

The 'IKEA Effect:' Behind the Company's Unique Business Model | WSJ

You know they don't tell you, "Don't lay on the bed." You're **supposed to lie on the bed.**

[Narrator] If you've ever visited an Ikea, you've likely **encountered** their store's **endlessly winding floor plan**. This **layout** can be confusing, but that is **by design**. Ikea may be the **biggest furniture retailer** on the planet but it's certainly not **conventional**. The Swedish **furniture giant** asks its customers to **build their own** products and it **stores and distributes** those products in **minimalist flat-packed** boxes. So, how have these **retail strategies**, as well as their famous Swedish meatballs **contributed to** the company's **runaway success**? This is the economics of Ikea, a look at the **innovative business practices** that have **transformed** modern life.

- [Sarah] When you step into an Ikea, you immediately sort of are **put into** this **maze-like path of different rooms**.

- [Narrator] Ikea's store **layout** is a **fixed path design** which means there's a **designated road** that all customers must **follow** that **guides you through the store** in one **direction**.

- [Sarah] It's not a grab-a-carton-of-milk-and-get-out kind of store, it's the **opposite of that**. It's very much **set up to spend a day**, think[ing] about rooms you know, dream[ing] about what you really want your bedroom to look like.

- [Narrator] The floor plan of most Ikea stores **resembles a maze** that **curves about every 50 feet to keep customers curious about what comes next**. Since an average Ikea store is around 300,000 **square feet** or five American **football fields**, that means **a lot of walking**.

- An Ikea is, to some, **frustratingly winding** but really it's **laid out as an experience to get you to buy more**. (drill buzzing)

- [Narrator] Ikea is famous for **putting its customers to work**. Unlike most **furniture retailers that sell products preassembled**, many of Ikea's **pieces** have to be **built by their customers**. But why? As many couples and their therapists will know **building your own Ikea cabinet** can be challenging.

- The **big idea behind** the Ikea effect is consumers **are more attached to** having more **positive feelings towards** objects or things that we've **put effort into**. And that we actually think that they're **more valuable because of that**.

- [Narrator] The **term "Ikea effect"** was first **coined** in 2011 by researchers who noticed **similar phenomena** in other **products and businesses**. When **instant cake mixes** were first **introduced** in the 1950s they didn't **sell well**.

- And then they said, "Let's **add a fresh egg**." It was this idea that we wanna feel like we're just **participating** enough to not feel guilty about **taking a shortcut**.

- [Man] When you make a cake from a mix which do you want? A fresh egg cake or a cake made with dried eggs? A higher, lighter, tastier cake, why fresh eggs of course.

- The idea that we should love **building products** isn't **necessarily** what Ikea **intended**.

- [Narrator] If you've ever **shopped** at one of Ikea's **massive warehouse stores** you're likely aware of the **unconventional product names** but what you may not realize is that in **creating these items**, Ikea sometimes **comes up with the price tag** first.

- So we have a classic example that they could talk about all the time is the \$1 light bulb. But they **had this idea that** a \$1 LED light bulb, you know this new type of light bulb would **be hard to achieve**, but if they could achieve it, lots of people would buy LED light bulbs. So they just sort of **designed backward** with the **price point in mind**.

- [Narrator] That **obsession with low prices** is a large part of why Ikea is the world's largest furniture retailer. Today, Ikea has **445 stores operating** in **52 countries**.

- You know obviously, if you go into a student **dorm room**, you're gonna find a lot of Ikea, but you'll also find some Ikea products in a **wealthy person's** home. And that's really what they're **going for**.

- [Narrator] Today, Ikea is the very definition of **mass market appeal**, but when the company first began as a Swedish **mail-order business** in 1943, **well-designed furniture tended to be expensive**, and as a result, **out of reach for most**, or seen as a serious **long-term investment**.

Ingvar Kamprad, who **founded** the company as a teenager, **pushed forward** the idea that furniture could be flat-packed to **massively reduce the cost of shipping and transportation**.

- So flat packing is really the largest **arguably Ikea invention** that really **led to** the company's growth. And the idea is that **instead of buying**, you know, a piece of furniture I'll **put together**, it's **deconstructed into** a flat pack, where you can fit more **in a truck**. You can fit more **in the Ikea warehouse** and you can also **get it in** your car. And the **trade-off** is you know you **put it together at the end**.

- [Narrator] Flat packing is a **practical aspect** of the philosophy that has long **guided Ikea's success** called **democratic design**.

- It's this idea that everything is in balance, both **price, form, function**, the **aesthetic**, the **sustainability**.

- [Narrator] This **vision** "to create a better everyday life for the many people" was sent forth more than 30 years ago by Kamprad in a **manifesto** now **presented to** every Ikea employee.

- And they talk about it almost **religiously**, and **fundamentally**, it's this idea that **when designing a product they think about**, it can't just be **really cool looking**, it can't just be **functional**, it **has to be all of those things**.

- [Narrator] So despite the long **shopping trips** and the **DIY**, customers can't seem **to get enough of Ikea**. Perhaps it's as simple as labor leaves to love.