

Ikea Tries Breaking Out of the Big Box

● As fewer young buyers head to its suburban warehouses, it's opening smaller stores and services closer to urban customers

Whether in San Diego, Novosibirsk, or Tokyo, the Ikea experience is nearly as standardized as its flat packs. The blue-and-yellow big box, the vast showroom maze, the Swedish meatballs in the cafeteria—this formula propelled Ikea to global No. 1 in furniture retailing, with €38.3 billion (\$45.7 billion) in sales and more than 400 stores in 49 countries.

There are no meatballs in Ikea's newest London outlet, part of a shopping mall in an urban neighborhood near the 2012 Olympics complex. One of two dozen small-scale stores that Ikea has opened since 2015, it measures only 900 square meters (9,688 square feet), while the typical suburban Ikea is almost 30 times that size. It has a few model rooms fitted out with furniture and accessories, but hardly anything can be purchased and taken home immediately. Instead, shoppers use touch-screen computers to place orders and arrange for delivery or pickup later.

Even Ikea's trademark do-it-yourself ritual is optional: Customers can request in-home help assembling that Billy bookcase from TaskRabbit, a San Francisco-based startup Ikea recently acquired. Ikea is trying to future-proof itself with these initiatives, along with others including pop-up stores and an expansion of its e-commerce footprint. "We will test and try to develop a new world of Ikea," says Ikea Chief Executive Officer Jesper Brodin. "It's a revolutionary speed that we're taking on right now."

Ikea can't afford to move slowly. Foot traffic at traditional Ikea stores has been stagnant for most of the past five years, as young people—long its core customers—cluster in big cities, drive less, and do more of their shopping online.

"The entire premise that Ikea developed was that consumers would be willing to drive their cars 50 kilometers to save some money on something that looks amazing," says Kantar Retail analyst Ray Gaul. "Young people like Ikea, but they can't or don't want to drive to Ikea. Ikea has no choice but to invest in better services."

Ikea also is scrambling to catch up in e-commerce. Online sales of furniture and



● Brodin

ANNA RINGSTROM/REUTERS. COURTESY IKEA. DATA: IKEA, WORLD FACTBOOK

appliances worldwide are expected to grow almost 12 percent annually over the next three years, outpacing more-established web shopping categories such as consumer electronics, according to data analytics group Statista. Yet Ikea currently offers online sales in only half the markets where it operates, according to Bloomberg Intelligence.

Ikea is battling aggressive competitors such as Wayfair Inc., a Boston-based home-furnishings e-tailer founded in 2011 that now does more than \$4 billion in sales across the U.S. and Europe. Amazon.com last fall launched its own furniture lines, including a mid-century-modern brand called Rivet aimed at cost-conscious millennials. Ikea says it plans to offer online sales globally by the end of 2018 and will soon begin selling some goods on third-party sites such as Amazon and Tmall, Alibaba's big Chinese e-commerce site, although details haven't been disclosed.

The 24 smaller-format outlets Ikea has opened are in Canada, China, Europe, and Japan; so far there are none in the U.S. Each is slightly different, allowing the company to test various alternatives: downtown streets vs. shopping malls, with or without cafes, and with floor space ranging from about 900 to about 4,000 sq. m.

At the small London store, the only refreshment on offer comes from a coffee machine. Instead of a supervised kids' play area, another staple of the Ikea experience, it has a couple of tablet computers loaded with *Candy Crush*. Still, with as many as 20 staff members on duty at peak times, customers can expect "more of a personal shopping experience" than at a traditional Ikea, says London store manager Mirco Righetto. Employees at the store, for example, help customers plan larger projects such as kitchen renovations with the aid of 3D virtual-reality software.

Ikea also is using pop-up stores to try new formats. One in central Madrid offers only bedroom furnishings; another, in Stockholm, specializes in kitchens and lets shoppers cook on the premises. The company is also rolling out technologies such as an augmented-reality app launched last fall, called Ikea Place, that lets customers visualize how their purchases will look inside their homes.

Part of the digital expansion includes an overhaul of logistics capabilities to speed the process of ordering, pickup, and delivery. "It's a huge investment to make sure we transform into a multichannel company," CEO Brodin says.

The payoff from these initiatives isn't yet clear. Visits to the ikea.com website have grown about 10 percent annually over the past two years, but brick-and-mortar stores still account for well over 90 percent of sales. And some customers aren't

sold on the smaller stores. "The showroom isn't extensive enough," says Bora Assumani, a fitness instructor shopping at the London store. "I like to be able to touch and see everything before I buy." Another shopper, Susan Davies, says she wants "a bigger selection of little things to buy now."

Still, Ikea says its efforts are attracting new customers who might otherwise never have shopped at Ikea. In Madrid, 70 percent of people visiting the bedroom pop-up store had never been to an Ikea big box, says Stefan Sjostrand, Ikea's global commercial manager. What's more, he said, e-commerce sales in Madrid have risen more than



50 percent since the shop opened. And in Canada, sales at new, smaller outlets in Quebec City and London, Ont., have been so strong that Ikea now plans to open full-sized suburban stores nearby. "We're surprising the customer," Sjostrand says. "They're getting an emotional connection to the brand." —Carol Matlack, with Sam Chambers and Anna Molin

▲ A new London store is far more compact than Ikea's standard outlets

THE BOTTOM LINE Ikea is opening smaller stores to experiment with various ways to reach young consumers who are less likely to drive to its mammoth suburban warehouse locations.