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## PECULIARITIES OF IKEA MANAGEMENT IN THE WORLD AND IN UKRAINE<sup>1</sup>

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**Abstract.** *It is now important for international companies to be able to understand the needs and desires of consumers in the domestic markets in which they operate. In order for a company to be able to compete, it must implement its international strategy on the local spectrum. This article is used to demonstrate how the globally successful company IKEA features of management in the world and its entering the Ukrainian market. First of all, we identified the important elements that caused the development of international trade and main obstacles, which affected global competition of every company in international business where Ikea is not an exception. As there is not clear position of Ikea mission, we tried to define the mission of IKEA has included the following components: different products, available prices, exceeding expectations. Then created an analysis of the design, formation and further successful steps of that company. Focus on the SWOT analysis of the Ikea itself, and also on its analysis in relation to the issue - the Ukrainian market gives us great understanding of strengths(affordability, design, brand reputation, wide range of products), weaknesses(the media, quality, location), opportunities(emerging markets, online store, sustainability) and threats(competition, imitation, quality preference) for better functioning Ikea business strategies in the world and in Ukraine. The competitive advantage is the technology creating stylish products through decades which differentiates from others and can be recognizable. Ukraine is an important market to expand as Ukrainians are looking for low prices, well-designed and functional household equipment especially with possibility of online store because of influence of current situation with pandemia COVID-19 was also the cause of this phenomenon.*

**Key words:** *management, Ikea, opportunities, trends, development, pandemia.*

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## 1. Statement of the Problem.

The development of international trade has increased significantly during the last part of the twentieth century due to the liberalization of trade, investment and the development of technology. Important elements that have advanced in international trade include:

- establishment of the World Trade Organization (WTO) in 1995;
- start of electronic transfers of funds;
- introduction of the euro into the European Union;
- technological innovations that facilitate global communication and transport;
- the dissolution of several communist markets, thus opening up many economies to private enterprise.

Today, global competition affects almost every company - regardless of size. International business remains a broad concept that includes the smallest companies that trade with only one other country, as well as the largest global companies with integrated operations and strategic alliances around the world.

Understanding the size of the global market is a major challenge for international business. There are currently more than 200 national markets in the world, representing a seemingly endless supply of international business opportunities. Diversity between nations however, it presents a number of obstacles, such as:

- differences in national wealth and their increase;
- regional diversity by wealth and population: (North America is home to only 5 percent of the world's population, yet controls almost one-third of the world's gross domestic product);
- cultural / linguistic diversity: There are more than 10,000 linguistic / cultural groups in the world;
- country size and population diversity: At the beginning of the twentieth century, there were about 60 countries; by 2000, that number had risen to more than 200.

One of today's phenomena brought about by the globalization of the world market (the interconnection of the world's economies) is the emergence of Transnational Corporations. There are many advantages that such a structure provides for the company itself:

1. Efficiency – easier achievement of target markets, easy access to raw materials and cheaper labor costs.
2. Development - multinational companies generally pay better than domestic companies, which makes them more attractive to the local workforce. The local government usually favors them because of the large amount of local taxes they pay, which helps boost the country's economy.
3. Employment - Multinational companies hire local workers who know the culture of their place and are able to provide useful feedback on what the locals want.
4. Innovation - the employment of local and foreign workers offers the opportunity to come up with products that are more creative and innovative.

## 2. Analysis of Recent Research and Publications.

The problems of brand formation and development are studied by scientists both at the national and international levels. M. Skorek, K. Dziewanowska, & A. Kacprzak [6] conducted research connected with motivational factors that guide the Polish consumer in terms of purchases. N. Marynenko, I. Fedyshyn, N. Garmatyi, I. Kramar [5] studied the role of the European Union (EU) in direct investment into the real sector of the Ukrainian economy. O. Yuzyk, I. Mazaikina, H. Bilanych, & M. Yuzyk [8] compare the role of quality higher education in Poland and Ukraine as a powerful force of competition.

### **3. Previously unresolved parts of the overall problem.**

Despite the wide interest in prerequisites for establishing and formation of the brand, the question of the peculiarities of IKEA management in the world and in Ukraine is still little studied, and therefore is extremely relevant for studies.

### **4. Problem statement.**

The purpose of the article is to expand and supplement the analysis of the IKEA brand, to highlight the strengths and weaknesses of IKEA management in the world and in Ukraine, to identify the competitive advantage of the brand and its mission.

### **5. Main Research Results.**

IKEA is a world-famous Swedish company operating in the furniture industry. It was founded in 1943, at that time who only a 17-year-old boy named Ingvar Kamprad (the first two letters of the company's name are derived from his name) and initially his company sold only pens, wallets and picture frames. Gradually, the company became involved in the distribution of furniture and today operates on all continents, while together it has opened more than 400 of its stores in approximately 50 countries around the world. According to Forbes magazine, IKEA is even the largest furniture company in the world.

However, after decades of hard work and stage expansion from the local Swedish market to a global brand and one of the world's largest companies, IKEA gradually reworked into this position. After its establishment during the Second World War, it focused only on the sale of small goods and step by step became acquainted with the market and adapted to its needs and environment. IKEA, the second half of the name of which consists of the initials of the names of the Elmtaryd and Agunnaryd regions, where its founder Ingvar Kampard grew up, did not have furniture until 1948. The goods were purchased from local manufacturers and the idea was very well received by customers (his first major success).

In 1951, IKEA published its first catalog with the furniture on offer, and the company began to create its own marketing image. Various variations of one of the armchairs, which had a very modern look at the time, can be purchased in stores even today. IKEA opened its first showroom in Sweden in 1953, making it significantly more visible on the market, as customers could try out the furniture on offer before buying, and the company came so close to them. The company opened its first store after long-term work on improving the range offered only in 1958, ie 15 years after its establishment. However, the move was a huge success, as it was the largest furniture store in all of Scandinavia, and as it turned out, customers were very interested in it and had no problem traveling long distances just to buy furniture in this store.

Ingvar Kamprad continued to work very well with this situation and for a while decided to open a restaurant in addition to the furniture store to make the trip to the IKEA store even more enjoyable for customers, creating a very relaxing atmosphere that was another huge success in the market. This concept is still used in IKEA stores to this day and it is basically a matter of course for the average consumer to associate IKEA not only with furniture but also with the well-known and widely popular restaurant chain. After that, the events had a faster turnaround and the company was able to fully expand on a large scale. In the 1960s, IKEA decided to expand its activities to the international market and opened more stores in new countries. The first were, quite rightly, Sweden's neighbors, namely Denmark and Norway. Later, other European countries were added, where the brand opened its stores. Today, there are more than 270 in Europe. In 1985, the company even decided to expand to the other side of the Atlantic Ocean and enter then the largest consumer market in the world, and IKEA opened its chain's first store in the United States. It was in Philadelphia, and

fortunately for Ingvar Kamprad, the idea took hold very quickly in the US market. It was soon necessary to open more stores in this country, and to date we can count 65 of them there. Ingvar Kamprad stood at all these milestones and headed the company from the very beginning until the 21st century, when he had to reduce his business in the company after several scandals (for example, finding that Ingvar Kamprad was a supporter of the Nazi party during World War II, or about his alleged growing alcoholism). He died in 2018 at the age of 91, but his company has a long-term perspective for growth and staying at the top of the corporate environment thanks to the vision and idea he left behind with IKEA [1].

The vision of the company is very unanimous and, rightly so, it hides many successes and a unique image of the company. If it is introduced by a lonely community, their vision is to create a better daily life for many people.

The entrepreneurial mindset of the community is to offer a wide range of stylish, functional, home-based products for prices so low that they can afford as many people as possible. The strategy, which IKEA has also strengthened, was the most unanimous, in addition to the fact that the company had to target a global environment and was then facing a major challenge in order to keep on top of all the different markets. IKEA also if the badge combines thousands of employees and companies with different owners around the world. The retail trade is organized within a franchise system with 12 franchisees in 54 markets, which - together with the franchisor and the next part of the business - have constantly improved and developed the brand.

The idea, which was abandoned by the founder Ingvar Kamprad, is, according to the citation, hereditary from the point of view of community: "one brand, greater community and greater, greater people - this may be in short. All over the world, we have a passion for home furnishings and an inspiring shared vision: to create a better everyday life for many people. This, together with our straightforward business idea, common values and a culture of belonging, guides us in everything we do". It is not easy to precisely define the mission that a company has, as the company does not have a clear position on what its clear and distinct mission is. However, it is probably best possible to define the mission that Ikea has, with this statement published by the company: "our opinion on the mission that IKEA has includes the following components:

1. Different products
2. Available prices
3. Exceeding expectations

The most common aspect inseparable from Ikea's reputation is that the company's products are not comparable to any others on the market. Over the decades, Ikea has learned the art of designing stylish furniture and related products. Incorporating sophisticated technology into its stores gives it a competitive advantage [3].

In this part we will focus on the SWOT analysis of the company Ikea itself, and also on its analysis in relation to the issue - the Ukrainian market.

1. **Strengths.** *Affordability* (Low prices are the cornerstone of IKEA's vision, business idea and concept. The basic thinking of all IKEA products is that, thanks to low prices, well-designed and functional household equipment is available to everyone. Constant innovation helps them do everything a little better, easier, more efficiently and always cost-effectively). *Design* (IKEA is guided by a concept called "democratic design", which consists of five elements: form, function, quality, sustainability and low price. Every IKEA product is designed and manufactured based on this concept. Designers at IKEA must incorporate this concept into the process through cooperation with suppliers, technicians and manufacturers). *Brand reputation* (Founded in 1943 by 17-year-old Swede Ingvar Kamprad, IKEA is today the world's largest furniture retailer with more than 445 in 53 countries around the world. In 2020, the IKEA brand was valued at approximately US \$ 19.5 billion). *Wide range of products* (Furniture sales make up the bulk of IKEA's revenue, which in 2019 reached around

41.3 billion euros (globally). The IKEA range consists of 9,500 household items, designed to be functional, good-looking and affordable. In addition to furniture, the company also offers products such as food, beverages and additional services such as delivery and removal of furniture. Last but not least, part of the income includes fees from franchise agreements).



**Pic. 1. SWOT analyze of Ikea company**

2. **Weaknesses.** *The media* (IKEA has had a number of negative media cases. Employees complained of ill-treatment, the brand faced ridicule due to advertising techniques in Arab countries, and last but not least – the occurrence and withdrawal from the sale of dangerous products that caused / could cause injury or death). *Quality* (Although the brand strongly advocates the quality of its products, the opinion of "low price = low quality" still prevails among most customers. This fact limits the company in attracting and breaking through with more demanding customers, who prefer to invest in a more expensive piece of competition). *Location* (Most IKEA stores are located outside the city center. This position is not accidental, on the contrary - it contributes to the company's strategy. The price of land outside the city centers is lower and therefore the company can afford to buy larger land. This also saves on storage costs, as products can be stored directly "in-store". However, this strategy did not meet with a full understanding of customers, and therefore IKEA decided to locate smaller operations and so-called. showroom directly to the city center to meet the requirements).

3. **Opportunities.** *Emerging markets* (In developed markets, IKEA has the position of a cheap mass brand, but in emerging markets, where low prices are the norm, it focuses on a growing middle class that aspires to international lifestyle products. The company should therefore concentrate its resources and open new stores in these markets in order to diversify and at the same time increase its revenues). *Online store* (IKEA products can be purchased through their websites. Online shopping is becoming very popular as people working overtime and especially in current situations working from home is usual. Also, during holidays such as Black Friday people want to avoid spending time in a line for buying products – channel from which IKEA can benefit greatly). *Sustainability* (Ecology and sustainability are at the forefront of customer preferences, because we are living in a time with climate changes and IKEA is aware of this. They are trying to fulfill their vision of "creating a better everyday life for many people" in a sustainable way, and clearly successfully: IKEA is at the top of the list of sustainable companies in many countries).

4. **Threats.** *Competition* (IKEA must pay increased attention to its competition – directly (other low-cost furniture retailers) but also indirectly. Many chains whose main



product is not furniture are expanding their portfolios in this direction. Fashion brands such as Zara, H&M as well as retailers such as Tesco or Lidl offer small or larger pieces of furniture at low prices). *Imitation* (In the case of IKEA, the threat is not the imitation of products, but rather the imitation of its low-budget business model which is untestable. If it wants to stay ahead of the competition, the company must constantly provide research and development). *Quality preference* (Changes in customer preferences can also play a significant role in the business. Customers are increasingly inclined to buy more expensive, designer or locally produced products. Another threat may be the “DIY” trend, (you assemble your own furniture). With the growing popularity of tutorials/bloggers/YouTube/Google on the Internet, more and more people are doing things by themselves) [7].



**Pic. 2. SWOT analysis in relation to Ukraine**

1. **Strengths.** *Affordability* (IKEA's pricing policy – to give everyone access to quality products at low prices and thus contribute to improving their lives is one of the company's strengths. That doesn't change in Ukraine either, but it has its catch – the perception of the price (see Threats). *Try-on option* (The design and equipment of department stores is not accidental and aims to attract as many customers as possible to stores, which increases the company's own sales).

2. **Weaknesses.** *Cultural differences* (IKEA underestimated market research when entering the Ukrainian market and therefore encountered many problems when entering the market. The behavior and thinking of Ukrainian customers are greatly influenced by the period of the Soviet Union, and so far, many differences can be observed compared to Western cultures). *Do it yourself concept* (Flat packaging of furniture saves space, costs and also facilitates the transfer of furniture from the store to the customer. However, not all customers are enthusiastic about this concept and therefore prefer to turn to the competition).

3. **Opportunities.** *Economic growth* (Ukraine is one of the fastest growing economies in the world and is therefore one of the emerging markets. Improving the economic situation of the population also means increasing their spending – for example, by buying new furniture). *New products* (IKEA came to the Ukraine market with something completely new and unknown. Product design, marketing communication of the company, restaurants directly in the store, placement of products in the store ... Risk that has paid off in the long run and IKEA has gradually gained its place in the market.

4. **Threats.** *Price perception* (The Ukrainian market is dominated by the belief that low price = low quality, which can make it difficult for IKEA to reach customers. Especially older generations may have trouble accepting this new trend) [4].

IKEA presented a document evaluating its financial and economic results for 2020. As the pandemic broke out at the beginning of this year and caused many restrictions in business environments around the world, it is already possible to observe from this document how the

company managed and has so far set its strategy for dealing with the consequences of coronavirus. According to the document, IKEA recorded a solid financial result for 2020 despite the pandemic. When the lockdown began, the company evaluated its sales plans and took several measures to mitigate the negative effects of the pandemic and reduce operating costs. Following a rapid and strong recovery in retail sales, IKEA generated better-than-expected operating income. After tax and financial expenses, net income amounted to approximately 1.73 billion euros. A more detailed breakdown of the company's revenues in 2020 (and a comparison with 2019) can be seen in the following table 1[2].

<b>Table 1. Consolidated income statement</b>		
In millions of EUR	year 2020	year 2019
Sales of goods	22 387	23 916
Franchise fees	1 162	1 195
Other income	64	73
<b>Total revenues</b>	<b>23 613</b>	<b>25 184</b>
Cost of goods sold	18 860	20 633
<b>Gross profit</b>	<b>4 753</b>	<b>4 551</b>
Operational cost	2 529	2 695
<b>Total operational income</b>	<b>2 224</b>	<b>1 856</b>
Financial income and expense	-201	-65
<b>Total income before taxes</b>	<b>2 023</b>	<b>1 791</b>
Income taxes	-295	-301
Results from the sales of entities	3	-5
<b>Net income</b>	<b>1 731</b>	<b>1 485</b>

## 6. Conclusions and Further Research Implications.

According to these results, we can see that the company's revenue has even increased compared to the previous year during the period 2020. From the financial data, we can therefore preliminarily assess that IKEA is one of the companies that is dealing very well with the pandemic, and is even able to turn this unfavorable situation in its favor. Of course, as mentioned before, the pandemic and its consequences are certainly not over, so it is not yet appropriate time for premature conclusions. The economic figures from 2021 will certainly be very important, which can only be evaluated later, and then it will be better shown how the set strategy that IKEA has put in place has proved its worth. Until then, however, it may clearly be appropriate and beneficial to assess the current set-up of the company's operation during a pandemic and to take a stand on the forecast of what IKEA will look like after the end of the pandemic and how the company will prosper and develop the brand.

**Author details (in Ukrainian)**

**ОСОБЛИВОСТІ УПРАВЛІННЯ КОМПАНІЇ ІКЕА У СВІТІ ТА УКРАЇНІ**

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**Анотація:** Зараз міжнародним компаніям важливо вміти розуміти потреби та бажання споживачів на внутрішніх ринках, на яких вони працюють. Для того, щоб компанія могла конкурувати, вона повинна реалізувати свою міжнародну стратегію на локальному спектрі. Ця стаття покликана, щоб продемонструвати глобально успішну компанію ІКЕА з її особливості менеджменту у світі та вихід на український ринок. Перш за все, ми визначили важливі елементи, які спричинили розвиток міжнародної торгівлі, та основні перешкоди, які вплинули на глобальну конкуренцію кожної компанії в міжнародному бізнесі, де Ікеа не є винятком. Оскільки немає чіткої позиції місії Ікеа, ми спробували визначити, що місія ІКЕА включала такі складові: різні продукти, доступні ціни, перевищення очікувань. Потім був створений аналіз дизайну, формування та подальших успішних кроків цієї компанії. Зосередившись на SWOT-аналізі самої Ікеа, а також на його аналізі щодо проблеми українського ринку дає нам прекрасне розуміння сильних сторін (доступність, дизайн, репутація бренду, широкий асортимент товарів), слабких сторін (медіа, якість, розташування), можливості (ринки, що розвиваються, інтернет-магазин, стійкість) та загрози (конкуренція, імітація, перевага якості) для кращого функціонування бізнес-стратегій Ікеа у світі та в Україні. Конкурентною перевагою є технологія створення стильних продуктів протягом десятиліть, які відрізняються від інших і можуть бути впізнаними. Україна є важливим ринком для розширення ІКЕА, оскільки українці шукають низькі ціни, добре продуману та функціональну побутову техніку, особливо з можливістю інтернет-магазину, через вплив нинішньої ситуації з пандемією COVID-19 є також причиною цього феномену.

**Ключові слова:** менеджмент, Ікеа, можливості, тенденції, розвиток, пандемія.

**Appendix A. Supplementary material**

Supplementary data associated with this article can be found, in the online version, at <http://sepd.tntu.edu.ua/images/stories/pdf/2021/21ymaaiu.pdf>

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