

# Ikea changes direction in shift for digital age

Swedish retailer unpacks model that includes allowing customers to view potential purchases with VR headsets

RICHARD MILNE — MALMO

Not sure where to have the oven, fridge or sink? The kitchen cupboards in grey or white? Shoppers at Ikea's store in Vasteras, 100km west of Stockholm, can now don a virtual reality headset and walk around their potential new kitchen. They can check out how it looks to a little child, and even try a game to cook a pancake in situ.

The test is small — Ikea hopes to serve about 10 customers a day this way — but it is indicative of the direction new chief Jesper Brodin is hoping to take the world's largest furniture retailer.

Out goes the certainty of a tried and trusted business model — forcing customers to do most things themselves from driving to the store, picking furniture from the shelves, and assembling at home. In comes experiments — from virtual reality and trying to design the smallest Ikea shop possible, to potentially leasing out its furniture instead of selling it, and rethinking its catalogue for a digital age. The shift comes as sales growth slowed to 2 per cent in 2017 compared with an average of 7 per cent annually in the previous five years.

"More than ever, we are exploring," Mr Brodin said as he told of his strategy for the next three years. "Before you could test a concept [in private] and then just roll it out. Now we are going to test and try. [Augmented and virtual reality] will be things we are curious about. It offers people a chance to see how this product will work for 'me'."

Coming just months after the death of its legendary founder, Ingvar Kamprad, Ikea is hoping to transform its business model, while staying true to the tenets its former boss developed over decades.

Mr Brodin is clear that Ikea no longer has the luxury of time. Its previous strategies were for five years with targets often set for a decade later. "We are creating a new Ikea in three years. We have decided to be more ambitious than ever when it comes to growth," he said.

He gave an anecdote from one of his last meetings with Kamprad, who died in January aged 91. "He recommended that we needed to have a long-term view on things. I asked: 'how long?' He replied: 'Maybe about 200 years.'"

It is a reminder the privately owned company with its roots in Sweden but its headquarters now in the Netherlands is different to many of its competitors. Mr Brodin stressed that for all the ambitious plans "we are not going to make customers pay for it by higher prices".

Ikea will continue to invest in lowering prices, he added. Indeed, one of the big challenges Ikea faces in the next few years is opening its first stores in India, where its mantra of catering to "the many people" will be put to the test.

The Swedish group is dealing with many of the same trends that have blighted traditional retailers in recent years: a big move to online shopping, and a shift away from younger people going to out-of-town shops and malls.

But rather than waiting for its business model to be hit hard with fatalism, Ikea is trying to change quickly. By 2021, Mr Brodin wants Ikea to "be able to deliver to your home at an affordable price, wherever you are". It is rolling out a new IT backbone for its ecommerce operations this year and hopes to push its average online sales in each country from the current 5 per cent of total revenues to the UK's more than 10 per cent.

Its first strategic move under him was to buy TaskRabbit, a pioneer of the gig economy that lets people pay for odd jobs that include but are not limited to assembling Ikea furniture. "It will be cheapest in store, but still affordable."

Perhaps most radical is a shift to city-centre stores as well as a focus on specific customers: a new shop in Warsaw is designed just for business customers.

Outside experts are cautiously positive on the changes. Sara Kristofferson, a professor of design history and author of *Ikea: A Cultural History*, said: "Ikea is very good in finding ways to read the zeitgeist: what do people want now, and how to make money from that."

Magnus Henrekson, director of the

Research Institute of Industrial Economics, said he was impressed by the company's thinking: "There is no reason to believe they will do worse than their competitors in this conversion to a new business model. It all boils down to the efficiency of the management and how adamant they are in pursuing these new objectives." But his "great worry" for Ikea was how it would cope without Kamprad and have a "salaried management" running it. A former senior executive said that Ikea had become much more bureaucratic in the past decade.

Mr Brodin, who has worked at Ikea since 1995, appears aware of the risk. He said it had grown "too fast in central resources", and added: "We want to spend less time planning, and more time doing." But he insisted there was a lot to achieve in three years.

"That puts a lot of pressure back on me," he said. "It is a critical moment when you move from test and try, to deployment and add two zeroes [to the number of stores]. Being a leader these days is not about having all the answers. As a leader you need to have the right questions and then mobilise people."

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**'We have decided to be more ambitious than ever when it comes to growth'**

Jesper Brodin, Ikea chief executive

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## Branching out Chain plans smaller city-centre stores

Laura and her husband are shopping in Ikea's Malmo store for furniture for their unborn baby's room. But they have had to bring along Laura's friend to drive them to the shop.

"We don't have a car, and it is not easy to take a bed on the bus, especially with this," she said, pointing to her bump.

Customers like her are the reason Ikea is turning its attention towards city centres. Jesper Brodin said that Ikea expected 60 per cent of people to live in cities by 2030, up from 30 per cent in 2015.

"Despite knowing or loving Ikea, it's harder for [city residents] to get to us today. We are going with a big appetite to get that market," he added.

Ikea has already run experiments such as a kitchen-only store in Stockholm and its smallest outlet — just 900 square metres compared with a typical 30,000 square metres for a warehouse — selling wardrobes and mattresses in Madrid.

"Since we are going to test and explore, I want to test both medium-sized experiences and go all the way and see how small it can be. In Madrid, we are taking out 90 per cent [of products] to show what we can do," Mr Brodin added.

Ikea will start in 10 megacities including Paris, London, Tokyo and New York with the potential for multiple central stores in each.

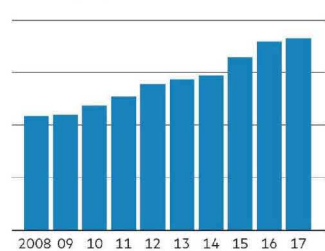
Mr Brodin recounted a chat with one customer who pointed out how current stores are well outside the centre: "He asked: 'how many stores do you have in London?' I said four. He said: 'none!'"

## Designs on growth

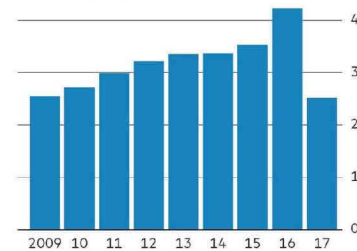


## Ikea reshapes for the future

Revenues (€bn)



Net income (€bn)



Sales share by market as % of total, 2017

