



27 September 2024

'Big box' retailer price setting inquiry: Submission from IKEA Australia to the Senate Economics References Committee

IKEA Australia welcomes the opportunity to provide a submission to the 'Big Box' retail inquiry that aims to ensure suppliers are treated fairly and responsibly by retailers for a healthy and competitive market environment. References to 'we,' 'our,' or 'us' refer to IKEA Australia (IKEA Pty Limited). In this submission we have outlined relevant information on our business structure, products for sale, supplier engagement practices, consumer pricing and land acquisition process.

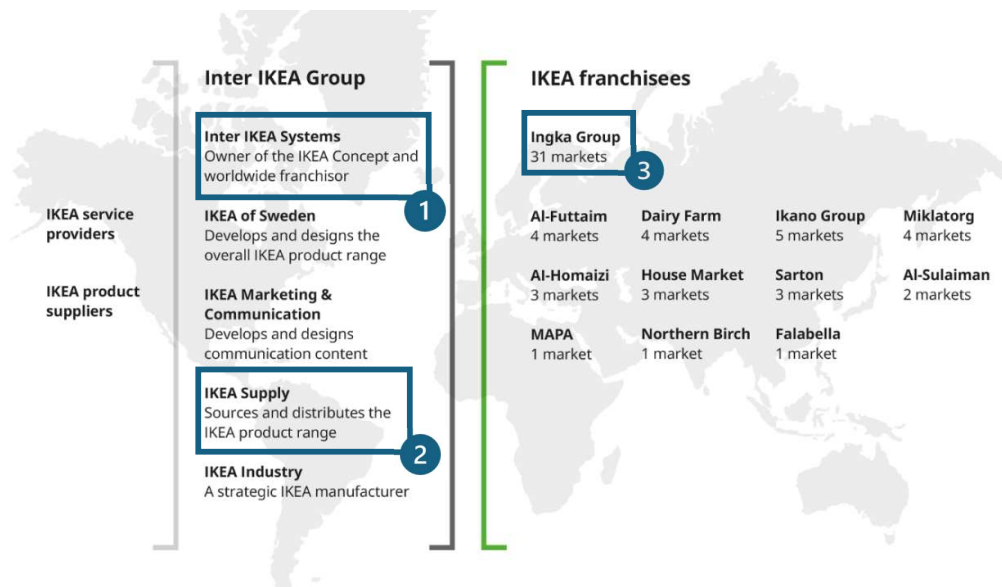
A. An introduction to IKEA

The first IKEA store opened in 1958 in Älmhult, Sweden, driven by founder Ingvar Kamprad's vision to create a better life for as many people as possible. With time, it has evolved to become a global home furnishing staple and the largest home furnishing retailer in the world, renowned for offering a wide range of well-designed, functional home furnishing products at affordable prices so that as many people as possible can access them.

IKEA's commitment goes beyond just business, as it also aims to contribute to a fair, equal, and respectful society.

IKEA operates as a franchise with a network of companies functioning under the IKEA brand. This system includes IKEA franchisees, range, supply, communications, the IKEA franchisor and various other companies.

Inter IKEA Systems B.V. ("**Inter IKEA**"), a Dutch private limited liability company, owns the IKEA Concept and serves as the worldwide franchisor of the IKEA Retail System (see box 1 in the chart below). The "IKEA Retail System" comprises: (a) efficient systems, methods and proven strategies for marketing and selling the IKEA product range; and (b) the IKEA trademarks, symbols and other proprietary rights related to the IKEA Concept. Together, the IKEA Retail System and the IKEA product range constitute the "IKEA Concept." Inter IKEA, together with IKEA of Sweden AB, IKEA Marketing & Communications AB, IKEA Supply AG, IKEA Food Supply AG, amongst other, conform the "**Inter IKEA Group**."



B. IKEA Australia

IKEA Australia, a company incorporated in Australia with registered office in New South Wales, is one of the IKEA franchisees and a part of the **Ingka Group** (see box 3 in the chart above). The Ingka Group, currently operates 482 IKEA Customer Meeting Points (which include, amongst other, stores, shops and plan and order points) in 31 countries, generating 89% of all IKEA sales worldwide.

The parent company of IKEA Australia is Ingka Holding B.V. We purchase most of the products we sell to our customers through Inter IKEA Group (see box 2 in the chart above). IKEA Australia is a 100% fully owned subsidiary of Ingka Holdings Overseas *besloten vennootschap* (B.V), a private company incorporated in The Netherlands.

The first IKEA store in Australia opened in 1975 and has evolved from a 'cash and carry' business to become an omnichannel retailer. As of July 2024, we employ approximately 3,700 co-workers who meet the needs of thousands of customers across Australia each day in-store, online and over the phone.

We currently operate **10 stores** in Australia, across 6 states and territories, and **3 plan and order points** (one in each Perth, Sydney and Greater Melbourne) which are bespoke planning studios to support customers with more complex home furnishing purchases, such as kitchens or wardrobes. These are referred to as "customer meeting points" in this document.

Customers can also **shop online** through our website and IKEA app, place their orders with one of our IKEA specialists over the phone, online chat or book a virtual planning appointment for personalised design advice for almost any room in their homes through **remote shopping**. For our **small business customers**, we have a range of personalised services and design tools through "IKEA for Business."

C. Affordable prices for the 'many people'

We are continually focused on increasing the affordability of our products for our customers and we strive to keep our costs as low as possible. While the cost of goods has increased in recent years, where possible, we did not pass these costs on to our customers. Instead, we have reduced the prices of many of our iconic products, reinvesting any savings back into the business to benefit our customers. In the fiscal years 2023-2024 we committed \$125 million in price reductions on over 3,000 items, as part of our long-term commitment to lower prices for our customers.

We are increasing our investment into lowering our prices even further, and across more of our products, with the goal of bringing prices back to their pre-pandemic levels by the end of 2025.

D. The product range at IKEA Australia

Around 11,000 articles make up our total IKEA product range in Australia, the majority of which is designed, developed and distributed by Inter IKEA Group following the five principles of [Democratic Design](#) – function, form, quality, sustainability and low price.

On average, Australians shop with us three to four times per year across all channels. These purchases can be categorised as thoughtful and discretionary. Total sales for IKEA Australia in the fiscal years 2022 and 2023 were below \$2 billion respectively.

Home furnishings: The majority of our product range includes home furnishings such as sofas, beds, mattresses, kitchens, dining, workspace solutions, storage solutions and outdoor furniture as well as home furnishing accessories, such as textiles, lighting and tableware. In fiscal year 2024, home furnishing and accessories represented 91.9% of our total sales for IKEA Australia.

Living plants: We offer a range of up to 60 living plants to our customers as a small part of the home furnishing accessory range. In fiscal year 2024, we sold 355,342 plants, representing 0.32% of our total

sales. In 2022-2023, Australian Nursery Industry sales were \$2.78 billion, which equates plant sales from IKEA Australia to roughly 0.17% of total plant nursery sales¹.

Food offer: Our customers can enjoy a meal in our Swedish restaurant, or lighter options in our café and bistro, in any of our 10 stores. They can also purchase a selection of Swedish food items in the Swedish Food Market to take home as packaged products from our stores. 149 food and beverage articles are available for customers to purchase from the Swedish Food Market, including pastries, desserts and cookies, or our famous Swedish meatballs. Swedish Food Market sales represented 1.7% of our total sales in Australia for fiscal year 2024.

E. Our supplier approach: price negotiation and engagement

There are two ways we currently procure products at IKEA Australia that are sold to our customers, namely:

- 1) via IKEA Supply AG (*i.e.*, Inter IKEA Group), which represent the majority of the product range offered to our customers in our Customer Meeting Points; and
- 2) directly by IKEA Australia, limited to food items offered to our customers in our Swedish Food Markets.

Suppliers and service providers are some of our most important we hold as a company. Together we grow and expand our businesses and explore new ways to do it in a socially and environmentally responsible way. Based on information received from IKEA Supply AG, the average length of a relationship between Inter IKEA Group and a supplier is 11 years. IWAY, the supplier code of conduct, was created to ensure better environmental, social and working conditions, as well as stronger animal welfare practices. IWAY is mandatory for all IKEA suppliers and service providers.

Inter IKEA Group makes sure that the unique IKEA range is produced at the right time, right volume, right quality, and at a low cost to an ever-expanding customer base. Price negotiation and supplier engagement practices can differ depending on the type of the range/products purchased, *i.e.*, mandatory or seasonal. Living plants for example can be part of the mandatory and seasonal range. The mandatory range is the core of the IKEA product offer, and it consists of essential products that are typically high in demand across various markets, with a consistent supply all year round. For mandatory articles, Inter IKEA Group provides the suppliers with a sales forecast when requesting for quotation.

The seasonal range includes products that are offered for a limited time, often connected to specific seasons, holidays, or trends. For seasonal articles, a supplier receives information on the fixed quantity per article and needs to provide a quotation based on the fixed quantity to each store. To provide a quotation, a supplier considers whether the rolling 52-week forecast or fixed quantity together with their fixed and variable costs. After Inter IKEA Group receives the quotation, it is compared with competitors' offers and historical data to verify whether the suggested price is reasonable and competitive.

Living plants

We have two plant suppliers; one primary supplier which services all 10 stores in Australia and one supplementary supplier in Western Australia.

We actively collaborate with plant suppliers on forecast projections to maximise the accuracy of these forecasts. Weekly forecast adjustments and weekly sales are provided to the suppliers.

¹ Source: [Greenlife Industry Australia 2022-2023](#)

We regularly review our cost prices and adjust retail prices to meet market conditions, aligned to our commitment to affordability for our customers and fairness for our suppliers.

In September 2024, we have lowered the price of living plants for our customers, to drive increased volume of sales and meet forecast projections for suppliers. The price reductions are part of a larger, long-term investment to reducing prices by IKEA Australia and not at any additional cost to our suppliers.

Directly by IKEA Australia – Swedish Food Market items

There are seven items in the Swedish Food Market manufactured in Australia, which include HUVUDROLL meat balls, hot dogs and hot dog buns, and some beverage products. There are 33 other products for sale in the Swedish Food Market imported by Australian businesses and procured by IKEA Australia.

When it comes to pricing, we strive to be as professional and fair as possible and follow the practices of our franchisor stated above. We follow global commodity trends and discuss pricing with our suppliers depending on the market situation.

We receive price increase proposals from suppliers where necessary, usually four times per year for distributors or once per year from other suppliers. These proposals are typically reviewed and accepted when justified, as with recent major cost increases across all food categories due to local issues (drought, flooding, and other industry disruptions) and global issues (such as the war in Ukraine and the Red Sea crisis).

Any discussions with suppliers are collaborative, and there are currently no outstanding price issues pending. Changes to suppliers or change/removal of items/products are handled by mutual agreement, and any stock or raw materials for which we have liability are sold through at no cost to the supplier.

Any supplier grievances are similarly handled via collaboration and discussion, and we currently do not have any outstanding actions with these suppliers.

F. Food & Grocery Code of Conduct Inclusion

We support the principles of the Food and Grocery Code of Conduct. As indicated in section D above, we sell a small selection of grocery items as discretionary purchases alongside our core business of home furnishings. We consider our supplier and customer engagement practices to be conducted in good faith, and therefore aligned to the principles outlined in the Code.

G. Acquisition and use of land

We own 9 of our 10 stores with gross building areas ranging from 23,580m² to 39,086, and land sizes from 22,508m² to 98,640m². Our stores are primarily located in areas zoned as mixed-use as part of retail parks, shopping centres or as standalone stores.

Our three Plan and Order Points range from 160m² to 750m² each and are all leased.

We typically work with a 5-year expansion plan and a 10-year outlook, identifying opportunities for physical and digital growth based on market data and insights. These plans provide a roadmap for future IKEA customer meeting points (section C) and fulfilment units, which are then translated into Real Estate briefs describing the preferred locations, type of property (land/ existing building) size, and preference to own or lease. The site search process is mostly handled internally with support of local Real Estate agents and consultants.

As we are a foreign owned company, we are subject to Foreign Investment Review Board requirements, including the obligation to develop any land we purchase within a given timeframe. We therefore do not

landbank. Depending on the type of property and complexity, the time from site search to opening a new unit can take between 6 months to 5 years.

We have not been in a position where price setting could be called into question, and we therefore do not have any input with respect to price setting as our policies for selecting relevant land do not have any elements of price setting involved.

Future Expansion Plans

In line with the general IKEA vision to 'Create a better everyday life for the many people,' we continue to look at ways to reach and interact with more Australians. We will continue to look for opportunities to grow our business. Although this may include increasing our physical footprint, the focus over the coming years is to provide more reasons for our customers to visit our existing customer meeting points, shop online, via the IKEA app or over the phone, and for that experience to be even better than today.

References

All data in this submission has been provided from fiscal year 2024 (September 1, 2023- August 31, 2024) or otherwise referenced by IKEA Australia in collaboration with Inter IKEA Group.