

## Why the Sweden-based company IKEA has cut prices 3 times in a year

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### Warm-up question:

Have you ever chosen one store or product over another because of a price reduction? What factors influenced your decision?

**Listen:** Link to audio [[HERE](#)]

### Read:

STEVE INSKEEP, HOST:

We have the story behind a headline. Some big furniture companies are cutting prices at a time when Americans remain worried about inflation. One of the price cutters is IKEA. The Sweden-based company has cut prices three times in a year. So we called up Javier Quinones, who is the president of IKEA retail in the United States. And his explanation of the price cuts opens a window on the wider economy.

JAVIER QUINONES: It is an answer to the economic situation and what is **top of mind** for consumers these days. During COVID, of course, we all know what happened with the supply chain disruption, and it had massive impact in availability and also in the price of products. And we have seen during the last couple of years inflation also going through the roof, and this is one of the top-of-mind things for consumers.

INSKEEP: I'm interested in other economic effects to your specific business. You mentioned the supply chain disruptions, which affected almost everything. I'm wondering also if during the pandemic when people were spending more time at home, they were spending more time ordering and installing furniture, and maybe now they're spending less time doing that.

QUINONES: We saw at the very beginning of the pandemic, more on the functional side. So I need something like a desk, I need something, like, **reconvert** this room to somewhere where I can now work. To then later some bigger changes like kitchens or full bedrooms, painting homes and improving our homes now. And it is true that also has slowed down a little bit. And we see our industry and we see the home furnishing business now getting reduced in size.

INSKEEP: The home furnishing business is getting reduced in size, you said?

QUINONES: Yeah. It's, of course, as you said - right? - during the pandemic, we saw an increase and a big demand, and there is a shift in the way consumers look at spending their money and their savings.

INSKEEP: Have you had to push down on your suppliers a little bit for them to reduce the prices of what they send you?

QUINONES: Well, what we saw is after COVID and after all this **disruption** - right? - the **raw material** mainly and transport are the two big drops in cost. Then there is, of course, as you know, we design our products, and we create the price tag in many ways before we create the product. So there are a lot of innovation and a lot of technology applied to new products. That's why we can do what we are doing.

INSKEEP: What does this mean for your profits, which if I'm not mistaken, have been pretty high?

QUINONES: You know, IKEA is here for the very, very long term. When we obviously reduce the price of our products, of course, in the very short term, this has an impact in the profits, absolutely, and it has an impact also in the revenue. But these days, we believe that this is the right thing to do. So what we see is that **despite of** lower profits and lower revenue, we see an increase in the amount of customers we have, which is looking at it from the market situation and economy situation perspective, fantastic news for us.

INSKEEP: One final thing to put this in a **broader context**. You told me that there has been some **shrinkage** in the whole industry, the sector that you're in - furniture. Target has also announced price reductions. There are a lot of retailers of different kinds that are cutting prices now. What does this tell us about the retail economy and about inflation?

QUINONES: Well, I think we see probably two things. One, consumers are more cautious about where and how they are spending their money. And that, of course, in some industries, produces the demand and then there is a reaction on the price, right? So that's the very first one. I think the second is obviously an improvement in the cost structure. And that's the second part. We see the benefits or the improvement in the cost structure of our products from the supply and transport, and of course, we adapt this and pass it to consumers.

INSKEEP: Javier Quinones of IKEA, thanks so much.

QUINONES: Thank you very much.

INSKEEP: His company has cut prices three times in a year. After we spoke with Mr. Quinones, we wanted an **outside perspective**, so we sent that interview along to NPR chief economics correspondent Scott Horsley who listened and sent us a voice memo.

SCOTT HORSLEY, BYLINE: Furniture sales tend to rise and fall with the housing market and we know that high mortgage rates have been **a drag on** home sales, and that's weighing down everything that goes into a home. Furniture sales in April were down more than 8% from a year ago. Now, people who shop at IKEA, like people who shop at Target or McDonald's, tend to be very **price-sensitive**. So all those businesses are working hard to get prices to a point where it won't be **a turn-off** for those customers.

It certainly helps when raw material costs come down, or transportation gets cheaper. You also heard Mr. Quinones talk about redesigning products to hit a certain price. Often that means doing without some feature that you hope the customer doesn't miss. IKEA is known for that kind of value engineering. And I say that as someone who's sitting in a room full of one, two, three, four BILLY bookcases.

INSKEEP: NPR chief economics correspondent and furniture buyer Scott Horsley.

**Vocabulary and Phrases:**

1. **Top of mind:** A primary or important consideration in someone's thoughts.
2. **Reconvert:** To change something back to its previous state or function.
3. **Disruption:** A disturbance or problem that interrupts an event, activity, or process.
4. **Raw materials:** The basic materials from which products are made.
5. **Despite of:** In spite of; without being affected by the particular factor mentioned.
6. **Broader context:** A wider perspective or framework that provides a more comprehensive understanding.
7. **Shrinkage:** A reduction in size, amount, or value.
8. **Outside perspective:** A viewpoint from someone not directly involved in the situation.
9. **A drag on:** Something that slows down progress or development.
10. **Price-sensitive:** Likely to be influenced or deterred by changes in price.
11. **A turn-off:** Something that discourages interest or causes aversion.

**Comprehension Questions:**

1. Why has IKEA cut prices three times in the past year?
2. What factors contributed to the supply chain disruptions mentioned by Javier Quinones?
3. How did consumer behavior change during the pandemic according to Quinones?
4. What two main costs saw significant drops after the COVID disruption?
5. Despite lower profits and revenues, what positive outcome did IKEA observe from the price cuts?
6. What does Scott Horsley identify as a major factor influencing furniture sales?
7. How does IKEA ensure their products remain affordable to price-sensitive customers?

**Discussion Questions:**

1. How do you think price reductions by large retailers like IKEA impact smaller, local businesses?
2. In what ways can supply chain disruptions affect a company's pricing and product availability?
3. Discuss how consumer priorities might shift in response to economic changes such as inflation and high mortgage rates.
4. Why might a company decide to lower prices despite the potential for reduced short-term profits?
5. How important is it for companies to adapt their product designs to meet price expectations? Can this strategy affect consumer satisfaction?