvar Kamprad), at the end of 2016. This transfer led to gross margin contractions and a decline in operating income associated with the transferred assets.²⁴⁸ If the transfer had not occurred after 2016 and operating income had remained at 2016 levels, IKEA's ROTCE would have stayed around 20%, with ROIC in the low teens.

Figure 24-1: IKEA ROTCE and ROIC



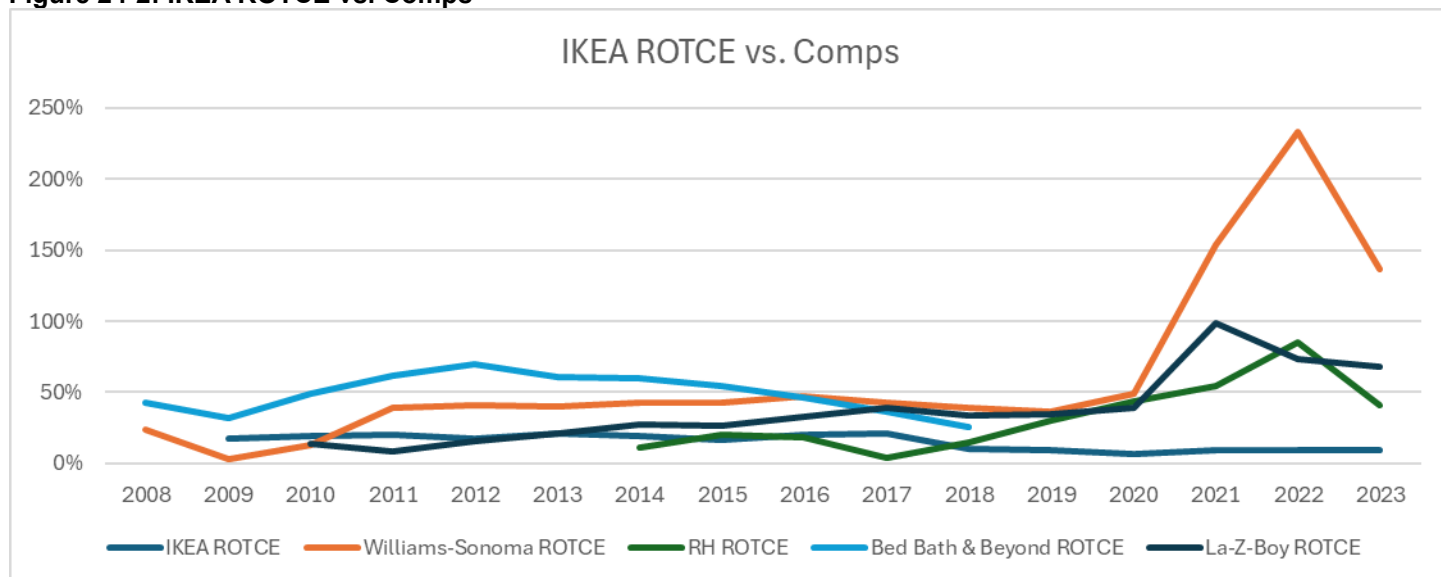
Notes:

1. Return ratios before 2008 are unavailable because detailed financial data for IKEA was not available prior to 2008.
2. The ROTCE in 2008 is unavailable because the company did not provide detailed disclosure of items under long-term assets.
3. $ROTCE = EBIT / ((Current\ Asset - Cash) - (Current\ Liabilities - Short-Term\ Debt) + PP\&E)$

²⁴⁸ INGKA Group Yearly Summary 2016; Inter IKEA Group Financial Summary 2016.

4. $ROIC = EBIT * (1 - \text{Effective Tax Rate}) / (\text{Total Asset} - \text{Cash} - \text{Non-Interest-Bearing Short-Term Liabilities})$

Figure 24-2: IKEA ROTCE vs. Comps



Notes:

1. Return ratios before 2008 are unavailable because detailed financial data for IKEA was not available prior to 2008.
2. Wayfair has been unprofitable during the period shown in the chart and, therefore, is not included.
3. Income statement and balance sheet of comps are sourced from FactSet as reported.
4. $ROTCE = EBIT / ((\text{Current Asset} - \text{Cash}) - (\text{Current Liabilities} - \text{Short-Term Debt}) + \text{PP\&E})$
5. RH was taken private in 2008 and did not become public again until 2013. It turned profitable in 2014 (or its FY2013). The company repositioned itself as a luxury brand, and its return on capital gradually increased over the years, rising significantly during COVID, partly due to gross margin expansion – from around 40% or lower before COVID to nearly 50% afterward. The company stated that the margin expansion was “driven by product mix and price increases, as well as higher product margins in select categories in [its] Core business. Additionally, [it] had lower Outlet promotional activity during the period and drove leverage in [its] RH Segment occupancy costs.”²⁴⁹ Its net working capital also turned negative during the COVID as cash increased.
Furthermore, the company leases most of its retail locations. As of February 3, 2024, the company has a total of 126 locations – 84 showrooms and 42 outlets.²⁵⁰ Of the 84 showrooms, 76 are in the U.S., 4 in Canada, 2 in the U.K., and 2 in Germany. Of the 42 outlets, only 1 is in the U.K., while the rest are in the U.S. The company owns only ten of its properties.
6. Williams-Sonoma's return on capital has mirrored trends observed at RH. The company's gross margin expanded from below 40% prior to COVID to above 40% during the COVID, primarily due to higher merchandise margins resulting from significantly reduced promotional activity, renegotiated rents, and the closure of less profitable stores.²⁵¹ Additionally, the company's net working capital turned negative entering the pandemic, largely due to an increase in cash reserves. As of January 28, 2024, Williams-Sonoma leases all of its 518 stores: 480 in the U.S., 19 in Canada, 17 in Australia, and 2 in the U.K.²⁵²
7. La-Z-Boy's return on capital has shown an upward trend in recent years, particularly since COVID. The company's gross margin increased from less than 40% before 2019 to over 40% as it entered the COVID period. In 2019, La-Z-Boy acquired Joybird, an e-commerce and upholstered furniture manufacturer with a higher gross margin than La-Z-Boy's existing segments.²⁵³ The company's gross margin continued to expand during COVID after integrating Joybird. In addition, in 2020, the company received a one-time rebate on previously paid tariffs related to sewn fiber, leather sets, and actuators, which further boosted gross margin by reducing cost of sales.²⁵⁴ During COVID, the company's net working capital decreased as cash increased. While the company does not disclose the amount of real estate it owns or leases, it reports that it leases the majority of its retail stores, showrooms, warehouses, and distribution

²⁴⁹ RH Annual Report FY2019 – FY2022

²⁵⁰ RH Annual Report 2023.

²⁵¹ Williams-Sonoma Q4 2020 Earnings Call. 3/17/2021.

²⁵² Williams-Sonoma Annual Report 2023.

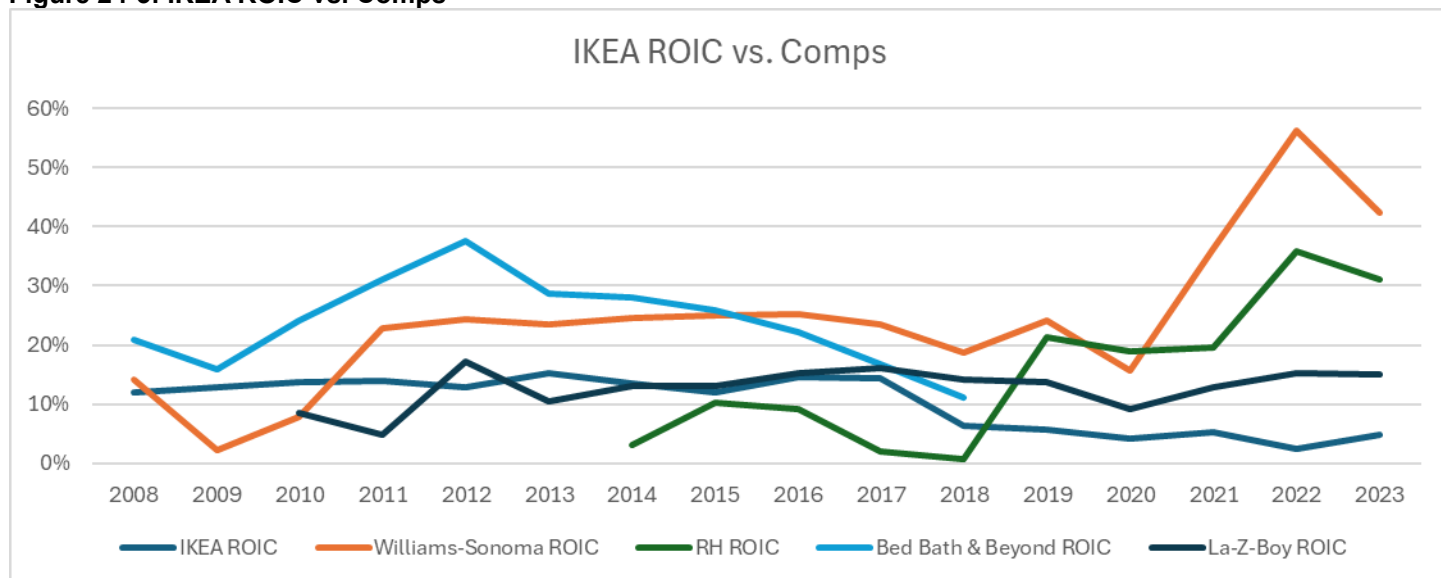
²⁵³ La-Z-Boy Annual Report FY2019.

²⁵⁴ La-Z-Boy Annual Report FY2020.

centers.²⁵⁵ The company's retail network consists of 355 La-Z-Boy Furniture Galleries stores and 528 La-Z-Boy Comfort Studios across North America. Additionally, the company has other brands, such as Kincaid and England, with 634 outlets in international markets.

8. Bed Bath & Beyond has not been profitable since 2018 and filed bankruptcy in 2023.²⁵⁶

Figure 24-3: IKEA ROIC vs. Comps



Notes:

1. Return ratios before 2008 are unavailable because detailed financial data for IKEA was not available prior to 2008.
2. Wayfair has been unprofitable during the period shown in the chart and, therefore, is not included.
3. Income statement and balance sheet of comps are sourced from FactSet as reported.
4. $ROIC = \frac{EBIAT}{(Total\ Asset - Cash - Non-Interest-Bearing\ Short-Term\ Liabilities)}$
5. RH was taken private in 2008 and did not become public again until 2013. It turned profitable in 2014 (or its FY2013). The company repositioned itself as a luxury brand, and its return on capital gradually increased over the years, rising significantly during COVID, partly due to gross margin expansion—from around 40% or lower before COVID to nearly 50% afterward. The company stated that the margin expansion was “driven by product mix and price increases, as well as higher product margins in select categories in [its] Core business. Additionally, [it] had lower Outlet promotional activity during the period and drove leverage in [its] RH Segment occupancy costs.”²⁵⁷ Its net working capital also turned negative during the COVID as cash increased. Furthermore, the company leases most of its retail locations. As of February 3, 2024, the company has a total of 126 locations – 84 showrooms and 42 outlets. Of the 84 showrooms, 76 are in the U.S., 4 in Canada, 2 in the U.K., and 2 in Germany. Of the 42 outlets, only 1 is in the U.K., while the rest are in the U.S. The company owns only ten of its properties.
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²⁵⁵ La-Z-Boy Annual Report FY2024.

²⁵⁶ Bed Bath & Beyond Stock to be Delisted from Nasdaq Following Bankruptcy Filing. <https://seekingalpha.com/news/3960167-bed-bath-beyond-stock-to-be-delisted-from-nasdaq-following-bankruptcy-filing>

²⁵⁷ RH Annual Report FY2019 – FY2022

²⁵⁸ Williams-Sonoma Q4 2020 Earnings Call. 3/17/2021.

²⁵⁹ Williams-Sonoma Annual Report 2023.

²⁶⁰ La-Z-Boy Annual Report FY2019.

sets, and actuators, which further boosted gross margin by reducing cost of sales.²⁶¹ During COVID, the company's net working capital decreased as cash increased. While the company does not disclose the amount of real estate it owns or leases, it reports that it leases the majority of its retail stores, showrooms, warehouses, and distribution centers. The company's retail network consists of 355 La-Z-Boy Furniture Galleries stores and 528 La-Z-Boy Comfort Studios across North America. Additionally, the company has other brands, such as Kincaid and England, with 634 outlets in international markets.

8. Bed Bath & Beyond has not been profitable since 2018 and filed bankruptcy in 2023.²⁶²

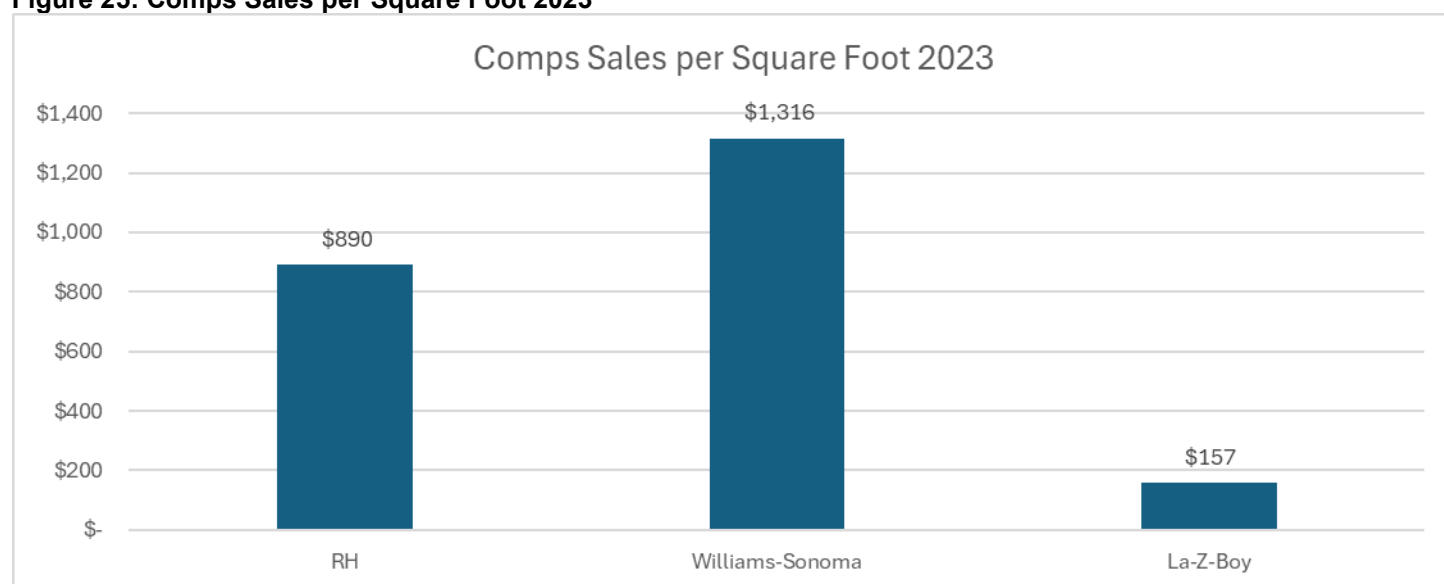
Although IKEA does not disclose the gross square footage of its retail locations or its average sales per square foot, it remains an area worth exploring in the future.

In 2023, RH operates approximately 2.1 million square feet of retail space and 1.29 million square feet of outlet space.²⁶³ With \$3.03 billion in revenue, this translates to sales of \$894 per square foot.

Williams-Sonoma, in 2023, operates around 5.89 million square feet of retail space.²⁶⁴ With \$7.75 billion in revenue, this approximates sales of \$1,315 per square foot.²⁶⁵

La-Z-Boy has approximately 13.0 million square feet of sales space in 2023, with 9.2 million square feet in wholesale locations and 3.8 million square feet in retail locations.²⁶⁶ With \$2.0 billion in revenue, this results in sales of \$157 per square foot.

Figure 25: Comps Sales per Square Foot 2023



Notes:

1. The above data are estimates based on the sales and store square footage disclosed in each company's annual report.
2. Sales per square foot of RH includes both its retail locations and outlets.
3. IKEA does not disclose the gross square footage of its retail locations or its sales per square foot and is therefore not included in the chart above.

²⁶¹ La-Z-Boy Annual Report FY2020.

²⁶² Bed Bath & Beyond Stock to be Delisted from Nasdaq Following Bankruptcy Filing. <https://seekingalpha.com/news/3960167-bed-bath-beyond-stock-to-be-delisted-from-nasdaq-following-bankruptcy-filing>

²⁶³ RH Annual Report 2023. The company has 126 locations in both retail and outlets, and only reported the total square footage of 124 leased locations.

²⁶⁴ Williams-Sonoma Annual Report 2023.

²⁶⁵ Williams-Sonoma Annual Report 2023.

²⁶⁶ La-Z-Boy Annual Report FY2024.

IKEA does not disclose information regarding store payback periods. RH, however, reported in 2020 that flagship locations, such as its New York store, have a payback period of less than two years, approximately 20 months.²⁶⁷ Williams-Sonoma disclosed in 2018 that its new stores reached payback in just over one year.²⁶⁸

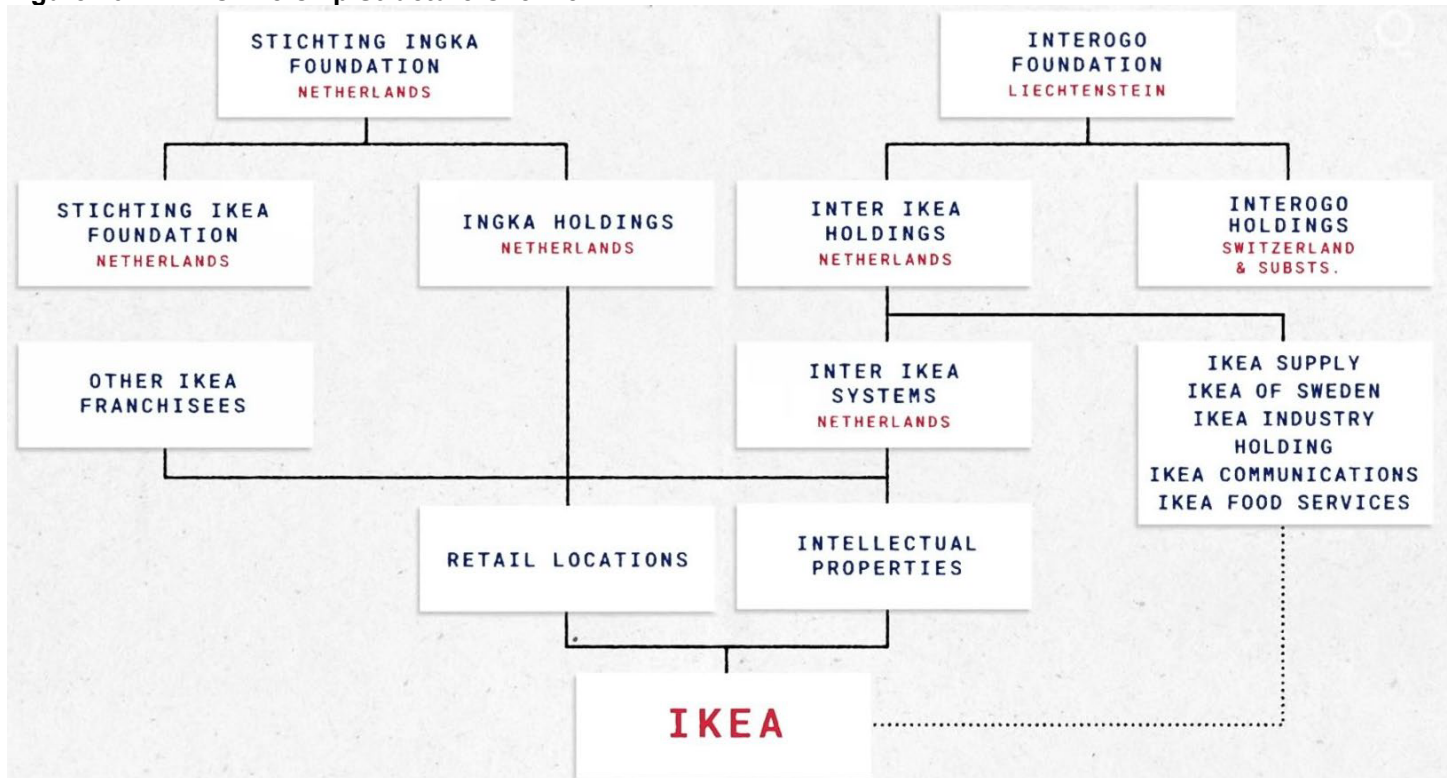
²⁶⁷ RH Special Call, 9/6/2018; Q1 2020 Earnings Call, 6/4/2020.

²⁶⁸ Williams-Sonoma Q2 2018 Earnings Call. 8/22/2018.

Ownership Structure

Ingvar Kamprad set up IKEA businesses primarily in two parts to separate the franchisor and franchisees.

Figure 26: IKEA Ownership Structure Overview²⁶⁹



INGKA Group

The majority of IKEA's retail business, about 90% of its revenues, is generated by stores owned and operated by the INGKA Group, which functions as a franchisee of IKEA.

In 1982, Ingvar Kamprad transferred ownership of IKEA to the Stichting INGKA Foundation, based in the Netherlands. This foundation held 100% of INGKA Holding BV, the parent company overseeing all INGKA Group businesses. In 1986, Kamprad retired from active management, becoming a senior advisor to the parent company.²⁷⁰ Although this structure meant that Kamprad and his family no longer directly owned shares in IKEA, they retained significant influence. The executive committee of the holding company was controlled by Kamprad's family and close associates, and vacancies on the committee were filled through a consensus among existing members.

Kamprad's motivation for this complex corporate structure was to ensure that IKEA would endure after him, without the risk of being fragmented by inheritance disputes. His family controlled a separate company whose income was derived from franchise fees and royalties paid by IKEA stores globally. Operating profits were then transferred to charitable foundations he established in the Netherlands, allowing Kamprad to mitigate the impact of Sweden's high taxes and foreign exchange regulations.²⁷¹ Kamprad himself relocated to Lausanne, Switzerland, partly to avoid Sweden's heavy tax burdens.

The INGKA Foundation remains the sole owner of the INGKA Group, the largest IKEA franchisee. In 2023, INGKA Group was responsible for over 88% of total IKEA retail sales, underscoring its dominant role in the company's global retail operations.²⁷²

²⁶⁹ The IKEA Experience – Not Just Another Furniture Store. <https://businessbar.net/all/the-ikea-experience-not-just-another-furniture-store/>

²⁷⁰ Case Study: IKEA: Past, Present, And Future. International Institute for Management Development, Lausanne, Switzerland.

²⁷¹ Case Study: Ingvar Kamprad and IKEA. Harvard Business School.

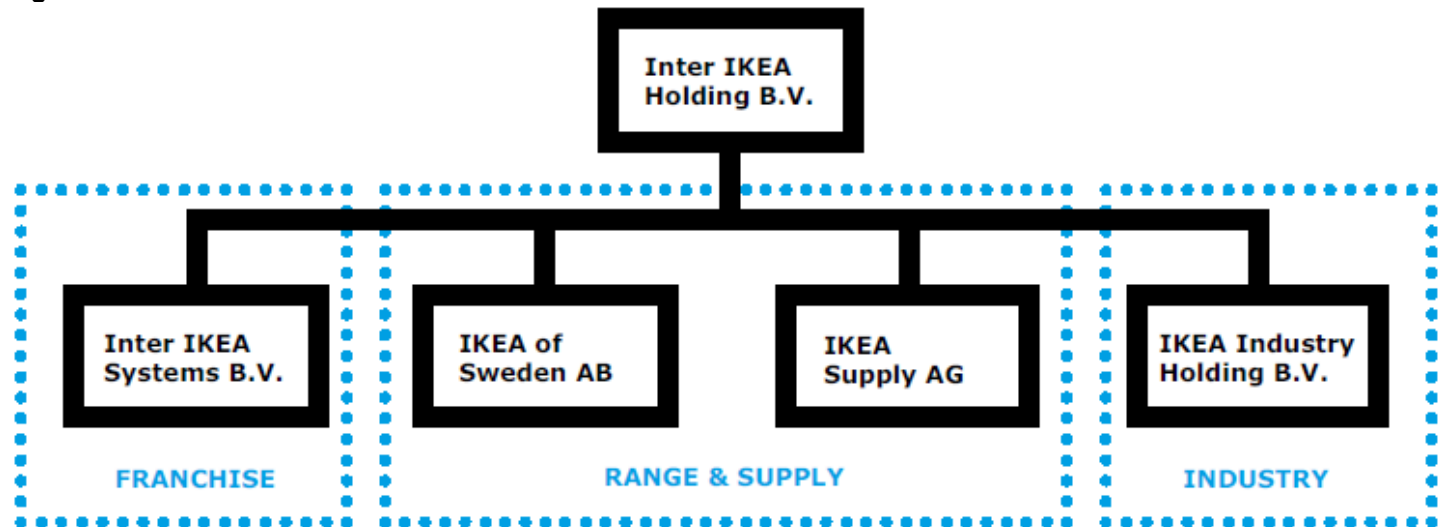
²⁷² Ingka Group Annual Summary 2023.

Inter IKEA Group

Inter IKEA Group operates as the franchisor of IKEA, owning the IKEA brand and concept, but does not directly run the retail side of the business. The company's franchise system, established in 1983, allows franchisees to operate IKEA stores and sell IKEA products in exchange for an annual fee of 3% of their net sales.²⁷³ In return, franchisees gain access to the IKEA trademarks, as well as the rights to market and sell IKEA's product range and operate its stores.

In addition to its franchising role, Inter IKEA Group is responsible for continuously maintaining, improving, and developing IKEA's product offerings, which include home furnishings and food products.²⁷⁴ The group also handles sourcing, supplying, and distributing IKEA products. Historically, the product development and supply chain functions were managed by IKEA Group (INGKA) under a non-exclusive arrangement with Inter IKEA Group. However, as of 31 August 2016, Inter IKEA Group took over ownership of these companies through the sale of shares, consolidating its control over these operations.²⁷⁵

Figure 27: Inter IKEA Structure²⁷⁶



Notes:

1. Inter IKEA Systems B.V. is the owner of the IKEA Concept and the worldwide IKEA franchisor. Inter IKEA systems B.V. develops the IKEA Concept and ensures its successful implementation in existing and new markets. The IKEA Concept consists of the IKEA product range, the IKEA retail system and the IKEA trademarks.
2. IKEA of Sweden AB has the responsibility to develop, design and produce home furnishing solutions and make them available to address everyday home furnishing needs.
3. IKEA Supply AG is a wholesale company with the responsibility of supplying IKEA retailers with IKEA products. The company owns goods in distribution centers located worldwide. Furthermore, there are purchasing offices to support and develop external suppliers. The core business also includes the production and supply of component solutions for assembling furniture.
4. IKEA Industry manufactures IKEA products and secures production capacities for growth in strategically important categories with the aim to create outstanding customer value in terms of quality and price, while always keeping sustainability in mind.

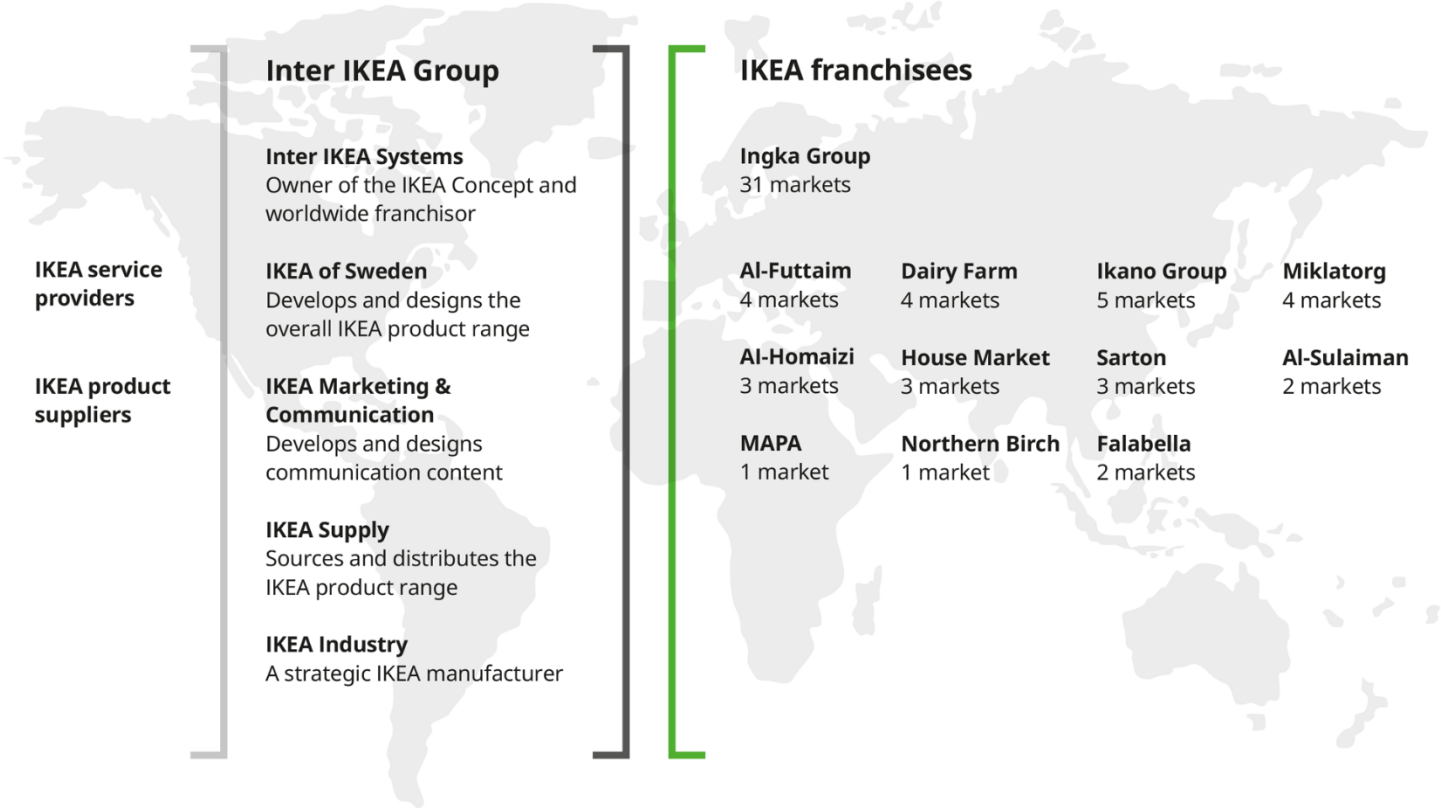
²⁷³ Inter IKEA Group Financial Summary 2016.

²⁷⁴ Our Business in Brief - Inter IKEA Group. <https://www.inter.ikea.com/en/this-is-inter-ikea-group/our-business-in-brief>

²⁷⁵ INGKA Group Yearly Summary 2016.

²⁷⁶ Inter IKEA Group Financial Summary 2016.

Figure 28: IKEA Structure And Franchise System 2024²⁷⁷



Note:

1. Ikano group is owned by the Kamprad family and owns 13 stores in 5 countries.²⁷⁸

As of 2024, Inter IKEA Foundation, based in Liechtenstein, is the ultimate owner of Inter IKEA Holding B.V. The foundation was established in 2023 following the demerger of the Interogo Foundation, which split into two separate entities. Inter IKEA Foundation now governs the IKEA-related business, while Interogo Foundation continues to manage the investment arm, Interogo Holding AG.²⁷⁹ Inter IKEA Foundation states that “through the foundation ownership, the IKEA Concept will remain under the ultimate and undivided control of Inter IKEA Foundation, over generations and irrespective of changes in the circumstances of individuals or family relationships. The foundation ownership prevents a fragmentation of ownership, which potentially could occur in case of family or public ownership. For these reasons, Liechtenstein foundation law, which offers a particular form of enterprise foundation, was found to be best suited for the purpose for which the foundation was established.”²⁸⁰

The foundation's governance includes two key bodies: the Foundation Council and the Advisory Council. The Foundation Council holds full decision-making authority and represents the foundation, while the Advisory Council has an advisory role, with the power to appoint and dismiss members of the Foundation Council. Importantly, the Kamprad family, while involved, must always remain a minority in the Advisory Council to ensure independent governance.²⁸¹

As of fiscal year 2023, the ownership of Inter IKEA Group was transferred from Interogo Foundation and Interogo Holding AG to Inter IKEA Foundation. Inter IKEA Foundation is now the sole shareholder and ultimate owner of Inter IKEA Group, ensuring continuity of the IKEA Concept across generations, regardless of changes in individual or family circumstances.

²⁷⁷ The IKEA Franchise System. <https://www.inter.ikea.com/en/this-is-inter-ikea-group/the-ikea-franchise-system>

²⁷⁸ Businesses - Ikano Group. <https://group.ikano.com/businesses/>

²⁷⁹ The Purpose of Inter IKEA Foundation Is to Secure Independence And Longevity of The IKEA Concept. <https://www.interikeafoundation.com/en/foundation-purpose-and-heritage>

²⁸⁰ A Brief Introduction to Inter IKEA Foundation. <https://www.interikeafoundation.com/en/about-inter-ikea-foundation>

²⁸¹ Inter IKEA Foundation Has Two Governing Bodies, A Foundation Council And An Advisory Council. <https://www.interikeafoundation.com/en/foundation-governance>

Culture And Employees

Anders Dahlvig, the former CEO of the IKEA Group, has remarked that many agree that almost all elements of IKEA's culture today are rooted in the values and characteristics of its founder, Ingvar Kamprad. Kamprad was known for his cost-consciousness, enthusiasm, and attention to detail.²⁸² He had an intimate understanding of his products, their prices, costs, and sources, and he expected his employees to possess the same knowledge.²⁸³

Kamprad frequently visited IKEA stores, personally interacting with frontline employees, offering praise, encouragement, and advice. During these visits, he commented on everything from store layouts to the size of price tags and the placement of posters.²⁸⁴ He also invited employees to stay after work for dinner at the IKEA buffet, personally thanking them. Kamprad made it a point to shake hands with every employee, a gesture that staff cherished, often returning home with stories of meeting the founder. This personal engagement fostered high morale and motivation throughout the company.

Kamprad emphasized the essence of IKEA's culture when he said, "The true IKEA spirit is founded on our enthusiasm, on our constant will to renew, on our cost-consciousness, on our willingness to assume responsibility and to help, on our humbleness before the task, and on the simplicity of our behavior." He also states that "Waste of resources is a mortal sin at IKEA. Expensive solutions are often signs of mediocrity, and an idea without a price tag is never acceptable."²⁸⁵

Studies indicate that IKEA employees believe that, working at the company, they are contributing to a better society and that they are contributing to a better world.²⁸⁶

Ingvar Kamprad's commitment to frugality was exemplified by a story in which an IKEA executive needed to make an urgent trip but found that only first-class flights were available. Kamprad responded by saying, **"There is no first class at IKEA," and instructed the executive to take a taxi for the 350-mile journey.**²⁸⁷

IKEA's working environment reflected Kamprad's belief in simplicity and humility. Employees dressed neatly but casually, with jeans and sweaters as the norm, and the open-office layout encouraged interaction and collaboration, reflecting a relaxed and non-bureaucratic working culture. A senior executive noted that this open layout placed subtle pressure on the management team to perform, as there were no closed doors to hide behind.²⁸⁸

²⁸² Differentiation through Control of The Value Chain. *The IKEA Edge*.

²⁸³ Case Study: Ingvar Kamprad and IKEA. Harvard Business School.

²⁸⁴ Case Study: Ingvar Kamprad and IKEA. Harvard Business School.

²⁸⁵ Case Study: Ingvar Kamprad and IKEA. Harvard Business School.

²⁸⁶ Chapter 5. *Leading By Design*.

²⁸⁷ Case Study: Ingvar Kamprad and IKEA. Harvard Business School.

²⁸⁸ Case Study: Ingvar Kamprad and IKEA. Harvard Business School.

Figure 29-1: IKEA Storefront And Employees 1970s²⁸⁹



²⁸⁹ The Organization Gathers Strength for The Future. <https://ikeamuseum.com/en/explore/the-story-of-ikea/18-months-in-smoke-and-dust/>

Figure 29-2: IKEA Storefront And Employees 2024²⁹⁰



Kamprad believed that complexity would paralyze the company, stressing the importance of simplicity and attention to detail. IKEA's mantra, "Retail is detail,"²⁹¹ is at all levels of the organization. IKEA's culture also fosters creativity and simple, common-sense solutions. Kamprad discouraged over-analysis, believing it could be paralyzing. Instead, the company embraced the possibility of making mistakes, as long as lessons were learned.

Employees, both at the store level and within corporate offices, were expected to fully understand how IKEA stores operated. Dahlvig emphasized this expectation in his book *The IKEA Edge*, explaining that managers must have experience on the shop floor and spend time in the stores and with suppliers.

Understanding the details of all levels of the business is an important part of IKEA's values. Managers must have experience on the shop floor and spend time in the stores and at the suppliers. IKEA promotes this through so called anti-bureaucratic weeks, during which corporate managers are encouraged to take time out from their regular work and spend time working in the stores in order to better understand the realities of the customers and employees.²⁹²

To reinforce this, IKEA introduced "anti-bureaucratic weeks," during which corporate managers spent time working in stores to better understand the realities faced by customers and employees.

Dahlvig also remarks that this emphasis on hands-on experience was one of the reasons IKEA rarely hired senior management externally.²⁹³ All of the company's CEOs since its founding rose through internal promotions. For instance, Anders Moberg, who served as CEO from 1986 to 1999, began his career at IKEA in administration, later becoming a store manager in Austria and Switzerland, and eventually leading IKEA's entry into France as country manager.

²⁹⁰ 10th IKEA Store in Japan. <https://www.linkedin.com/feed/update/urn:li:activity:7153680971035205632/>

²⁹¹ Case Study: Ingvar Kamprad and IKEA. Harvard Business School.

²⁹² Chapter 2. *The IKEA Edge*.

²⁹³ Chapter 2. *The IKEA Edge*.

When hiring, IKEA prefers not to bring in individuals already immersed in another corporate culture. Higher education was not seen as necessary and advantageous at IKEA, as the company found that those with extensive formal education often struggled to adjust to its unique culture. Instead, IKEA favored young recruits who brought enthusiasm and energy, helping to keep costs low while nurturing the company's distinctive spirit. The ideal IKEA employee was straightforward, hard-working, and comfortable interacting with everyone.

In 1976, Kamprad published *The Testament of a Furniture Dealer*, which outlined nine key principles that would serve as the cornerstones of IKEA's business.²⁹⁴ This document also captures his philosophy that IKEA's mission went beyond profit generation, serving a higher purpose in society.²⁹⁵

The nine points are listed follow in excerpts:²⁹⁶

1. **The product range – our identity.** “We shall offer a wide range of well-designed, functional home furnishing products at prices so low that as many people as possible will be able to afford them.”
2. **The IKEA spirit – a strong and living reality.** “IKEA builds on enthusiasm, a desire for renewal, thrift, responsibility, humbleness toward the task, and simplicity.”²⁹⁷
3. **Profit gives us resources.** “The aim of our effort to build up financial resources is to reach a good result in the long term. You know what it takes to do that: we must offer the lowest prices, and we must combine them with good quality.”
4. **Reaching good results with small means.** “Wasting resources is a mortal sin at IKEA. It is not all that difficult to reach set targets if you do not have to count the cost. Any designer can design a desk that will cost 5,000 kronor. But only the most highly skilled can design a good, functional desk that will cost 100 kronor. Expensive solutions to any kind of problem are usually the work of mediocrity.”
5. **Simplicity is a virtue.** “Planning is often synonymous with bureaucracy. Planning is, of course, needed to lay out guidelines for your work and to enable a company to function in the long term. But do not forget that exaggerated planning is the most common cause of corporate death. Exaggerated planning constrains your freedom of action and leaves you less time to get things done. Complicated planning paralyses. So let simplicity and common sense guide your planning.”
6. **Doing it a different way.** “By always asking why we are doing this or that, we can find new paths. By refusing to accept a pattern simply because it is well established, we make progress. We dare to do things differently! Not just in large matters, but in solving small everyday problems too.”
7. **Concentration – important to our success.** “We can never do everything, everywhere, all at the same time. Our range cannot be allowed to overflow. We will never be able to satisfy all tastes anyway. We must concentrate on our own profile. We can never promote the whole of our range at once. We must concentrate. We cannot conquer every market at once. We must concentrate for maximum impact, often with small means.”
8. **Taking responsibility – a privilege.** “Taking responsibility has nothing to do with education, financial position or rank. Responsibility-takers can be found in the warehouse, among the buyers, sales force and office staff – in short, everywhere. They are necessary in every system...Only while sleeping one makes no mistakes. Making mistakes is the privilege of the active – of those who can correct their mistakes and put them right. Our objectives require us to constantly practice making decisions and taking responsibility, to constantly overcome our fear of making mistakes. The fear of making mistakes is the root of bureaucracy and the enemy of development.”
9. **Most things still remain to be done. A glorious future!** “Most of the job remains to be done. Let us continue to be a group of positive fanatics who stubbornly and persistently refuse to accept the impossible, the negative. What we want to do, we can do and will do together.”

²⁹⁴ Case Study: Ingvar Kamprad and IKEA. Harvard Business School.

²⁹⁵ Case Study: IKEA: Past, Present, And Future. International Institute for Management Development, Lausanne, Switzerland.

²⁹⁶ The Testament of A Furniture Dealer. IKEA.

²⁹⁷ Chapter 4. *Leading By Design*.

To ensure that these values and IKEA's unique philosophy were spread throughout the organization, the company created a group of specially trained "IKEA ambassadors." By 1989, there were around 300 ambassadors,²⁹⁸ tasked with conveying IKEA's history and culture, much of it personally presented by Kamprad himself, and spreading these messages to every corner of the company. Kamprad's influence continues to shape IKEA's culture today, ensuring that the values he instilled remain at the heart of the company.

²⁹⁸ Case Study: Ingvar Kamprad and IKEA. Harvard Business School.

Appendix

Private Valuation

	Valuation (\$ Billion)	Implied P/E
1987	\$1.7	11.0x
2006	\$36.0	14.0x

Notes:

1. In 1987, the valuation was estimated at SEK 10 billion, converted to USD using an exchange rate of SEK 5.8 per USD of that year, provided by the Bank of International Settlements. The exact date of the valuation is unknown. The implied valuation over fiscal year 1987 earnings was around 11x.
2. In 2006, The Economist estimated IKEA's valuation.²⁹⁹ The article highlighted that valuing IKEA was challenging due to the lack of direct global competitors and irregular earnings disclosures. In 2006, when The Economist valued the company, only 2004 earnings were available. The Economist applied a P/E multiple of 20x, similar to that of Target in the U.S., to IKEA's 2004 earnings and determined the valuation. Because the 2006 net income was not disclosed, we estimated it by applying the IKEA's net margin of 11% in 2004. The implied P/E for IKEA in 2006 was approximately 14x.
3. Valuing IKEA is challenging because it's a private company, with its retail business solely owned by the INGKA Foundation,³⁰⁰ set up by its founder in 1982.

²⁹⁹ Flat-Pack Accounting. The Economist.

<https://web.archive.org/web/20180802172213/https://www.economist.com/business/2006/05/11/flat-pack-accounting>

³⁰⁰ Funding And Governance. <https://ikeafoundation.org/our-funding-and-governance/>