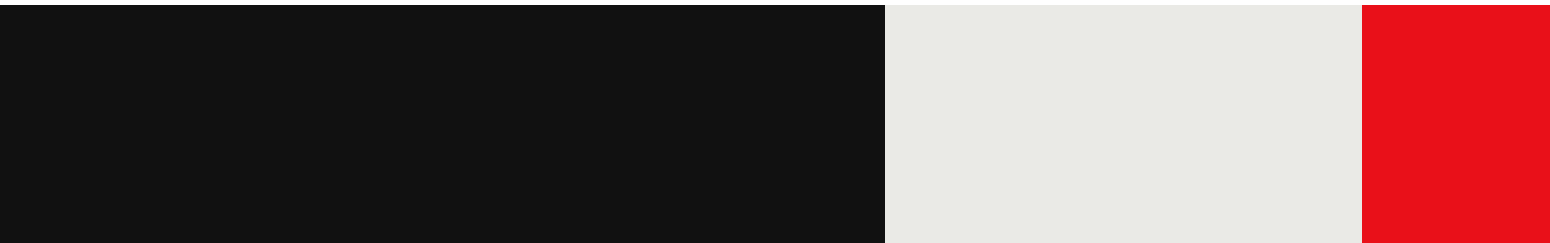


Reimagining Retail: How Ikea developed a cult-like following and its biggest challengers, from resale to rental

Audio



On today's episode, in our "Retail Me This, Retail Me That" segment, we discuss why Ikea has fallen behind on ecommerce, what to expect from its new store formats, and how the company developed its cult-like following. Then, for "Pop-Up Rankings," we rank Ikea's top four biggest challengers. Join our analyst Sara Lebow as she hosts analysts Carina Perkins and Zak Stambor.

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Episode Transcript:

Sara Lebow:

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understanding of our comprehensive forecast reports and benchmarks, by putting you in direct conversation with the experts who conduct the research. Book your first session now through insiderintelligence.com/analystaccess.

Hello, listeners. Today is Wednesday, June 7th. Welcome to Behind the Numbers: Re-Imagining Retail, an eMarketer podcast. This is the show where we talk about how retail collides with every part of our lives. I'm your host, Sara Lebow. Today's episode topic is everyone's favorite Swedish meatball retailer, IKEA.

First, let's meet today's guest. Joining me for today's episode, we have Senior Analyst Zak Stambor. Hey Zak.

Zak Stambor:

Hey Sara.

Sara Lebow:

And also joining us is Senior Analyst Carina Perkins. Welcome back, Carina.

Carina Perkins:

Hi Sara. Thanks for having me back.

Sara Lebow:

Let's get started with our first segment, News and Reviews, where I give the news and our guests tell me their reviews. Today's story is a May 25th story from The New York Times titled Brands Embracing Pride Month Confront a Volatile Political Climate.

June is LGBTQ Pride month, and with that comes retail promotions and political controversy. Target actually removed some Pride displays due to threats, only to place some of them back later. Target is one of a few brands and retailers, including Bud Light, that appeared pretty wishy-washy on Pride this year. So, Zak, your review of this story in 60 seconds is.

Zak Stambor:

So Pride month marketing is not a new thing, but the political environment that we're in at the moment is particularly heated, perhaps more heated than it has been in quite some time. And so when brands have faced a blowback, Target and Bud Light in particular, they've pulled back and they've relented to the pressure. And I think this gets to authenticity and are you

actually supporting the LGBTQ community or are you simply seeking to sell stuff? When you pull back, you are suggesting that you are simply trying to sell stuff and not being authentic to your brand. And I think the challenge here is that when you pull back, you are not pleasing anybody. You are not pleasing the people who pushed back and you are not pleasing the LGBTQ community. And so you're really isolating everyone and not really showing a backbone and showing that you are not really authentic to whatever values you sought to convey.

Sara Lebow:

Absolutely. I think it makes it so clear that what brands were originally doing was probably pink washing, using LGBT messaging to sell products inauthentically. That's what pulling back shows.

Zak Stambor:

Yeah, that's right.

Sara Lebow:

Carina, your review of this story in 60 seconds is.

Carina Perkins:

Sure, so we haven't seen quite a strong backlash like this in the UK, but I want to echo really a lot of what Zak says. I think it's a worrying trend. I think the backtracking in particular sets a particularly dangerous precedent. And it really highlights the danger of pink washing or rainbow washing. And I think brands need to be thinking like don't make a statement if you're not then willing to stand by it.

And I think that that kind of rainbow washing is viewed skeptically by consumers anyway. There was a survey in the UK that found when retailers changed their logos for Pride months, half of consumers thought it was a publicity stunt. But I think that if you are showing your support and then backing that up with some real action and real authentic action, then that's a different matter altogether. And I think it would be a real shame if brands that genuinely want to support LGBTQ communities feel that they can't do so. There's been some great examples of retailers in the UK supporting Pride. Aldi created a gender transition guide to support colleagues. Tesco donated almost 100,000 pounds to three charities and Superdrug supported the Switchboard charity in collaboration with Unilever. So I think really retailers, as Zak said, rather than just trying to make money off this, they should be thinking about do they

really authentically want to support the community, and then how can they show that and then stand by that?

Sara Lebow:

Yeah, 100%. I think that the threats, especially in the US, can feel very real, but pulling back, like what Target has done, is kind of embarrassing. Okay, now it's time for our next segment. Retail Me This, Retail Me That, where we discuss an interesting retail topic.

Today's topic is IKEA. Last week IKEA acquired a software company with an aim at boosting e-commerce. That's a good call considering over percent of US furniture and home furnishing sales will be online by 2027. That's over half of sales moving to e-commerce in the next five years. IKEA has something of a cult-like following, evidenced by the fact that I'm recording next to an IKEA dresser. How has IKEA developed this cult-like following? Zak, I'll go to you first.

Zak Stambor:

Yeah, I think there's a few different ways in which it has built this following. The first is the store location. An IKEA is almost always a huge schlep to get to. It's just 20 minutes away or 20 miles away and you have to get in the car and you have to drive. And when you drive and you schlep all that way there, then you're probably going to spend money. You're not just going to window shop. So that's one thing.

Once you're in the store, they use the concept of gentle coercion to get customers to stay longer, to have to figure out how to navigate the store. You can eat there. And then there's the products themselves, which are pretty simple and minimalistic and they can work on their own. Or they can serve as a sort of raw ingredient of sorts that you can hack and customize and make your own. So I think those three ingredients combine to make it a cult-like brand

Sara Lebow:

Carina, anything to add there?

Carina Perkins:

Yeah, I think, and to add really, is that they kind of brought this Scandinavian design to the masses at a really affordable price point. And I think that was a really new thing. Particularly

when it arrived in the UK they ran some advertising campaigns urging people to chuck out your chintz and stop being so English, which I thought was great.

Plus it really celebrates its Swedish roots and the fact that it does things differently. Like Zak said, the store experience, it's a completely different experience. It's almost like a kind of shopping theme park. You can't go back on yourself. There's such a different experience to most other stores. And I think even assembling the flat pack furniture, that's a kind of shared experience of frustration and then eventual joy and satisfaction when you get it all assembled. And there's actually a phenomenon which has been dubbed as the IKEA effect, which is that people place greater value on things that they construct themselves.

And I think the last thing is really that they do sort of make a big deal of their sustainable credentials and they really try and sell a lifestyle that kind of links shopping with them with an eco-conscious approach to life.

Sara Lebow:

Yeah, I mean there's definitely something of an experience, like it's part moving into new place is going IKEA and figuring out what you're going to get for that place, it feels like. So IKEA right now wants to build out e-commerce, which is an area where it feels like IKEA has fallen behind. How is e-commerce a weakness for IKEA and what are some of IKEA's other weaknesses? Carina, I'll go to you first on this one.

Carina Perkins:

So I'm going to touch on some of the problems that it's faced with stock and delivery over the last couple of years. So it really suffered from some of the supply chain issues, which in the UK it blamed on Brexit and the shortage of lorry drivers, but also Coronavirus, the war in Ukraine. There's been quite a lot of disruption to supply chains and it seems to have really struggled to overcome some of those issues.

I think that also another weakness is the very model of the flat pack furniture. So it offers quite a generous returns policy, which is where consumers can return the items within 365 days. But the caveat is that that's only if it's in its original packaging. So obviously people can't see the furniture until they've got it out of the packaging and they've built it, and at that point it's too late to return it. So I think that's another problem really when you're selling e-commerce and people haven't actually been to physically see the item.

Another thing is that it's not quite as cheap as it used to be, so it raised prices across large parts of the range in 2022 to reflect the increased costs of materials and transport.

Sara Lebow:

Yeah, IKEA, I think, used to be the cheap furniture option, but now it feels like it's being undercut by Amazon and other retailers. Zak, anything to add on IKEA's weaknesses or areas to grow?

Zak Stambor:

Yeah, I think one thing worth noting is that while e-commerce has certainly been a shortcoming for IKEA for quite some time, the pandemic really did drive it to improve the experience and boost sales. Before the pandemic, I think it was like 7% of its sales were online, whereas now it's about a quarter. So that's quite an improvement. And as you said, they've made some investment, some significant investments in fact, to enhance the e-commerce experience. And in that vein, they're spending quite heavily to add more locations and new pickup locations, to make it easier to get the stuff, and without having to ship it, which is pretty expensive.

Sara Lebow:

Yeah. When I moved into my current apartment two and a half years ago, IKEA e-commerce was, it was very limited and very difficult to get, and it doesn't seem like it's that way anymore.

Zak Stambor:

I think that's true. And the website, traditionally, was very clunky. It just was not a good experience. Not the app or apps I should say, there are a couple apps are better, they're certainly better. And it makes for an easier experience, an easier way to gauge whether the furniture that you're planning to purchase, which is not as cheap as it used to be, will fit within your house or your space.

Sara Lebow:

Yeah, or you can do what I do and have a giant notebook full of measurements that you carry around with you every time you go furniture shopping along with your measuring tape.

Carina Perkins:

I think they definitely invested a lot in distribution in the UK. They've just opened a really big new distribution center in Dartford, Kent to serve London and the Southeast. And they're also teaming up with Tesco to offer some collect options from car parks of Tesco stores. So as Zak said, I think they're really improving their e-commerce offer.

Sara Lebow:

Yeah, and they're trying a lot of new things, not just with e-commerce. So I have this Business Insider story from a few weeks ago about IKEA hosting raves in warehouses during Milan design week. Obviously that's a really extreme example of IKEA experimenting, but what are some other things that it's been trying?

Carina Perkins:

We've seen them start experimenting with different format stores. In the UK we've seen them open some small format city stores. There's one in Hammersmith in London. It's about a quarter of the size of IKEA's traditional stores and there's a focus on home furnishings, but you can also order the full range for home delivery. There's a planning studio where you can plan rooms with expert help. They've gone big on dining there, so you can get their meatballs and there's also a Swedish deli. And they're also opening plan and order points that contain no products or food on site. So they're units located in retail parks and shopping centers and they showcase kitchen and wardrobe designs and customers can sit down with IKEA planners and then order products for home delivery or connection elsewhere.

Zak Stambor:

They're doing similar things in the States. They have a couple of plan and order points at the moment, but they have plans to open, I think nine more, as well as rolling out like 900 new pickup locations like I was saying earlier, so that if you order online, you can have a place to pick it up and relieve some of the burden on IKEA in the cost of IKEA shipping it directly to you.

Sara Lebow:

Sure. And they're also trying to own their own resell, take over the fact that I can go on Facebook Marketplace and type in Hemnes dresser and probably find one near me.

Zak Stambor:

Yeah, I think this is such an interesting move by them because IKEA furniture is ubiquitous on Facebook Marketplace or Craigslist or wherever you may look. And so they saw the opportunity to just own this and kind of make it their own.

Carina Perkins:

Yeah, I think the buyback and resell is a really clever move by IKEA because they are essentially taking ownership of that secondhand market, and sellers, they buy the furniture off sellers, and give them credit to spend in IKEA on future purchases. So they're kind of keeping that transaction within the IKEA family. But it also taps into this sustainability and cost of living crisis so it kind of gives the outward impression as well that they're doing something to improve the lives of their customers. So I think it's a really clever move

Sara Lebow:

Yeah, I mean, especially giving that credit because if you're selling your dresser, you're probably buying a new dresser, so definitely worth getting that credit out there. My final question up top, would you guys attend an IKEA warehouse rave in Milan?

Zak Stambor:

Absolutely not. I find the experience of venturing into an IKEA to be a stressful experience to begin with. A bunch of loud music and sweaty people does not seem appealing to me.

Carina Perkins:

See, I absolutely would because I think the only thing that stops me from attending a rave generally is that I'm old and I like to sit down but if you're in an IKEA warehouse and you can sit on the bed and listen to the rave music, brilliant. I'm there.

Sara Lebow:

Yeah, it's a rave with furniture.

Carina Perkins:

Yeah, perfect.

Sara Lebow:

What's not to like?

Carina Perkins:

Perfect.

Sara Lebow:

I guess I should answer that. I don't know if I would attend an IKEA warehouse rave. I hate crowds and loud, but it sounds so cool. You get to tell people that you went to the IKEA warehouse rave and honestly I think I'd do it just for that.

Zak Stambor:

Is it in Milan proper or do you have to schlep out like 20 miles?

Sara Lebow:

I don't know. I don't know the geography of Milan.

Carina Perkins:

Is it in an actual IKEA store or are they just taking over a warehouse?

Sara Lebow:

It said it was in the warehouses. I would guess you have to schlep out.

Zak Stambor:

Oh, it's in the warehouse. That changes everything.

Carina Perkins:

I mean if it's around flat pack furniture, I'm less convinced.

Zak Stambor:

Yeah.

Sara Lebow:

Yeah. I'm really good at putting IKEA furniture together. I would like to go on record as that. It's one of my skills.

All right, let's keep moving. Now it's time for Popup Rankings, where we take a look at specific examples and we rank them. Today we'll be ranking IKEA's top four biggest challengers, the companies, retailers, phenomenons that are coming up against IKEA. Zak, I'm going to have you kick it off with one of your favorite topics and companies to talk about.

Zak Stambor:

Yeah, so I want to talk about e-commerce and the Amazon of the furniture space, so to speak, which is Wayfair. Wayfair has spent heavily for many, many years to build out a logistics network, to develop technology, and to expand globally to make it easy for consumers to buy furniture online. And that's important because it's not easy to sell furniture online even though we have seen this dramatic shift in recent years, thanks to the pandemic. But moving heavy pieces of furniture is hard and expensive to do and it's also very difficult to stock a lot of different styles, different types of stuff. And Wayfair has actually done that fairly well. That said, they have been challenged unto themselves to build a sustainable business model that actually will work over the long term.

Sara Lebow:

Sure. Okay, so we have Wayfair and e-commerce. Those are, Wayfair's sort of the company that makes IKEA almost high-end and expensive, although there's plenty of high-end expensive stuff on Wayfair.

Zak Stambor:

Right. Wayfair really has everything. That's part of what makes it an interesting company is that they have the low and the high end.

Sara Lebow:

Yeah.

Carina Perkins:

There's a really interesting e-commerce website in the UK called ufurnish, which it describes itself as an online furniture aggregator. So you can search and discover furniture from hundreds of retailers and get exclusive discounts. And I think that really-

Sara Lebow:

Sounds similar to Wayfair.

Carina Perkins:

Yeah, similar to Wayfair. I think that online marketplace approach to furniture buying, in that Wayfair vein, is really going to prove popular.

Sara Lebow:

Okay, moving along. Let's hear from you, Carina, of one of IKEA's, other biggest challengers.

Carina Perkins:

So in the UK we have a few, I would say one that is notable is Argos, which is owned by Sainsbury's, which is one of our biggest supermarkets over here. And Argos kind of was one of the pioneers of click and collect. So you either order online and go and collect it in store or you go in store and they used to have a huge catalog that you could go through, and now they have things like iPads in store, so you can go and find the furniture you like and then you can click and either pick it up there and then or you can get it delivered to your home. So I think that's a big rival for IKEA in the UK. Some of that's flat pack, some of it's not, but I think the ease of shopping in Argos is potentially a big benefit for it

Sara Lebow:

So easy place to shop, big business, we definitely have the equivalent of that in the US, right, zak?

Zak Stambor:

Yeah, I mean all mass merchants, but Walmart, Amazon. Amazon in particular has invested quite heavily in building out their furniture offerings with various private labels. And so all of those are a threat to IKEA particularly because they can undercut IKEA in some ways as IKEA has raised prices.

Sara Lebow:

Yeah, Zak, you called Wayfair the Amazon of furniture, but-

Zak Stambor:

Yeah, but there is Amazon.

Sara Lebow:

Amazon is probably the Amazon of furniture.

Zak Stambor:

Right, very true.

Sara Lebow:

Amazon is probably the Amazon of most things. Okay, so we have e-commerce, we have big business, both in the UK and in the US. Zak, give us our next big challenger for IKEA.

Zak Stambor:

Yeah, resale. So we talked a bit about how IKEA has sought to own some of the resale space, but the threat of Facebook Marketplace or Craigslist or wherever you can buy stuff that you don't have to put together, that's quite alluring to somebody like me who is not as good as you at putting together IKEA furniture.

Sara Lebow:

Yeah, and as someone who doesn't spend a lot of money on furniture, I also find resale quite alluring.

Zak Stambor:

It's also furniture should last a long time and IKEA furniture doesn't always last a long time, because it's really fast furniture, but you can find something that is a higher quality piece for roughly the same amount that you would be spending at IKEA.

Sara Lebow:

Or if you know that exact IKEA piece you want, you can type it in to Craigslist, Facebook Marketplace.

Zak Stambor:

Absolutely.

Sara Lebow:

Okay. And, Carina, why don't you give us our final big challenger for IKEA?

Carina Perkins:

Sure, so I think rental is the final big challenge. So there is a company called Furnish, which is doing rental furniture, and it claims to be putting an end to fast furniture. It says that it has hassle-free delivery, you've got the flexibility of changing your furniture when you want to, and you can really get kind of high-end furniture without the commitment. I don't think this is going to be for everybody, but I can really see that it would suit some people in certain areas. So city professionals who've got a short term rental and want really nice furniture while they're living there, for instance, without the hassle of then having to sell it on when they move.

Zak Stambor:

And that can also lean into the sustainability piece. For all that we've talked about IKEA being sustainable or whatnot, it's really disposable furniture that isn't that high quality. And so a company like Furnish or any other rental furniture company can offer the lure of offering a more sustainable business model.

Sara Lebow:

Yeah. This seems particularly attractive in a city like DC where there's turnover every two years but professionals who want furniture that's maybe a little bit nicer than say my college house furniture that we found on the street.

Zak Stambor:

Right. When I lived in Washington DC my place was definitely furnished with IKEA furniture and it was not very nice. It would've been nicer to have nice furniture.

Carina Perkins:

And I think it makes sense to rent sometimes rather than buy. If you buy new furniture from somewhere other than IKEA, that can be really quite expensive, sometimes the depreciation and what you might pay in a monthly installment for that furniture is probably fairly equal to just renting it and you get rid of the hassle at the end of the time.

Sara Lebow:

Okay. Well that is all we have time for today. So thank you for joining me today, Zak.

Zak Stambor:

Yeah, thanks for having me.

Sara Lebow:

And thank you, Carina.

Carina Perkins:

Thanks Sara.

Sara Lebow:

Please give us a rating and review wherever you listen to podcasts and follow us on Instagram @Behindthenumbers_podcast. Thank you listeners, and to Victoria who edits the podcast, and says that her mom makes better meatballs than IKEA does. Victoria, you'll have to have us over for those sometime. We'll be back next Wednesday with another episode of Re-Imagining Retail, an eMarketer podcast. And tomorrow join Marcus for another episode of the Behind the Numbers Daily.