



Ikea flatpacks its format

Ikea has boxed up its out-of-town format to trial a new smaller shop with a multichannel twist.

Ben Cooper looks at what the shift could mean for the in-town and out-of-town markets

When the world's largest furniture retailer decides to try something new, people stop and take notice. An icon of the big-box out-of-town market, Ikea has dominated furniture shopping in the UK for years with a breadth and depth of products

under one roof that nobody has been able to match.

So the fact that the retailer is trialling smaller format stores with a whole new approach to shopping might seem odd. But with big-box space often at a premium, and times rapidly changing, even the most illustrious

brands can find themselves being moved by circumstances.

So what's the full story behind Ikea's smaller format trial, and what does it mean for the in-town market if the big guys are snapping up space?

For a retailer with a single-store footprint that can reach 640,000 sq ft – only fractionally smaller than Buckingham Palace – taking a 19,000 sq ft unit on a retail park is definitely a departure from the norm.

But it's not all about the size – the store on the outskirts of Norwich will be a click-and-collect point for online orders, and a studio where shoppers can experiment with ideas and products and plan whole room designs.

It's a new concept, self-styled 'Ikea, but not as you know it', which UK chief executive Gillian Drakeford says is being driven by the changing times.

"This is about how the customer wants to shop and how we meet that; people don't shop with a shop so much as a brand. It's about the areas where we're strong online but don't have a physical presence," she says.

But will it work? Paul Langston, consulting partner at digital services company CACI, says

it's a "fine line" Ikea has to walk, but a necessary move given the big changes in the way people are shopping. He says: "Customers now expect the convenience of click-and-collect, with the guarantee of easy collection without the need to walk around a huge store."

From a purely estate-planning perspective, the benefits are clear. Ikea's approach in the UK has been predominantly to build its own stores and own the freehold. But given the costs of doing this and the difficulty of getting planning permission for the type of store Ikea's full-format needs, Lunson Mitchenall head of shopping centre leasing Neil Hockin believes it's a smart move by Ikea.

He says: "The capital costs and running costs of having a full store in a place like Norwich are potentially prohibitive; if you can still have something that delivers your brand it's a real opportunity, and from Ikea's perspective having click-and-collect is a very efficient thing to do."

CLOSER TO THE CUSTOMER

Drakeford is frank about the fact that renting a smaller store is a more nimble way of entering a new market. "We've got a lot of customers in that area," she says, "but at the moment a lot of them are having to go to Lakeside or Milton Keynes. Multichannel has given us an opportunity to get closer to the customer markets where we haven't been able to have penetration before because of the returns we would need from a full store."

From a retailing perspective, John Pincott, managing director for Europe at ecommerce order management specialist Shopatron, says that Ikea is actually a little late to the game given the major strides made by other brands. ↘



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GILLIAN DRAKEFORD, IKEA



Ikea's shop on the outskirts of Norwich will be 19,000 sq ft – a departure from its larger footprint



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TONY DEVLIN, CBRE

He says: "Amazon has set the agenda and raised the bar in terms of convenience and service. Ikea have finally woken up to the reality that there is a lot of opportunity to expand their business but that they have to reach the customer rather than waiting for the customer to reach them."

HITTING THE HIGH STREET

With retailers such as Topps Tiles, Decathlon (see box, p20) and now Ikea looking to move closer to the centre of towns, could it be a two-way street for the old in-town, out-of-town mix? LCP Consulting partner Phil Streatfield believes the lines have been blurred.

He says: "This change is following the shift seen in grocery where there is a major high street convenience presence now for most of the big chains. It will be interesting to see if other retailers follow suit, and if they do, it could be an interesting development in support of high streets around the UK.

"Equally it puts greater pressure on the out-of-town developments which will start to lose footfall, and could potentially start to decline in importance."

Ikea is keeping the locations of its future trial stores a close secret for now. But assuming that urban locations – including London – are on the hit list, it's a bold move that is likely to present opportunities and challenges along the way.

Tony Devlin, head of UK retail agency at CBRE, believes that, especially in London, Ikea will face the same problems as many other retailers. He says: "The main issue for them will be availability of affordable space in their search areas. They are very keen to do something in north London, but anywhere in London at the moment is very competitive, with many other retailers seeking space of this nature and they have tried and tested formats which may allow them to be more confident and thereby bullish on the rent that they can pay."

But whatever the challenges, Ikea knows it has racked up a phenomenally loyal customer base in the UK. Its brand is one of the most recognisable in retailing and its stores are always teeming, however far flung they are.

Taking the shops closer to the shoppers and giving them new ways to purchase is the natural, and most likely, successful next step.