

HSC topic 3: Marketing



An IKEA decorated train.

nature and role of markets and marketing

- types of markets —consumer, mass, niche

These three markets have relevance to the IKEA business. They predominately deal with consumer although there may be some sales to other businesses/government departments. Their product is fairly universal to all and the nature of the flat pack product may also qualify it as a niche market. In particular the relationship between furniture and the café. A fairly unique combination.

- production–selling–marketing orientation

IKEA's focus is the customer and making sure their needs are met. So that the selling orientation would be IKEA's main focus.

- the marketing concept — customer orientation, relationship marketing
IKEA do use relationship marketing. IKEA enables shoppers to co-design and co-construct new concepts in living and to customize their living spaces. IKEA also have a kids club, an e-newsletter. IKEA has launched a mobile loyalty program to build a database of consumers interested in receiving discounts from the home furnishings retailer.

elements of a marketing plan

- situational analysis including SWOT and product life cycle

IKEA is a mass market player. It sells 9,500 product lines across 40 countries. Its

annual turnover in Euros for the last three years has been:

2005 – 14.8 billion

2006 – 17.3 billion

2007 – 19.8 billion

- establishing market objectives

IKEA's main aims are to sell to as many as possible. There is no formal published objectives offered by IKEA.

- identifying target market

IKEA offers a wide range of well-designed, functional home furnishing products at prices so low that as many people as possible can afford them.



IKEA has a strong belief in the importance of children and lots of their products are designed with this in mind.

- developing marketing strategies

IKEA use a wide variety of promotional techniques to market new stores especially. But marketing tends to occur more heavily when the new catalogue is released

market research process

- determining information needs, data collection (primary and secondary), data analysis and interpretation

Primarily done by IKEA group although individual stores would use sales reports in order to gather data about the types of customers, popular lines etc that are particular to their store.

customer and buyer behaviour

- types of customers — **people, households, firms**, educational institutions, government, clubs and societies, religious organizations

The bold customers would be the most dominant purchasers of IKEA products and would account for the largest percentage of their sales.

- the buying process — buyers and users

The buying process would not be different for IKEA customers but the free yearly catalogue gives purchasers time to plan a trip to IKEA as the IKEA stores are not usually located conveniently due to the large floor space required to house their product. IKEA stores are usually located outside the inner metropolitan area for this reason.

- factors influencing customer choice — **psychological, sociocultural**, economic, government

Psychological factors would play a part in consumer decision making at IKEA There is a perception that IKEA products are fashionable, cheap and a little fun. IKEA customers do more than purchase Ikea products, they identify with the culture and authenticity that IKEA has attached to its products. While IKEA is known for bringing low-cost products to consumers, its mission statement focuses on improving customers' lives by bringing them good quality at good value. This ties in well with sociocultural aspect too in that the cost saving, hands on experience of IKEA attracts certain groups of people to their product.

developing marketing strategies

- market segmentation and product/service differentiation

Demographic segmentation

- Global middle class customers who share buying habits
- Low and middle income families or young people

- product and service

The products are displayed in a spartan, albeit attractive, manner, and a sense of economy permeates the store. The products themselves are streamlined, uncomplicated and tailored so that the strong point is function over fashion

- Positioning

Its **unique selling point** is its flat pack formula which it has applied to furniture giving it a mass market appeal with functionality and quality at a very low price.

IKEA have also sponsored Sydney gay and Lesbian Mardi Gras in recent years placing it as trendy, forward thinking, liberal business. It also targets a key component of IKEA's target market.

What does this tell you about how IKEA choose to position themselves in the consumer market?



- Branding

IKEA is one of the world's best known brand names. It is ranked 41 in the world's most valuable brands. The brand alone is worth \$8 million in comparison Coca Cola is worth \$67 000 million and KFC is worth about \$5.3 million.

The IKEA logo is an acronym comprising the initials of the founder's name (Ingvar **K**amprad), the farm where he grew up (**E**lmtaryd), and his home village (**A**gunnaryd, in Småland, South Sweden). It is displayed prominently in Blue and Yellow colours at the stores and on all advertising.

The brand image stands for affordable, contemporary design and it is the flat pack product range that gives IKEA its identity. In Scandinavia, the range is regarded as being typically IKEA. Outside Scandinavia, IKEA is regarded as being typically 'Swedish'.



– Packaging

The Marketing Mix at IKEA

The marketing mix comprises the 4P's:

Product – flat pack furniture, home furnishing, restaurant meatballs, flat pack houses

Place – IKEA stores and their distribution network

Price – lowest prices on all items

Promotion – TV advertisements, free catalogue, website

All of the 4 Ps are important:

Product matters because it is the reason that customers go to IKEA in the first place. IKEA has cornered the market in flat pack furniture and the unique design attracts customers and meets their needs.

Place matters because it is how customers access the product. The IKEA experience is more than just products, it is a retail concept laid out in such a way that families, singles, couples etc can enjoy shopping for furniture. A day at IKEA has been described as more of an 'outing' than a shopping trip.

Price matters because it is at the heart of the IKEA concept. Flat pack furniture cannot compete on price with upmarket, fully assembled pieces, so it is essential that IKEA continues to keep its prices below the competition.

Promotion matters because it helps to drive customers into the stores in order to buy furniture.

Without promotion, fewer customers would shop at IKEA.

- price including pricing methods — cost, market and competition-based. Low price is a prerequisite for the IKEA Concept to realize the IKEA vision.

As the IKEA Concept aims to serve "the many people", the IKEA product range needs extremely low price levels. IKEA aims to reduce the average price of its products by 2-3% per annum.

– pricing strategies/tactics

IKEA tends to adopt more of a penetration pricing strategy as it aims to be a low cost provider.

IKEA operates with **Cost Based** pricing. Products are designed with a target cost in mind and a profit margin is then added to that target cost. This approach is combined in the market place with a **Price Penetration** strategy - low prices, low margins (just above production costs) designed to generate market share quickly. This strategy works well

- For mass market products
- When there are economies of scale
- When prices are elastic (price sensitive)
- During Growth and Mature stages of the Product Life Cycle

However, the strategy carries some risks:

- low margins can become losses very quickly if market share is not achieved
- it can lead to price wars with competitors which reduces the profits of everyone in the product market
- it may become difficult to raise prices and the brand image in the future if customers associate the product with being low priced.

– price and quality interaction

Best possible quality at the lowest possible price. The self assembly of IKEA products enables them to keep prices low and try to maximize the quality of the materials

• promotion

IKEA has many promotional techniques. Three important ones to consider are:

Catalogue

This is printed in 24 languages and 160 million copies are printed and distributed free of charge. It has been a vital part of IKEA retailing since the first edition was published in Sweden in 1951. It is a valuable source of product information throughout the year and also contains details on how to get to the nearest IKEA store and its opening hours.

However, 160 million free copies represents a significant annual cost to IKEA (design, printing, distribution). Some organisations are showcasing their wares free of charge on their websites.

TV Advertising

IKEA uses TV advertising to increase awareness of its brand. The current TV advertisement emphasises the difference between a 'House' and a 'Home'. The message is that a home is about love, not money and it is about everlasting memories, not profit.

TV advertising seems to be an appropriate promotional technique for IKEA to employ because of its global, mass market 'reach', although this is the most expensive form of advertising.

Direct Marketing

- Vouchers – IKEA uses promotional vouchers, especially to promote the opening of new stores although these sometimes prove 'too popular' leading to over crowding .

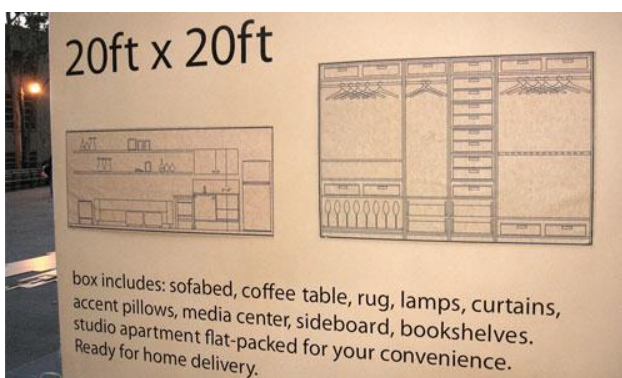
Loyalty card and magazine- this is an orange card marketed under the name "IKEA Family' entitling the holder to a discount of up to 25% on products bought in the stores.



An IKEA decorated train carriage.



To promote the new store that just opened in NYC Brooklyn, Ikea decided to place a giant Ikea box in the middle of the city. Inside the box was a studio apartment of 20ft x 20ft decorated with IKEA products. To make it even more fun they wrote what the box includes on the side.



- place/distribution
 - distribution channels and reasons for intermediaries
 - channel choice
- exclusive - IKEA is only available through designated IKEA outlets
 - physical distribution issues including transport, warehousing, inventory



The IKEA warehouse.

ethical and legal aspects

- environmentally responsible products

The Flat packed design some would argue minimize wastage and the cardboard would be environmentally friendly. IKEA supports sustainable forestry and our long-term goal is to source all wood in the IKEA range from forests certified as responsibly managed. IKEA is working actively to reduce our impact on the climate.
- role of consumer laws in dealing with
 - deceptive and misleading advertising
 - price discrimination
 - implied conditions
 - warranties
 - resale price maintenance.

The rules that apply in each country that IKEA operate in must be adhered to and it would be someone's job to ensure that IKEA comply with the standards present in each country.