

# Critical decisions by IKEA when it first launched in Hong Kong

## 1.1 Introduction

In the report, it will explore one of the Worlds' most recognizing home furnishing retailers, IKEA. The purpose of the report is to study the concepts that IKEA has implemented in stores location, store design and visual merchandising. Those are very critical decisions to IKEA when it first launched its business in Hong Kong. The case will be based on IKEA in Hong Kong. Throughout the investigation, we will explore how IKEA adopted the concepts of each factor and give recommendations based on the findings.

## 1.2 Background

IKEA, from Sweden is known as the world's largest inexpensive but well-designed home furnishing retailer. Its mission is to provide functional furniture for homes with an inexpensive price. IKEA has 140 stores around the world in 29 countries with 140 million of visitors each year. Therefore, they must have different strategies in stores location, design and merchandising to adapt to the diverse environment. In fact, the majority of IKEA outlets are located far away from cities. However, in Hong Kong it is a completely different condition due to the limited of space. The locations of those outlets are in Causeway Bay, Shatin and Kowloon Bay. In Hong Kong, all of its three outlets are located inside of shopping centers which are much smaller compared to the common IKEA outlets. Thus, necessary adjustments are required for IKEA. Besides store location, store design and layout is another critical decision that will affect the sales. In Hong Kong, IKEA maintains some its traditional store design and layout because those are the critical factors of why they are so successful today. For instance, the outlets still using a "one-way" layout and it maintains its location of cashiers which are located on the lowest floor. In the later chapter, we will go through each of the concepts and theories in store design and layout Therefore, the study will be a good reference to find out how IKEA gain advantages from its concepts.

## Chapter 2 Concept & Theories

### 2.1 Store Location

Every location of retail store has its own strengths and weaknesses. In general, there are three basic types of store locations. They are freestanding, city or town, and shopping center. In this section, it will look at retailer in shopping centers since it is the

same situation as IKEA in Hong Kong. It is interesting to find out why certain types of retailers would prefer their stores in shopping centers.

### 2.1.1 Retailer in Shopping Centers

All three outlets of IKEA in Hong Kong are located inside of shopping centers. The advantage of it is that it is much easier to attract consumers when stores are combined in one location than separate locations. Furthermore, the developer of shopping centers would also carefully select the retailers in order to provide a one-stop shopping experience with a well-balanced type of commodities. On the other hand, shopping centers also involve many common facilities to provide retailers such as parking area, security, outdoor signage, advertising and special events to entice more consumers. Another important part for some particular retailers to locate in Shopping Centers is because of anchors. Most shopping centers have anchors, which are considered to be the largest retailer in the shopping center. Anchors usually enjoy many benefits and special deals from the property developer. Benefits such as lower leasing costs, and subsidize parking fees for the people who purchase from anchor, or even offer free advertisements outside of the center for the anchors in order to attract more shoppers to the center so both parties could enjoy the benefit.

## 2.2 Location and retail strategy

### Shopping behavior of Consumers in Retailer's Target Market

When selecting a location, shopping situations of consumers is a critical factor and will affect the sales of the retailer. There are three types of shopping situations; they are convenience shopping, comparison shopping and specialty shopping. The customers of IKEA are usually in a comparison shopping situation and therefore we will look at it in the following.

#### 2.2.1 Comparison shopping

Consumers in comparison shopping situations generally have an idea of what type of products they want. In this situation, these people are less sensitive for the brand or model. However, they will make some effort to plan their purchase decision. This type of shopping behavior is very common when buying furniture. Furniture retailers often locate next to each other to create "furniture row." By collocating in the same mall, it can attract larger number of shoppers and customers interested in comparison shopping. The disadvantage of it is retailers would have to share these customers.

## 2.3 Retail site location

### Evaluating a site for locating a retail store

There are many characteristics of a site that would affect stores sales. Hence, the evaluation of a site before deciding where to locate a retail store is significant. Characteristics such as traffic flow, accessibility, and characteristics of the location are some concepts when evaluating a site.

#### 2.3.1 Traffic flow & Accessibility

Traffic is always one of the most important factors that retailers consider about when choosing to enter a new site. Although it is less important for destination retailers, traffic flow is critical for most retailers because when traffic is greater, more consumers are likely to shop. However, it is not the best for the greatest traffic flow. A Balance traffic flow is the key. Overload in traffic flow will only cause congestion. Another factor is the accessibility is which the convenience for customers to get in and out of the site. In urban sites like Hong Kong, pedestrian traffic flow and access by public transportation is very important.

#### 2.3.2 Location characteristics

Location characteristics are some factors that retailers used to evaluate a site. They are parking facilities, visibility, and adjacent tenants.

##### 2.3.2 (1) Parking

Parking facilities are critical for evaluation of a shopping center. If the parking space is too far or not enough, it will discourage customers traveling to the site. In order to evaluate is it sufficient for the customers, retailers need to observe is there enough parking space for shoppers using cars, also how much parking spaces are occupied by non-shoppers, and the length of shoppers used the parking space.

##### 2.3.2 (2) Visibility

Visibility refers to the ability to see the store from the street. This is what most retailers want so that the public will know your store location. Good visibility is less important for stores with loyal customer base.

##### 2.3.2 (3) Adjacent Tenants

Adjacent tenants are retailers that market the same market segment but offer noncompeting merchandise. It is important to evaluate the adjacent retailers because they have the potential to build traffic. The complementary retailers can provide convenience or comparison shopping situations for customers to shop around with the

same types of goods. The location approach of “cumulative attraction” indicates a group of similar retailing activities will generally have greater drawing power than isolated stores.

## 2.4 Store Layout

After recognizing the concepts and theories of store location, store design and merchandise presentation are what retailers consider about. The layout of a store can facilitate traffic pattern. Many retailers use it to force customers to move through the entire sections within the store. There are three types of layouts that retailers used. They are grid, racetrack and free-form. In the following, we will review the racetrack layout

### 2.4.1 Racetrack layout

The racetrack layout, also known as a loop, is a one-way layout that uses aisles to loop around the whole store so once the customers entered the store, they will be guided through each departments within the store. The design of the layout can facilitate customers to see all the merchandise before leaving and also create impulse purchasing at the same time. When customers are shopping in a retailer which uses the racetrack layout, their eyes are forced to look at different angles. Shoppers are more likely to move around which can keep them to shop longer. Generally, a racetrack layout requires wide aisles to provide room for shoppers with carts. There will also be shortcuts provided for consumers who wanted to exit in the middle of the circuit.

## 2.5 Store Design

Since the consumers entered your store, the design becomes an crucial factor to facilitate them to go through the whole store, provide product information and suggest items. The design includes signage and graphics, location signage, category signage, feature area and space management. Next, let's review each of the elements in store design.

### 2.5.1 Signage and Graphics

Signage and graphics help to locate products and departments, provide product information, and suggest items and special purchases. The key to this component is that signs should be relevant to the items and it should be clear with limited text. Consumers often ignore reading signs that looks too complicated. The objective is to let customers obtain the information quickly as soon as they see the sign without any hesitation.

## 2.5.2 Location Signage

Location signage helps to identify the location of merchandise. Large retailers typically need it to direct customers around the store. Without it, customers would feel annoyed and drive down their interests in shopping. Usually for this kind of signage, hanging signs is used because they are high enough to enhance their visibility. Another type of location signage is store guide. It is commonly found in stores with more than one level. The design must be easy to understand even for first time consumers.

## 2.5.3 Category signage

Category signage is usually a small sign used within department to identify the types of products. It is located near the goods which provide information such as the products are located in this department.

## 2.5.4 Point of sale signage

Point of sale signage is a sign which can be quickly identified by the customers on the price. It is placed near the merchandise and gives the information on whether the product is on promotion.

## 2.6 Visual Merchandising

Visual merchandising is a form of presentation to attract the attention of potential customers. In other words, it is the fixtures and presentation techniques used to display merchandise. In the case of IKEA, we will focus on the presentation techniques.

### 2.6.1 Idea-Oriented presentation

Many retailers used this technique to give an idea or the overall image to the consumers about how the merchandise would be like when it is in use. It is very common for furniture retailers to combine furniture in room settings in order to let the customers know how it will look like in their homes. Some retailers grouped individual items to show customers how the items could be used or looked when combined. This can also encourage multiple complementary purchases which is an essential factor to boost its sales.

### 2.6.2 Style/Item Presentation

This concept is probably the most common technique of organizing the style. Nearly all retailers use this method to present their category of merchandises. Its goal is to let consumers find the products they want without any uncertainty.

## 2.7 Atmosphere

Atmosphere is the design consists of lighting, colors, music, and visual communications to stimulate customers' emotion and affect their purchase behaviors. It is important for these atmospheric elements to work together. For instance, lighting should go with the appropriate mood and right music with right scent.

### 2.7.1 Lighting

The Lighting in stores is more than just illuminating. It can used to highlight merchandise, capture mood or feeling that enhances the store's image. In addition, appropriate lighting can influence customer shopping behavior. It purposes is to create sense of excitement in the store. However, it must provide accurate color rendition which means the merchandise should look the same when it is in use.

### 2.7.2 Color

Color can help to enhance retailer's image and help create a mood. This can make consumers stay in the shop for a longer time which can impulse purchase as well.

### 2.7.3 Music

Music is an element that can add to the atmospheric. Unlike other elements, tt can be easily changed. However, it is important to beware when using music in stores. Different demographic in age and location prefer different types of music. For example, older people prefer jazzy music while younger would prefer hip hop, R&B, and pop. It can also affect customer's behaviors, control traffic, and attract attention.

## Chapter 3 Analysis of IKEA's store location & store design

### 3.1 Analysis of IKEA's location

There are many advantages of IKEA located in shopping centers. For example, the IKEA Shatin outlet is located in the shopping center named, HomeSquare. HomeSquare is a large shopping center which has a combination of retailers that sell home design or furniture products. This is also the same situation for the other two IKEA outlets in Hong Kong. The many home design and furniture stores are combined together, HomeSquare has successfully attract customers and provide them a one-stop shopping experience with home furnishing retailers combine all together. The location of all three outlets in Hong Kong is very convenient. For example, the Shatin outlet is right next to Shatin KCR station. The one in Kowloon Bay is near MTR station, and the Causeway Bay store is in the downtown area. Thus, it is very convenient for visitors to visit IKEA no matter by public transports or by vehicles. Furthermore, IKEA is the anchor of the three shopping centers in Hong Kong. Hence, IKEA enjoy many benefits since consumers are likely to be attracted to visit the mall. It is common that IKEA do have large discounts on

their rent. In terms of shopping behavior, customers of IKEA belong to the comparison shopping group. As a result, they would spend some effort to compare with other retailers before purchasing. Large amount of consumers can be easily attracted because this gives consumers a one-stop shopping destination to compare all the furniture retailers. All outlets of IKEA are in a good site location. In terms of traffic flow and accessibility, you can easily reach the outlets by public transportations such as MTR or KCR. The IKEA outlet in MegaBox also benefit from the free shuttle bus service provided by the shopping center. Consumers who wanted to go to MegaBox can access by the free shuttle bus service. Parking area is especially important for the customers of IKEA since many furniture are large and heavy, consumers may want to take away by vehicles. For this reason, the shopping centers where IKEA is located supply sufficient parking areas for vehicle customers. Further, parking discount can be offered to the consumers who has purchased within the shopping center. By doing this, it will be more appealing to vehicle customers. When speaking of the visibility of IKEA, pedestrians outside of the shopping centers area able to see it clearly. IKEAs in Hong Kong have proper adjacent tenants as well. For HomeSquare as an example, it contains many other home furniture retailers to build traffic.

### 3.2 Analysis on store layout

Beside the location of stores, let's move on to the store layout. IKEA has adopted the exact layout in their outlets all over the World. The racetrack layout forces their customers to shop through all the departments within the store. Once the customers enter the shop, they must walk in a single direction to order to exit. However IKEA understand that it is difficult for kids to walk through the entire circuit, and therefore, there is a playground provided for kids near the entrance. In the middle of the store layout, there is a canteen for the customers who may feel hungry or would want to take a rest during the shopping.

### 3.3 Analysis on store design

IKEA have used different types of signage in their store design to guide customers through different departments. When you shop in IKEA, you will be notified that they have very large signage too. They are very clear and can be observed with no trouble. They have large, blue signage hanging on the ceiling to show the location of products and departments. There is a very tall location signage can be found in every story. IKEA also have point of sale signage on top of the products with the discounted price while the original price was being crossed out. Customers can quickly read the price and know if it is on sale. The signage in IKEA does not only identity the departments but also categories. It helps customer to get what they wanted immediately and inspire additional purchase.

### 3.4 Analysis on visual merchandising

In terms of visual merchandising, IKEA has illustrated the Idea-Oriented presentation technique in their outlets. Since you walked into IKEA, you will see combinations of different furniture in room setting such as living room, kitchen, bedroom, and bathroom. The presentation technique successfully enables their customers to get an idea of what it would look at home. In addition to it, IKEA can demonstrate the customers how the products can be used. Customers will also consider purchasing multiple products to use them as the same as it look.

### 3.5 Analysis on atmosphere

The atmosphere of IKEA makes shoppers feel like when you are at home. It uses a natural lighting with very soft music to retain consumers shopping in IKEA. Inside of IKEA, it is very clean and the colors and music are coordinated properly.

## CHAPTER 4 Recommendation & Conclusion

IKEA in Hong Kong has demonstrated their success in choosing store location. The decision to locate in shopping center gave them many advantages in many areas. Firstly, they are the anchor which already has an advantage over the other retailers within the center. Secondly, common facilities are offered to IKEA such as parking space which is a must for IKEA. And the parking space is sufficient for the customers even on holidays. Thirdly, the locations of all three outlets are easily accessible. There is no doubt that IKEA has made the correct decision of the locations in Hong Kong. A good location can entice large amount of consumers. However, in order for a retailer to become successful, IKEA must understand the relation between store location and other factors such as store design and visual merchandising technique. There is no point if the company can attract a lot of customers to visit but fail to keep them shopping in the shop or make a purchase. In terms of the layout the racetrack is very successful. Although it is a very decent structure to get customers walk through the entire shop, the most critical part is to guide them through the circuit. The signage in IKEA guide the customers very well. At the same time, I think most of the customers like the canteen in the middle of the layout. On the other hand, I feel very pleased with the visual merchandising of IKEA. Especially the Idea-Oriented presentation, it is always appealing to the customers to give an image of their furniture when it is combined together. They often have smart ideas to suggest to their customers. This technique of showing their products has made IKEA very profitable. Lastly, for the many advantages with the location, the visual merchandising technique and store design, I believe every customers of IKEA are shopping with full enjoyment.