Does IKEA keep its promises?

Impact of large retail chains on medium-sized cities
using the example of IKEA in Sweden

Student
Julian Schmidt

Supervisor
Svante Karlsson

Umeå, 26th of May 2012
Content

Abstract

1. Introduction ................................................................................................................. 1

2. Research on Wal-Mart ................................................................................................. 2

3. The Wal-Mart Phenomenon Revised ......................................................................... 4

4. Impact of Large Investments ...................................................................................... 5
   4.1 Investments .............................................................................................................. 6
   4.2 Areas of Investment ................................................................................................. 7

5. Retail in Sweden .......................................................................................................... 8

6. Importance of Retail for Sweden .................................................................................. 10

7. Introduction to IKEA .................................................................................................... 12

8. IKEA's Expansion Strategy ......................................................................................... 14

9. Research Questions ..................................................................................................... 16

10. Definitions .................................................................................................................. 17
   10.1 Defining a Medium-Sized City .............................................................................. 17
   10.2 Defining a Large Retailer ...................................................................................... 18

11. Research Methodology ............................................................................................... 18
   11.1 Cities of Interest .................................................................................................. 19
   11.2 Method .................................................................................................................. 21
   11.3 Data ....................................................................................................................... 23
   11.4 Calculating the Variables of Interest .................................................................... 24

12. Results ........................................................................................................................ 24
   12.1 Unemployment ..................................................................................................... 25
   12.2 Population ............................................................................................................. 27
   12.3 Income ................................................................................................................... 28
   12.4 Retail Sales ............................................................................................................. 30
Abstract

Large investments in sparsely populated areas have the reputation to increase the attractiveness of these areas. This is said to lead to more investments, followed by growths in population, unemployment rates and tax revenues. Usually, city officials in Sweden trust in this formula and have the tendency to provide financial and other incentives for companies to start large investment projects in their towns (Hrelja, Isaksson, and Richardson, 2012). This thesis investigates the actual impact of such projects by the example of the large retail chain IKEA in Sweden. The development of three medium-sized cities in sparsely populated areas in Sweden which recently opened IKEA stores are compared to close-by cities and benchmark cities of a comparable size with respect to their unemployment rates, income, population, retail sales and trade indexes. The results will be used to predict the impact of the new IKEA store planned in Umeå.
1. Introduction

Large financial investments in sparsely populated areas have the reputation to increase the economical attractiveness of these areas. This attractiveness is said to lead to even more investments that are followed by a growth of variables of public interest, such as of population, unemployment rates and tax revenues. This formula is communicated and promoted by the companies making these investments and trusted in by many, including employees in the public administration. In Sweden, city officials have the tendency to provide incentives for companies to start large investment projects in their towns (Hrelja, Isaksson and Richardson, 2012). But do the propagated public benefits stand up to empirical examination? In other words, are the large companies, such as IKEA in Sweden, keeping their promises and bringing sustainable growth and wealth to a region?

This thesis compares the development of three medium-sized cities in sparsely populated areas in Sweden which recently opened IKEA stores to close-by cities and benchmark cities of a comparable size with respect to their unemployment rates, income, population, retail sales and trade indexes. Based on previous research, the effects are expected to be most pronounced in the first years after the openings.

The topic of the current thesis is of special interest for Umeå since a new IKEA store will be opened within the city in the next couple of years. In the discussion, the potential outcomes for Umeå will be shown.

In general, the topic and approach of this thesis is motivated by research conducted on the impact of large investments of Wal-Mart in rural areas in the USA. A wealth of studies focusing on various kinds of socio-economic indicators (i.e., unemployment rates, income, population and retail sales) provided quite different estimations on the type and magnitude of this impact (e.g., Patel and Martin, 2011; Neumark, Zhang and Ciccarella, 2008; Hausman and Leibtag, 2007; Virchez and Cachon, 2004; Stone and Artz, 2012). The thesis will now investigate the same impact using the example of IKEA in Sweden.

*Spillover effects* will also be mentioned. These effects are describing economic processes that affect those who are not directly involved as well. That means the
region around the economic center (Krugman, 1991). Since Krugman’s (1991) paper on increasing returns and economic geography, a lot of research studied regional development and agglomerations (Krugman, 1991; Florida, 2002; Scott and Storper, 2003; Glückler, 2007). In these terms, the thesis will investigate the agglomeration effects and changes in regional development that are triggered by the opening of an IKEA store. This is achieved by two means: First, in line with previous studies, various socio-economic variables are examined that might be influenced by the opening. Second, Swedish planning personnel in Umeå are interviewed to find out how the investment process works and what the municipality officials and private companies expects from the opening of an IKEA store.

The thesis is organized as follows. First, a selection of earlier results on Wal-Mart will be presented and evaluated. The specific focus on Wal-Mart is based on the wealth and quality of researches done on this company. This will be followed by the discussion of a theoretical framework that can be used for the interpretation of these (and the current) findings (Stone, 1997). Afterwards, information on the retailing situation in Sweden, on IKEA, and on IKEA’s corporate strategy will be presented. The objective of the thesis will be defined and the methodology will be explained. Finally, the results will be described and discussed and an outlook on future research directions will be given.

2. Research on Wal-Mart

There is a wealth of studies and empirical findings on the influence of big-box retailers\(^1\) such as Wal-Mart on the economic and social development of small and medium-sized towns in the United States (e.g., Patel and Martin, 2011; Neumark, Zhang and Ciccarella, 2008; Hausman and Leibtag, 2007; Virchez and Cachon, 2004).

Out of these, a number of studies by Stone will be described in detail (Stone, 1988; Stone, 1997; Stone and Artz, 2012). Kenneth E. Stone is an emeritus professor of Economics at Iowa State University. His main areas of interest for more than 30

\(^1\) A retail store that occupies an enormous amount of physical space and offers a variety of products to its customers.
years are retail trade, community development and effects of mass merchandisers on other businesses. Most importantly for the present purposes, he published three papers on the impact of Wal-Mart on medium-sized communities in Iowa, investigating different time intervals (Iowa State University, 2004). His studies are “The Effect of Wal-Mart Stores on Businesses in Host Towns and Surrounding Towns in Iowa” (Stone, 1988), “Impact of the Wal-Mart Phenomenon on Rural Communities” (Stone, 1997) and “Revisiting Wal-Mart’s Impact on Iowa Small Town” (Stone and Artz, 2012). They are of special interest, because Iowa has almost the same population density as Sweden (Peters, 2011; Swedish Institute, 2011). Also, the studies used different theoretical perspectives to approach the same research question. Finally, the studies are methodologically sound and neatly conducted, including a longitudinal approach to data collection with a biennial update to validate the results. In the following section, the approaches and findings of the three papers are summarized.

The first paper (Stone, 1988) focused on the first three years after a Wal-Mart opening in 10 towns, evaluating its impact in terms of sales and tax revenues. The author calculates that a town without a Wal-Mart would have better sales and tax revenues than a town hosting a Wal-Mart. He concludes that there is strong evidence that hosting a Wal-Mart is a losing deal, but that a definite causal relationship remains to be proven (Stone, 1988).

In the second paper (Stone, 1997), the author aimed at reevaluating the findings of the first study by adopting his methods to the development on the retail market in Iowa. He analyzes ten year sale trends of 34 cities and shows that those cities hosting a Wal-Mart had a better development of sales than the benchmark cities. However, he also discusses negative effects of shopping centers lying too close to other towns and communities that are too small to host a Wal-Mart. These municipalities are losing purchasing power induced by changing consumer behavior (cannibalization effect), accelerating and amplifying the effects known as Wal-Mart Phenomenon (Stone, 1997).

2 Small stores cannot compete with large retail store chains and will eventually have to shut down soon after the opening of a big-box retailer. The larger stores can offer better prices and a larger variety of goods. This effect of expulsion of the smaller stores by larger retailers is called Wal-Mart effect or Wal-Mart phenomenon. It is dubbed by many sources because Wal-Mart is one of the best known retailers (Walser and Anderlik, 2010).
In the latest paper (Stone and Artz, 2012), Stone together with Artz evaluated the development of 68 towns hosting Wal-Mart compared to benchmark cities over the full possible range of 25 years. The cities were carefully chosen by a list of strict requirements, and the authors analyzed different categories of sales, population, and income. They conclude that Wal-Mart openings have only relatively minor impact on the hosting towns. While the immediate impact is generally positive, the the post-entry trend tends to be negative. In other words, the strongest effect is visible in the first (typically three to five) years after Wal-Mart came to town (cf. Figures 4 and 5 in Stone and Artz, 2012). With respect to cannibalization effects the authors refer to a study by Ingraham, Singer and Thibodeau (2005) that shows that retailers cannibalize up to 34% of their revenues from other businesses in town and nearby communities.

To conclude, the appearance of a competitor like Wal-Mart can benefit rural consumers by offering greater convenience, variety, and lower prices, but on the cost of existing business. For example, towns in Iowa lost up to 47% of their retail trade in 10 years after a retailer entered the city (Stone, 1997). Stone and Artz (2012) recommend that Wal-Mart should be encouraged to build shops also in these close-by and smaller communities, bringing them tax revenues. Also, they recommend to share tax revenues between host towns and the smaller communities (Stone and Artz, 2012). In the following section, the Wal-Mart Phenomenon will be discussed in a broader context. Specifically, its dependency on the size of the towns, the size of the geographic market, and the existing business structure in the towns.

3. The Wal-Mart Phenomenon Revised

The Wal-Mart phenomenon does not only arise in small or medium-sized towns. Ingraham, Singer and Thibodeau (2005) show that even in big cities the impact of large retailers is noticeable. They estimated that for every new dollar of retail sales within a 25-kilometer radius of an existing center, 34 cents are taken from existing businesses. Thus, some of the big-box retailer's revenues are always gained on the cost of these existing businesses. The authors also argue that the increase of consumption in the town hosting the retailer is not based on an increase of
population and income but is taken from close-by towns. That means that cities compete against each other and the win of one city is the loss of others (Ingraham, Singer and Thibodeau, 2005).

Another important factor is size of the geographic market: The larger the market, the stronger will be the cannibalization effects (Ingraham, Singer and Thibodeau, 2005). Because the density of IKEA stores in Sweden is not as high as that of Wal-Mart in the USA, the cannibalization effects in Sweden should be stronger.

Finally, the cannibalization effects are not uniform with respect to all retailers in a city. For example, in Iowa, stores with a different product range than Wal-Mart tended to increase their sales because they benefited from shopping tourism as a result of the new retailer in town. Stores with the same product range experienced the opposite; they usually lose sales because they were not able to compete with such a strong retailer (Stone, 1988). This was also demonstrated in Maine (Artz and Stone, 2006) and Mississippi (Myles et al 2002). Generally, four small stores with the same variety of goods close within five years after Wal-Mart comes to town (Basker, 2005, 2007). Even if these businesses will not have to close down they will lose a significant amount in revenues. Only when the existing retailers adapt to the new market by changing their product catalogue or offering more services they are able to cut their losses (Basker, 2005; Basker, 2007). On a national range, it was estimated that probably more than 50% of the small discount retail closures in the United States are triggered by Wal-Mart expansions (Jia, 2008).

The next section will discuss different types of large investments and their potential impacts on economy in a region.

**4. Impact of Large Investments**

This section is about the theory of the impacts of large investments. There are different approaches on this topic and a variety of theories. No general theory for the impact of investments is defined yet. This section is about the impacts of investments in general and which changes they might bring. Findings of different authors will be presented.
4.1 Investments

Investments can come in many shapes and sizes. Typically, they will make a market for specific goods and services from existing local businesses, for example, when a new building is constructed (e.g., a new power plant or a bridge). By this, the investment will not only impact a towns’ finances, but also show spillover effects to a wider area. The size of these effects depends on the stage of development of that area. The more the regional economic structure is developed, the more goods and services can be delivered and the more is the area positively impacted by the new investment. Furthermore, most large investments will continue to influence the economical development of their area beyond the initial construction phase. The ongoing operation of the newly built investment can create new jobs and redefine the economical structure of the area (Lindgren et al, 2007). The strength of all of these impacts depends on the size of the investment. Thus, regions in a downward trend, visible in decreasing population and employment, might be in a need for a major investment to not get caught in that negative trend.

The possible outcomes of such a general investment scenario were simulated in a study by Lindgren et al (2007), using spatial micro simulation techniques. The starting point was the question how a nuclear waste repository would impact a certain region. It turned out that in every simulated investment scenario the estimated outcome for this example was positive; all of them led to an improvement of the economical and demographic development. However, only some of the predicted scenarios were supposed to bring sustainable change. In some cases the estimated effect was even smaller than the error margin. The authors concluded that the planned investment scenarios mostly could not reverse the downward trend of a region. The largest positive impact was typically observed in the first years after the appearance of the new investment and the most pronounced impact was based on the setup of its infrastructure. The latter strongly increased the accessibility of the region. This was mirrored by the fact that in terms of demographic and economical changes, road projects had the most impact. They not only created a benefit for the region close to the investment, but also connecting that area to the rest of the country and improving commuting and immigration (Lindgren et al, 2007).

This links the direct effects of investment to its indirect effects. For example, people from the region will spend their money close to the investment, thereby
decreasing local unemployment rates. This in turn generates purchasing power and strengthens the local economy. However, the magnitude of these spin-off effects diminishes after time (Lindgren, 1997). Again, this implies that the impact of an investment is best seen shortly after it was made.

Investments do also affect the labor market in more general terms, not only in their field of operation but potentially also by affecting many other occupations. The changes on the labor market are explained by its coupling with the closure of major working places (Lindgren, 1997): When cannibalization effects lead to the closure of other (small) discount retails, jobs will be lost.

Lindgren (1997) writes that researchers have shown that the higher the technological demand and the more complicated the manufacturing of the product of the investment is, the smaller the positive impact will be in the region. The impact of investments is connected to the historical economical setting of the region and to the composition of the investment; for example investments in infrastructure will have profoundly different impacts than investments in retailing (Lindgren, 1997).

4.2 Areas of Investment

This demonstrates a fundamental fact: As important as the investment itself is the region where it takes place. For a long time, regions as a research topic were neglected in favor of an emphasis on macroeconomic considerations. Nowadays, they are described as essential for the development process and are an important field of research. Regional policy-making tends to create highly developed-core regions and underdeveloped, dependent peripheral regions (Scott and Storper, 1990). In terms of investments, a large investment might thus lead to a rich core region and poorer peripheral regions that suffer from the competitive pressure.

Another aspect of regional development is the inter-urban competition. This competition shapes outcome of investment impacts and generates macroeconomic consequences (Harvey, 1989). Therefore, it is important to investigate the whole region in which a major investment takes place and not only the city itself. As a result, this work will not only concentrate on the host cities and comparable cities, but will also examine the development of a near-by town.

Regions that host a certain kind of industry tend to be more innovative in that particular industry. The knowledge will spill over between similar companies. This
allows diversified production structures and lead to a more productive industry. On the other hand, fierce local competition within an industry negatively affects innovative capacity and productivity in that particular industry (Panne, 2004). For that reason, a community should carefully consider the kind of investment they would like to have in their town. This means that Swedish officials should consider which kind of investment they would like to take place in their city. Different investments lead to different developments.

The following questions that needed to be answered in this work are:

1. Does IKEA change the development of a region by entering the local market; for example by cannibalization effects?
2. Which socio-economic indicators are most affected?
3. Is this kind of investment mostly positive or negative for the development of a medium-sized town?
4. In which time range is the impact most visible?
5. Does the investment bring a sustainable change to the community?

5. Retail in Sweden

Sweden is the third largest country in Western Europe. It is populated by 9.6 million people and the government has its seat in Stockholm (Swedish Government, 2013). Some well known brands and chains from Sweden are, for example, Volvo, IKEA, H&M, and Electrolux.

The number of new retail accommodations in Sweden was decreased by the recession in 2009. But in the course of the next years, new shopping center space is planned to be created in Sweden’s three biggest city regions; Stockholm, Göteborg, and Malmö. Sweden is among the countries with the highest amount of shopping center space per capita in Europe. Approximately 5% of the employed persons in Sweden work in retail (HUI Research, 2013). The weakened economic and retail environment requires a good performance from the shopping centers in next few years. This means that the retail market needs to evolve and adapt to current
lifestyles, socio-economic conditions and handle increased competition (Jones Lang LaSalle, 2011).

Sweden’s retailer selection has become more and more international, for example Hollister from the USA and Desigual from Spain opened stores in Sweden. Recently the Norwegian brand XXL Sport and the French brand Decathlon’s opened their first stores. Also, Germany’s Media Markt entered the Swedish market with a low-price policy and a larger product range. While the arrival of new retailers has improved the options of the consumer, it has also increased the competition between retailers. In summer 2011, Swedish electronic goods chain OnOff was forced to close its stores. This development in the electronics goods sector is likely to be seen in the retail sector in Umeå as well (Jones Lang LaSalle, 2011).

The volumes of retail property investment transactions in Sweden have dramatically increased since the recession of 2009. Retail transaction investment volumes in the first quarter of 2011 were more than twice as large in 2009. Compared to the rest of Europe, Sweden recorded the third-most retail investment transactions in the first quarter of 2011, only exceeded by the United Kingdom and Germany. This also attracted international purchasers: Their share of transactions more than doubled from 2010 to 2011. The largest transaction, by far, in the first half of 2011 featured both an international brand (Unibail Rodamco) and an international purchaser (Grosvenor Bouwinvest REIM). These transactions are based on the construction of a shopping center in the Stockholm region, and an ICA Maxi in Helsingborg (Jones Lang LaSalle, 2011).

The transaction volumes increased since 2009, but retail yielded. It shrunk from 6.5% to 5.5% for prime external shopping centers and from 6.75% to 6.0% for prime retail warehouses. This means that even if the retail growth is beginning to slow down, Sweden is still in a better position than most other European countries. The macro-economy and retail turnover are both growing. Moreover, Sweden features an intense competition among the retailers and within the retailer property market (Jones Lang LaSalle, 2011).

The next section is about the importance of retail for Sweden and how the choice of location of large retailers works there.
6. Importance of Retail for Sweden

Sweden is a good example when investigating the impact of large retailers in medium-sized cities. This is because Swedish IKEA is a big-box retailer, which is also expanding in smaller communities. As mentioned in Stone and Artz’ (2012) paper, the potential impacts should be more visible in smaller towns and their surrounding regions. These effects are expected to be prominent in the first years after the entry of IKEA into the local market. Therefore, the focus is placed on small congregations in the respective time range of three to five years. This particular area of research, is of immediate public interest, because Swedish policy-makers and city officials are typically convinced of the strong positive effect that IKEA will have for their city (Hrelja, Isaksson and Richardson, 2012).

A Swedish study states (Hrelja, Isaksson and Richardson, 2012) that small and medium-sized Swedish cities are very eager to become a regional economic center. In order to accomplish this goal, they also try to get an IKEA store into their town. IKEA’s expansion strategy is amongst others indexes based on the trade index (Paulsson, 2013). This index should quantify how many people from the surrounding region are attracted to shops in a specific city and is used as an indicator for the quantity of customers and revenue IKEA can expect. With respect to the trade index, every town in Sweden competes against all other towns (Hrelja, Isaksson and Richardson, 2012). City planners and politicians are trying to bring their city in the best possible position in terms of the trade index (Kåpe, 1999). It is assumed that big-box retailers are offering great chances for the cities. They are supposed to bring money and new customers to the town, attract other businesses and create new jobs (Neergaard, 2006).

The structure of the Swedish planning system (which is decentralized and flexible) and the will of the officials to increase the power of their cities to compete are the main reasons why big-box retailing is increasing in Sweden. This happens without a lot of complaint, compared to other countries (Boverket, 2006). For the last two decades Swedish municipalities were free to decide and develop their own land-use plans, not regulated by regional or national authorities. This is a really important feature in Swedish spatial planning (Bjarnadóttir, 2008).

Communities have two different major instruments to regulate their spatial planning, the plans for the long-term development of the city (MCP - Municipal
Comprehensive Plan) and the local development plans (LDP). Both of these plans allow for creating a consensus for the different interest groups in the city, following the national plans, and environmental responsibilities. The MCP is not legally-binding and has only guideline functions. On the other hand, the LDP is a detailed and project-orientated plan. Once it is made, it is legally binding and maps the planned development in the whole municipality. This includes sites for new houses, industries, retail areas, roads, and other facilities.

The LDP regulates what kind of buildings can be built in certain areas within the municipality borders (Hrelja, Isaksson and Richardson, 2012). Mostly, the municipalities are not concentrating on sustainable slow growing development. They use these plans to create conditions for fast changing and flexible decision making (Emmelin and Lerman, 2006). A lot of people seem to accept this kind of city development, thinking that the need of commercial interests in development is an important factor in making the city fit for global competition.

Studies show that private developers and commercial interests have a strong and still increasing influence on the responsible persons in the municipalities. The private sector is strongly connected to the local authorities, and therefore, has a strong position in the planning process (Cars and Thune Hedström, 2006).

This kind of network or collaboration is also visible in Umeå. The commissioner for business development for the city of Umeå is Anders Kjellander. Besides other private companies, he worked as the Establishment Manager North for ICA\textsuperscript{3}. Today he is the main advisor for economical development for politicians in Umeå. The data on which he bases his decisions on are produced by Svensk Handel; a trade organization partly owned by ICA and IKEA (Kjellander, 2013). A book recently published suggests that the economical outcomes for a city of an IKEA store are uncertain to say the best (Forskningsrådet Formas, 2012). However, the book does not describe the results in detail. Nevertheless local politicians and officials have a strong belief that IKEA will bring economic growth, decrease unemployment rates and attract new investments (Sjöström, 2013).

One goal of this thesis is to find out whether the actual impact of investments such as IKEA is as strong and positive as is generally believed.

\textsuperscript{3} ICA AB is a retailing corporate group and the largest retail company in the Nordic countries. 60\% of the group are hold by the Dutch Ahold Group and 40\% by the Swedish ICA Gruppen.
7. Introduction to IKEA

IKEA is an international retailer for home products, flat pack furniture, accessories, and kitchen and bathroom items, and is still privately owned. Nowadays, IKEA is the world’s largest furniture retailer and was named the International Retailer of the year in 2012 (Bloomberg News, 2011, About Retail Industry, 2012). IKEA finally overtook Apple, which has been the holder of this title the past few years (About Retail Industry, 2012).

IKEA was founded in Sweden in 1943 by Ingvar Kamprad. The name of the company is an acronym comprising the initials of the founder's first and last name, the farm where he was raised (Elmtaryd) and his home parish (Agunnaryd, in Småland, South Sweden). Kamprad has transferred the vast majority of his assets to his philanthropic foundations, but his fortune is still estimated at 19.5 billion SEK (Forbes, 2012a).

Today IKEA is controlled by the Kamprad family through two companies owned by two different foundations. The companies are Inter IKEA Systems B.V. and IKEA Group. By this, Kamprad gave up the ownership of IKEA, but has still kept influence in the company.

Inter IKEA Systems B.V., owned by Inter IKEA Holding S.A., which is based in Luxembourg, has the rights for the IKEA concept, franchise and trademarks. For this reason it is holding all franchising agreements with most IKEA stores in the world. Inter IKEA Systems is responsible for the protection of the brand and the development of the IKEA concept. IKEA Holding S.A. is owned by the

![IKEA's Concern Structure](Modified after Wikipedia, 2013)
Interogo Foundation. This foundation is led by the Kamprad family and administrated by an external foundation board. It has its seat in Liechtenstein and is considered as a corporate foundation. This foundation exists to ensure that the company invests in expansion of the business and to ensure longevity. The money from the foundation is earmarked. It can only be spent to financially help IKEA retailers, the IKEA Group or for charity reasons (IKEA Group, 2011).

The IKEA Group is owned by INGKA Holding B.V. The INGKA Holding B.V. is located in the Netherlands and is the parent company for all IKEA Group companies. These are Swedwood, which is responsible for the ordering of the furniture from different outsourced manufacturers, IKEA Stores, which is the company that is responsible for the shops itself and IKEA of Sweden, which makes the design and the product development of all IKEA products (Puri et al, 2010). IKEA Group is the biggest franchisee of the Inter IKEA Group, controlling 207 stores. IKEA Group is also responsible for product development and the supply chain. INGKA Holding BV is owned by the Stichting INGKA Foundation, which is also based in the Netherlands (IKEA Group, 2011). The structure of the whole company with all foundations and holdings is shown in Figure 1: IKEA’s Concern Structure (Modified after Wikipedia, 2013).

The Kamprad family owns the foundation that is responsible for franchise and trademark, where almost all IKEA stores have a franchisee contract. Kamprad said in an interview that the structure of his company would be necessary because the Swedish tax system would not be convenient for people with a lot of money and income (IKEA Group, 2011).

Today IKEA operates in 41 countries, but derives 70% of its annual sales in Europe, where it has 208 of its 301 existing stores; plus 30 franchised units. The total global sales of the company in 2011 were 212 billion SEK. It sells approximately 9,500 different products and the stores had more than 690 million visits last year. Currently around 139.000 people are working for the IKEA Group, almost 100.000 of them in Europe (Forbes, 2012c). IKEA purchases its products in over 50 countries and sell them in 26 countries in four continents. Over 2.000 first tier suppliers cover the demand of the 301 existing stores (Baraldi, 2003).

This makes IKEA the number 43 in the Forbes list of the World’s Most Powerful Brands. The brand value is estimated at 72 billion SEK (Forbes, 2012b).
Furthermore IKEA tries to establish an eco friendly and sustainable image. In 2012, 91% of the materials used in their products were renewable, recyclable or recycled. 34% of their total energy consumption was generated by renewable energy and they invested in 126 wind turbines in six countries (IKEA Group, 2012).

IKEA has a total of 17 stores in Sweden. Most of them opened about 30 years ago. The first IKEA store was built in Älmhult and is still running (IKEA Group, 2013a). Recently IKEA opened stores in Haparanda, Kalmar and Karlstad. A new store is planned in Umeå as suggested by the announcement of Ikano Retail Centres.

Ikano Retail Centres is an independent company still owned by the Kamprad family (Ikano Retail Centres, 2013a). It is a company in the Ikano Group, which has its seat in Luxembourg. Ikano Retail Centres is specialized in following IKEA and developing malls around the new IKEA locations. Ikano and IKEA are not formally tied by any contracts. Their mall, Birsta, in Sundsvall was named Sweden’s most popular shopping centre in 2011 (Ikano Retail Centres, 2013a). It is therefore common to think of IKEA and Ikano as interlinked, as they are often established right next to each other (Isaksson and Storbjörk, 2012).

Ikano states that they will open a mall next to an IKEA in Umeå. The planned date of opening is spring 2015. They estimated a catchment area of 350,000 people and expect five million customers a year. Svensk Handel’s documents state that the size of the new IKEA will be about 35,000m² (Sandemo, 2013) and will have space for 90 different retailers. 3,600 parking places are planned to give the customers coming from the E4 or E12 an opportunity to park their car (Ikano Retail Centres, 2013b). They ensure that IKEA will be next to them. The only information they give about the new IKEA is that it will be a “standard size store”. The city of Umeå already signed contracts with IKEA and is certain that a store will be built there in near future.

8. IKEA’s Expansion Strategy

When planning to open an IKEA store in a Swedish town the company has a very strong position in the negotiations with the municipalities. For example, in Borlänge and Västerås, IKEA asked the towns to conform to a number of requirements,
including enough land, a proper location, accessibility by road and a certain road capacity (Hrelja, Isaksson and Richardson, 2012).

Both cities saw a great opportunity for development by the local opening an IKEA store (cf. Hrelja, Isaksson and Richardson, 2012). In Borlänge every political party agreed on the opening of an IKEA store, although their political ends with respect to sustainability and urban development did not always fit well with the impact of a store that size. An anonymous Left Party politician in Borlänge said: “We will betray our ideological beliefs if we say yes to IKEA and we will be regarded as being opposed to business development if we say no”. Civil servants and politicians started planning preconditions for development, providing road infrastructure and negotiating the planning process for IKEA. For example, they negotiated with the Swedish transport authorities to improve the road infrastructure. The same situation was found in Västerås. There was no opposition against the plans of IKEA. In contrast, officials in Västerås attended to not be too demanding. They were afraid that IKEA might decide to go to another town; a risk that they were not ready to take. This was demonstrated by an interview, Hrelja et al (2012) performed with the assistant head of the planning office. He said that the superior goal was to keep IKEA, based on the assumption that the store would attract commerce and would have a generally positive effect on the city. He estimated that IKEA would have an circle of influence of at least 100 kilometers around the city. Even the former city ecologist in Västerås stated that no municipality in Sweden would say no to IKEA. The supposed positive impact on outcome variables like tax base and shopping tourism overrides many other concerns (Hrelja, Isaksson and Richardson, 2012).

To conclude, officials in Swedish municipalities do not necessarily act reasonable when it comes to the opening of an IKEA store in their city. They try all they can to make it as easy as possible for IKEA to settle in their town. This is despite the fact that it is also important to keep the competition between different companies. If the public sector is interfering by favoring one chain over another, the competition becomes bias. This might result in a greater economical disparity than in the time preceding the investment. Also, the communities around the host town of the new

4 Interestingly, in Umeå the Green Party asks for studies to get an idea of the impact of the upcoming IKEA store (Umeå kommun, 2012c).
investment will suffer and the net result for the region may be negative (Stallman and Ball, 2002). The community’s point of view is, however, comprehensible. Public officials normally do not think about the development of other cities around them. Their usual assumption is that as long as the tax revenue of a new project is higher than the investment in that project, the city is obliged to provide certain incentives (Buss, 2001).

The interview with the award winning city planner Staffan Sjöström in Umeå showed the same behavior as that of city officials in Borlänge and Västerås (Svenska Projekt Akademien, 2005). Sjöström said that they have worked hard the past 25 years to get IKEA to Umeå (Sandemo, 2013). In the beginning of the planning process, it was discussed whether IKEA could settle a warehouse in one of the existing retail areas in Umeå. IKEA declined, and demanded an area of their own and enough space for their store and an Ikano center. The city of Umeå bought the land that was demanded by IKEA, built streets to the area and provided the residents with view and noise protection. The cities officials tried everything to make Umeå an interesting and worthwhile investment for IKEA (Umeå kommun, 2012c).

9. Research Questions

In this section, we sum up the thesis' major research questions and the method that will be used to answer them.

The thesis was conducted to answer five questions: Does IKEA change the development of a region by entering the local market; for example by cannibalization effects? Which socio-economic indicators are most affected? Is this kind of investment mostly positive or negative for the development of a medium-sized town? In which time range is the impact most visible? Does the investment bring a sustainable change to the community?

These questions will be addressed by using a method previously applied by Stone and Artz’ (2012). The development of income, unemployment rate, population, trade index and retail sales of IKEA hosting towns will be compared to the development of cities of the same size and to the Swedish mean. Also, the
development of cities close to the host cities will be looked at to measure the impact of an IKEA opening on the surrounding region.

The thesis has an immediate relevance for Umeå, due to the expected opening of an IKEA store within the next years. Interviews with city officials were conducted to get first-hand information on their expectations and motivation behind getting an IKEA store into their city. The observations from the hosting cities will be used to predict changes that are expected in Umeå.

10. Definitions

This research is about the effect of large retailers on small or medium-sized cities. In order to get a better understanding of the topic the terms medium-sized city and large retailer should be explained.

10.1 Defining a Medium-Sized City

The definition of a medium-sized city might differ in the classification of population and in functional aspects (Kunzmann, 2009; Fulton, 2013; European Foundation, 1998).

Regio Data, a company specialized in regional economic data for Europe, states that the population of a medium-sized city is dependent on the size of the country where it is located. In Europe, a medium-sized city has between 20,000 and 100,000 inhabitants. Regio Data also claims that the population is not the only factor; administrative, economic and cultural significance, infrastructure and availability of educational institutions and recreational facilities are important as well (Regio Data, 2013). Regio Data defines medium-sized cities at the European level.

A city in Sweden is considered as medium-sized if it has a population between 50,000 and 300,000 inhabitants. If it has less than 50,000, the city is considered to be small (Wiberg, 1993). Factors besides the actual size of the city are not important for this thesis, because the role of the city in the region should not have an impact on the investigated socio-economic factors. However, it is important that the cities are comparable in size and can be defined as small or medium-sized on a Swedish scale.
As mentioned above, a medium-sized city can vary in size dependent on the region and the functionality is important for the definition. Since the chosen cities all lie in Sweden, Wiberg’s scale of medium-sized cities applies.

10.2 Defining a Large Retailer

Retailers are stores that are usually stocked with a variety of merchandise. For example basic need products, such as groceries, clothing, tools or furniture. Also they are usually a part of a chain (The Free Dictionary, 2013). Retail stores are called large or big-box retailers if they exceed a certain size, typically 4,500m². They are located in suburban areas and can offer lower prices than their competition due to the large scale and attraction of a larger number of people (Business Dictionary, 2013).

IKEA, Wal-Mart and Best Buy are examples of big-box retailers (Investopedia, 2013). The three biggest retail chains in the world in 2011 come from the USA, France and Germany. Wal-Mart is the number one of retailing in the world, where France’s Carrefour and Germany’s Metro AG are number two and three. In this ranking the IKEA Group is number 30 in the world.

11. Research Methodology

This thesis focuses on the impact of a large retailer on the development of medium-sized cities in Sweden, following the line of research by Stone in the USA (Stone, 1988, 1997; Stone and Artz, 2012). Stone worked on the impact of a retail chain in a state with almost the same population density as Sweden (i.e., with the same level of rurality), which makes his research method especially useful. Iowa has a population density of 21.2 per km² and Sweden of 20.6 per km² (Peters, 2011; Swedish Institute, 2011).

The cities of interest in this thesis were carefully chosen in order to be comparable to the cities in Stone’s studies. First, with respect to their size, and

5 The name is derived from the appearance of the shops that usually have a plain design, looking like a huge box.
second, with respect to their recent experience of a large retailer opening (here: IKEA). According to Stone's method, the economical development of these cities was compared to benchmark cities. These benchmark cities had about the same size as the host cities.

Because Wal-Mart sells a variety of products, and normally not furniture, it was ensured that the IKEA stores of the chosen cities were located within a larger retailing area (e.g., within immediate neighborhood of an Ikano centre or a shopping area with a similar size). By doing this, the potentially different impacts of a furniture store (i.e., IKEA) and a grocery-focused retailer (i.e., Wal-Mart) can be disregarded.

Note that the latest study by Stone and Artz (2012), focused on cities with a population of less than 20,000 inhabitants. The authors wanted to know what happens after the opening of a normal-sized supermarket. Therefore, this study is not necessarily comparable to the present thesis where the impact of a big-box retailing center will be reviewed.

The present thesis also wants to investigate potential cannibalization effects (Ingraham, Singer and Thibodeau, 2005). As detailed before, at least some of the increased revenue from a new retailer or shopping center is coming from the surrounding communities. To identify these effects, the variables of interest will not only be compared for hosting cities and benchmark cities far away from them, but also for hosting cities and benchmark cities close to the city with a new IKEA store. Cannibalization effects should show negative trends in the economical development of these close-by communities. All the distances between host towns, existing IKEA stores and reference towns are measured by using Google Maps.

In addition, interviews were conducted to find out what the municipality officials and private companies in Umeå expect from the opening of the IKEA store. They were asked about their beliefs on the outcomes, their knowledge of research on this topic, and about their beliefs on how the new store will impact the existing store variety in Umeå (i.e., cannibalization effects). This was important to see how the municipality officials communicate with IKEA and how the whole process works.

11.1 Cities of Interest

Sweden currently has 17 IKEA stores (IKEA Group, 2013b). Three of them are fulfilling the requirements mentioned above. The latest openings, besides in the
chosen cities, are: 2004 in Göteborg Bäckebol, 1993 in Stockholm and 1991 in Örebro. The IKEA stores in Kalmar and Haparanda opened in 2006, and Karlstad got a store in 2007. In Kalmar and Haparanda the IKEA stores have an Ikano shopping center close by, and in Karlstad there is a shopping area close to IKEA. The cities are medium-sized: Haparanda is the smallest with around 10,000, Kalmar has around 36,000, and Karlstad around 61,000 inhabitants. It is important to mention that Haparanda is located at the border to Finland. Haparanda is partner city to Tornio which is located right behind the border. This increases the population affected by the opening to 32,000.

The chosen cities are larger than the cities in Stone and Artz’ (2012) paper, but as mentioned before, a retailing area with the size of IKEA combined with an Ikano mall should have a stronger impact on the communities compared to the markets investigated by
In the process of choosing benchmark towns, Ronneby was chosen for Haparanda, Växjö for Karlstad and Falun for Kalmar. Ronneby has 12,000, Växjö has 61,000, and Falun has 37,000 inhabitants. The locations of the cities in Sweden are shown Figure 2. All of them lie in the southern half of Sweden.

The closest IKEA is 62 km from Växjö, 90 km from Falun, and 110 km from Ronneby. The distance between every host and reference city is more than 375 km in each case.

This implies that the distance to an existing IKEA is considerably shorter than to one of the newly opened stores. Thus, it is very unlikely that the economical development in the benchmark cities is influenced by the opening of one of the IKEA stores. Indeed, you would need more than four hours by car to reach it (Google, 2013).

To find out whether cannibalization effects occur, a second set of reference cities was chosen. They are close to the host cities and far away from already existing stores. The three cities are Kalix for Haparanda (50 km distance), Kristinehamn for Karlstad (42 km distance), and Nybro for Kalmar (30 km distance). In order to make the effect as clear as possible, the choice of smaller communities was necessary. If the benchmark towns would be too large the development could not reliably assigned to the IKEA openings. Kalix has 7,000, Kristinehamn 17,000 and Nybro 12,000 inhabitants.

11.2 Method

To compare the development of the host and the two benchmark cities different key variables are important. As in Stone’s studies (1988, 1997; Stone and Artz, 2012), the retail sales (divided into groceries and non-groceries), unemployment rates, population, and income will be compared for host and benchmark cities. The unemployment rate would reflect how the new store impacts the job market while the population will reflect if a city becomes a more attractive place to live when IKEA settles there. Also, the income might be influenced. A study by Dube, Lester and Eidlin (2007) suggests that the income could drop about 2% on a state level (see also
Basker, 2007). This effect might stem from the closure of better-paying small businesses and the overall low income strategy of the large retailers (Basker, 2007).

As described before, one of IKEA’s techniques to find a new location is to compare the trade indexes of possible host towns (Hrelja, Isaksson and Richardson, 2012). This index is provided by the HUI (Swedish Institute of Retail) and describes the retail strength of communities and how many people they attract to come shopping in their city. Specifically, the index divides the trade turnover generated by a city and the mean of the Swedish trade turnover multiplied by population of the city (Sandemo, 2013). The trade index is better explained using the example of Umeå.

The trade index in Umeå was 103 for groceries and 114 for other tradable goods in 2011 (Sandemo, 2011). In average, every person in Sweden buys products for daily needs (mostly groceries) for 30,800 SEK each year (2011). The total market in Umeå is 3,587,122,000 SEK (116,465 x 30,800 SEK). The total turnover was 3,696,000,000 SEK. If you put the turnover in relation to the total market you will get an index of 103. It works the same way for the index for the rest of retailing, called "sällanköpsvaror" (all other products besides food). In average, each person in Sweden buys these products for 29,656 SEK (2011). The total market in Umeå is 3,453,886,040 SEK (116,465 x 29,656 SEK). The total turnover is 3,937,000,000 SEK giving an index of 114 (Sandemo, 2013). The index is used to show how much turnover is produced by commuters, tourists and non-residents. The higher the index is, the more people from out of town are shopping.

Svensk Handel’s regional manager, Erik Sandemo, explains this method in his own words: “In this type of index we don’t calculate with exact figures of income index in each municipality. Neither do we calculate with demographic facts. So, in that perspective, it is no exact science but we use the same way every year so we get interesting comparison.” (Sandemo, 2013). Thus, the index should not be seen as a scientific method but rather as a simple and easy heuristic to compare the retail capacity of cities.

This index can also be looked at to measure the impact of an IKEA opening in a host city. The higher the difference between the trade indexes before and after the opening the higher the impact of IKEA was on a region. At the same time, the index is a good indicator for the strength of the regional effects. If it rises after an IKEA opening but the unemployment rates stays at the same level, this would indicate an
involvement of the neighboring towns: The inhabitants of these towns would come to the host city to shop there and to work there.

For a start, this thesis will focus on the identification of trends in economical development that are clearly visible in graphical displays of the relevant data. Only if the trends are ambiguous or very small, additional calculations will be made to test their significance.

The development of host and benchmark towns (i.e., the changes in the relevant variables) will be visualized by plotting the difference function between these towns as a function of time (i.e., the development of host and benchmark towns is always similar when the graphs are close to zero). The time will be given in years before and after the IKEA opening to illustrate the potential effect for all towns alike. Because the stores opened in two different years, the data from 2006 of Haparanda and Kalmar and the data from 2007 of Karlstad will appear as year 1; the year of the opening. The figures will show data collapsed across all three host (and respective benchmark) towns.

### 11.3 Data

The population data of the cities is taken from the Swedish Statistics website (www.scb.se). This website does not provide matching economical data on a municipality level. Therefore, unemployment rates, as well as the income and the retail data were retrieved from Arbetsförmedlingen (Employment Service) and the HUI. Unemployment rates were calculated from Arbetsförmedlingen’s data; trade index and retail sales were provided by HUI. Public officials of Umeå that were interviewed were also asked about additional sources of statistical information but could not provide any. The data of Ronneby and Haparanda are only available for the congregation as a whole, not for the cities only. Although Ronneby is about twice as big as Haparanda (20,000 versus 10,000 inhabitants), this does not have too big of an impact, since the latter has a large catchment area and is an important town in its region.

The HUI data set was only accessible from 2007 to 2011, only because of data protection regulations: The data from all years before 2007 are only available for companies. The limited data access only allowed for a comparison of benchmark and host towns until five to six years after the IKEA opening. However, because the
impact should be best visible within the first three to five years after the opening, the most important observations can still be made. Unemployment, income and population data will be compared in the course of 10 years before and six years after the opening.

11.4 Calculating the Variables of Interest

The unemployment rate was calculated by dividing the absolute number of people unemployed (in a program and not in a program) by the total population between 15 and 64 years.

The socio-economic factors unemployment rate, population and income are displayed as a function of time (in years) with respect to the IKEA opening. To calculate the difference in years weighted means of the values of two different years were used. The weighting was done by calculating the mean value of the year nine and ten from the opening. The means were necessary because the stores in the three cities opened in 2006 and 2007.

To analyze the development of the retail data provided by HUI over the course of the years following an IKEA opening, the respective values in the first year, 2007, were set to 100% (baseline). The development is then displayed as the relative changes (in %) compared to 2007. Note that this way of displaying the data might distort actual trends when the values in the year chosen as baseline would be unusually high or low. However, because the trade index and the retailing data are relatively stable variables, that typically follow steady trends (i.e., sudden changes in the course of one year are unlikely) this method can safely be applied.

12. Results

First of all, it is important to mention that the major financial crisis which hit Europe in summer 2007 affected Sweden as well. Sweden’s business activity support program started to take effect around 2009 (European Commission, 2009). This is reflected in several of the following figures as negative trends in the development of the economical variables until 2009, followed by a phase of stabilization. This is especially true for the unemployment rates.
Another point to be mentioned is the method used to show the development. The x-axis is not showing years, but the time span from the opening. It reaches from -10, ten years before the opening of IKEA, to +6, six years after opening of IKEA, excluding 0. Year 1 is the first year of hosting IKEA for all three host towns. This means that there is only a two year difference between -1 and 2. As mentioned before, the impact, according to the theory, should be best visible in the first three to five years after opening.

The figures also provide the national economical development of Sweden, calculated with respect to the IKEA openings (i.e., the mean values of the two opening years 2006 and 2007, spanning -10 to +6). The combined population of the host towns is around 100.000, making it very unlikely that this development is affected by the host towns.

The interviews with the public officials in Umeå are provided in detail in the appendix. All of them were convinced that the IKEA opening will be positive for the city, as expressed in the creation of new jobs, an increase in the city's trade turnover, and an increased attraction for other retailers. The interviews were especially interesting for the investigation of the collaboration of city officials and private persons (cf. 6) and for estimating the outcomes of the new IKEA store for the city of Umeå (cf. 13).

### 12.1 Unemployment

![Unemployment](image)

**Figure 3. Unemployment.** The vertical line shows the year of the opening of the IKEA store (Source: Arbetsförmedlingen, 2013).
To compare the host towns with the benchmark towns, difference functions were calculated (cf. 11.4). Note that since the host towns start out with relatively high unemployment rates, the development is more positive the closer the difference function approaches Zero. A positive development would imply that the recession did not hit the host towns as hard as the benchmark cities.

With respect to unemployment rates, the opening of an IKEA store does not have any visible impact on the host towns (Figure 3).

![Unemployment: Difference Functions](image)

**Figure 4. Unemployment: Difference Functions.** The vertical line shows the year of the opening of the IKEA store. The black line shows the overall trend of the unemployment difference (Source: Arbetsförmedlingen, 2013).

In the following, the results will be described for the various difference functions (Figure 4). “IKEA–Close” illustrates that the development of the unemployment rates becomes more similar after the IKEA opening. This indicates that the unemployment rate in the IKEA towns is rising slower compared to the neighboring towns after the drop in 2009. “IKEA–Same” illustrates that the unemployment rates in host and benchmark towns in the years before the opening are converging. However, after the opening there is a plateau of 4 years in which the difference is not further decreasing. If you compare the national unemployment rate with that of the host towns (“IKEA–Sweden”), you can see that the cities do not show a lower unemployment rate as a result of the opening. Finally, the difference between the developments of the two kinds of benchmark towns is not remarkable. The values
are more or less clustered around 1%. This implies that the cities close to a town hosting an IKEA do not benefit from the new working opportunity.

The overall trend of decreasing unemployment rates and the equalization of unemployment rates even before the opening of IKEA is an indicator for the relatively small impact IKEA has on unemployment rates.

12.2 Population

This section will focus on changes in population.

The opening of an IKEA does not seem to have a strong impact on population (Figure 5). The changes are in a range of smaller than 0.5% after the opening. One noticeable effect, however, is that the population slightly increases in the host towns while it slightly decreases in the surrounding cities. This might indicate a minor migration effect. A commuter’s analysis would be necessary to find out if the migrating population really settles in the host towns.

![Population Graph](Image)

**Figure 5. Population.** The vertical line shows the year of the opening of the IKEA store (Source: Statistics Sweden, 2013).
**Figure 6. Population.** The vertical line shows the year of the opening of the IKEA store. The black line shows the overall trend of the unemployment difference (Source: Statistics Sweden, 2013).

The difference functions for changes in population are displayed in Figure 6. Clearly, developments in population are not strongly influenced by the IKEA openings. All values are close to 0% and do never exceed 1%. In total numbers, the population changes do never exceed 500 people.

### 12.3 Income

**Figure 7: Income.** The vertical line shows the year of the opening of the IKEA store (Source: Statistics Sweden, 2013).
The income is another factor that might be influenced by the opening of a big-box retailer in the area. Figure 7 displays the income development before and after the IKEA opening.

**Income : Difference Functions**

Figure 8. Income: Difference Functions. The vertical line shows the year of the opening of the IKEA store. The black line shows the overall trend of the unemployment difference (Source: Statistics Sweden, 2013).

At first glance, it seems like IKEA raised the income in the host towns immediately after the opening. However, when comparing the development with the overall in Sweden and, more important, with the benchmark towns (Figure 8), it becomes evident that the early increase is a general trend and cannot be ascribed to the IKEA openings.
12.4 Retail Sales

![Retail Sales - IKEA Towns](image)

**Figure 9: Retail Sales - IKEA Towns.** The dotted line shows the mean sales of groceries and non-groceries on a Swedish level (Source: HUI Research, 2013).

The development of retail sales should be affected stronger by the IKEA openings than the indicators discussed before. The paper by Stone and Artz' (2012) shows that non-grocery retail sales in IKEA towns should considerably increase while those in groceries should stay on the same level. Figure 9 shows the development of retail sales for groceries and non-groceries in the years following the store opening. The values are displayed for years (not relative to the opening) so that the developments can be followed individually for the different cities. Note again that in Haparanda and Karlstad the IKEA opened in 2006 and in Karlstad in 2007.

As expected the retail sales increased immediately after IKEA opened a store, exceeding the Swedish mean. Haparanda showed by far the strongest impact. The strong increase of the retail sales can be partly explained by currency differences between Finland and Sweden (Karlsson and Österberg, 2009). Between August 2008 and August 2010 the Swedish crown lost more than 20% of its value compared to the Euro (European Central Bank, 2013).

Unexpectedly, Karlstad and Kalmar showed a stronger increase in groceries than in non-groceries. This effect might be triggered by shopping tourism, because people coming to town attracted by IKEA might also buy groceries.
When comparing the retail sales in the host towns to those in cities of the same size (Figure 10) and close-by cities (Figure 11), it is evident that the development of retail sales is mostly positive for all benchmark cities. Still, they are performing lower than the Swedish mean. The hosting towns are performing better than the Swedish mean. This implies that IKEA had a positive impact on the development of retail sales in communities; both groceries and non-groceries.

**Figure 10: Retail Sales - Same Size.** The dotted line shows the mean sales of groceries and non-groceries on a Swedish level (Source: HUI Research, 2013).

**Figure 11: Retail Sales - Close By.** The dotted line shows the mean sales of groceries and non-groceries on a Swedish level (Source: HUI Research, 2013).
When comparing Figures 10 and 11, it becomes clear that this effect is partly due to cannibalization effects. However, in total numbers, the effects are not very strong. This can be seen in the small difference between the development of the close-by communities and that of cities in the same size. Therefore, the effects are not very strong. To reliably estimate the magnitude of the cannibalization effect, a commuter’s analysis including all towns in the commuting area around the host city would be necessary.

**Figure 12: Combined Retail Sales.** The dotted line shows the mean sales of groceries and non-groceries on a Swedish level (Source: HUI Research, 2013).

Since the figures above are hard to compare, Figure 12 shows the combined retail sales for groceries and non-groceries for the different city types and the Swedish mean. As you can see in this figure, the IKEA hosting towns develop better than the benchmark cities.
12.5 Trade Index

Figure 13. Trade Index of Host Cities. The dotted line shows the Swedish trade index, due to its calculation method it is always 100. The blue dot indicates the opening year (Source: HUI Research, 2013).

Figure 13 displays the development of the trade index in the years after the IKEA’s opening in the host towns.

The trade index starts to increase about one year before IKEA comes to the towns and is increasing steadily in the following years (Figure 13). This indicates that the city’s sales in groceries and non-groceries increased even before the new store was opened. To evaluate this pattern it can be compared with the trade indexes of the cities of the same size (Figure 14) and the close-by cities (Figure 15).

The trade index of the cities of the same size as the host towns do not show a rapid increase in the years 2005 and 2006: The indexes remain stable over the years.
The cities that are close-by to the host towns show decreasing trade indexes after the IKEA openings. After a negative trend until 2004 the indexes stabilize, but start to drop again around 2006. This drop might be an indicator for a cannibalization effect.

In summary it can be said that population, unemployment and income were unchanged by an IKEA opening in the town of interest. When there is an impact on
these factors, it is too small to be visible. The development of all factors was not remarkably different from the development in the benchmark towns or the Swedish mean. However, the opening of an IKEA had strong effects on the trade indexes and retail sales numbers in the hosting towns.

13. Outcome for Umeå

As mentioned in the introduction, a possible outcome for Umeå will be presented. Based on the impacts on the other cities the estimated outcome is shown below. The predictions were derived from the interview material which you can find in the appendix

13.1 Introduction to Umeå

Umeå is one of the fastest growing cities in Sweden. The average age is 38 years and around 114,000 people are living there, where 36,000 of them are students. This explains the average income of 155,000 SEK, which is around 5000 SEK lower than the national average. The average salaries of the working population older than 35 is higher in Umeå than the Swedish mean.

Umeå has grown steadily over the past fifty years. The increase in population accelerated sharply after 1965. In the same year Umeå University was established. The availability of better education and the younger population were the main reasons for the rapid growth. The available housing doubled in the last 30 years and the city is building more than 700 new apartments per year (Umeå kommun, 2012b). It is actively trying to increase the population to 200,000 by 2050 (University of Umeå, 2001).

The former local government decided to create four different economic areas. These areas are Klockarbäcken in the west, Strömpilen in the south-east, Ersboda in the north and Entré Syd or Söderslätt, 4km south from the city center. Klockarbäcken is isolated from the city and has only a K-Rauta and a Media Markt; Strömpilen has an ICA Maxi store and 21 smaller stores on 22,000m², Ersboda is a large retail area with all kinds of shopping possibilities (e.g., the world’s largest Intersport); and the city center (Stadskärnen) has two large malls (Arrival Guides,
These four different areas are interesting for this thesis, because they will be affected by the opening of the new shopping center Ikano and the IKEA. It is planned to be opened in Söderslätt.

The municipality tries to increase the trade index by building an IKEA and an Ikano shopping center in the reserved shopping area close to the city center. Svensk Handel claims that this indicator for Umeå will climb to 111 for groceries and up to 160 for other goods (Sandemo, 2013).

13.2 Impacts on Umeå

Based on the findings of this thesis, it is possible to predict the changes that are to be expected in Umeå in the years following the opening of the new IKEA. Population, income and employment are not expected to change that much. Due to the assumption that jobs which are created by the new IKEA store will be lost in other stores from the same branch, the newly created jobs will not be visible in the statistics. Furthermore, not only people from Umeå will work in the store. It is expected that workers will come from the surrounding region as well. Also, the income will not change significantly. Even if IKEA pays less than the existing smaller retail stores this will have no larger effect on the whole municipality. Population will continue to increase but this increase is hardly influenced by the opening of a single retailer: Umeå has been growing ever since the university was built in 1965.

On the other hand, the retail turnover and the related trade index will most probably increase. The observations made in this thesis showed that these variables changed positively in three other cities where IKEA markets were established (compared to carefully chosen benchmark towns). While the trade index increased considerably following the opening of an IKEA, the index of the surrounding communities continuously decreased. This cannibalization effect was not so articulate for retail turnover.

In summary, the IKEA will most likely do not have a major impact on Umeå with respect to the city’s structure. The most pronounced effects will be found on the surrounding region and the competition in the city. Customers from the surrounding communities will come to Umeå to shop there, leading to an increase in trade index and in total trade turnover. As a consequence, the competition between retailers will
increase. It is possible to assume that a lot of people will prefer a new shopping center close to the city center, increasing the pressure on existing shopping areas. Especially endangered are Klockarbäcken and Strömpilen, which do not offer the same variety of shops and are both out of town. Ersboda, on the other hand, is a well established larger shopping area and probably safe. In the city center it is most likely that a few stores with the same product range as IKEA will close and be replaced by other vendors. This predication was also given by the interviewees (see Appendix).

14. Discussion

The aims of this work were to find out if and what kind of impacts the opening of an IKEA store in Sweden has on small and medium-sized cities and the regions around it. The changes of the socio-economic factors unemployment, income and population were compared; also the development of retail sales and the trade index in the cities with a newly built IKEA and benchmark cities. There were no visible differences between the host and benchmark cities in regards of the socio-economic factors. Retail sales and trade index, however, strongly increased in the host towns. Since the close-by benchmark towns were not visibly influenced by the opening, cannibalization effects or impacts on the region could not be detected.

The predicted outcomes by Svensk Handel are confirmed by the calculations. As mentioned before, the basis for the predictions were derived from the interview material. Svensk Handel predicted rising employment (without stating where the workers will come from). Also, they predicted an increase in trade index and total retail, which was corroborated in the thesis.\(^6\) It is worth mentioning that the data used to create these figures are from Svensk Handel and the HUI. Therefore, it is not too surprising that the outcomes are according to their predictions.

The strongest effects were observed in retail sales and trade index in Haparanda after IKEA’s opening. One possible explanation is that Haparanda is the smallest of the three hosting towns and had the weakest economy before the IKEA opening. Thus, the impact itself might be stronger, but, also the observation errors

---

\(^6\) Note that both variables are based on the same economical values so that their correlation was to be expected.
due to other economical activities were most probably the lowest. Also, Haparanda’s IKEA was opened for a catchment with at least 400,000 people, while Kalmar’s shop has an estimated catchment area of only 250,000 people (Ikano Retail Centres, 2013c, d). This implies that the impact might also be higher because of the larger number of customers. In the following, we will shortly discuss limitations of the thesis and name future research directions.

First, data from HUI was only available from 2007 to 2011. It would have been interesting to compare the economical development before and after the IKEA opening. This might be an interesting task for future investigations in this field. In addition, with more detailed data a more precise prediction of the outcomes might be provided. For example, tax revenues in such fine categories as municipality level might be used to estimate the actual gain for a hosting town. This paper does not explain why Swedish municipalities are working towards getting IKEA into their towns. Important sociological factors like employment, population and income seem not to increase. Although Staffan Sjöström said that only an investment as large as an IKEA attracts other investments and raise the status of the city, he could not quantify the actual revenue for the city. Future studies should try to calculate the total revenue for a city to estimate the net impact and determine other consequences of the store opening, for example for the environment, the reputation of a city, or the living standards.

Second, the statistics used in this work are not detailed enough to show micro effects. The Arbetsförmedlingschef, Per Anders Ruona, of Haparanda said that the unemployment in Haparanda did not decrease on the same level as new jobs are increasing, implying that probably workers are coming from the surrounding towns and communities (Ruona, 2013). This effect can only be measured by analyzing commuting around the IKEA towns and investigate how much the unemployment rate changed in the commuting area.

Relatedly, a line of research might focus on all kinds of impacts, not only economical changes (e.g., living quality, gain of prestige, tax revenue and commuting), providing a more complete picture of the changes in a town. In this research the question if IKEA brings a positive balance for the host city could not be cleared. The data for tax revenues for the increasing retail sales was not available. In addition, the costs of an IKEA for the city are unknown (Sjöström, 2013).
The costs and benefits for a city hosting an IKEA might be compared with those of other possible investments. For example, in a University or a cultural center. The outcomes might have been changes and more positive for the city. City officials should be certain about the changes they want to accomplish in their town and give incentive for investments that will bring these changes.

Finally, the observations might be re-evaluated by using statistics. This was not done because the data are clear and need no further statistical investigation on this level of abstraction.

15. Conclusion

In this thesis, the following questions regarding the opening of an IKEA in a town in rural Sweden were asked.

1. Does IKEA change the development of a region by entering the local market; for example by cannibalization effects?
2. Which socio-economic indicators are most affected?

The thesis showed that IKEA does not have a strong impact on population changes, income or the total unemployment rate. Figures 1, 3 and 5 indicate that the differences between the development of the host town, the reference towns and Sweden are barely visible. Even in the first three to five years, where the effect should have be the strongest, the development did not differ too much from that of the reference towns or the Swedish mean. Retail sales and trade index, however, increased after IKEA opened a market. A regional impact could not be derived due to limitations of the chosen method.

3. Is this kind of investment mostly positive or negative for the development of a medium-sized town?

The opening of an IKEA was mostly positive for the host towns and no clear negative effects were observed for the surrounding cities. Because a region probably benefits from the new store in terms of decreasing unemployment (Ruona, 2013), an approach considering the whole region might show an impact.

4. In which time range is the impact most visible?
The first years after the opening showed a strong increase in retail trade and the trade index. The other factors do not seem to be impacted at all.

5. Does the investment bring a sustainable change to the community?

Whether the changes induced by this kind of investment are sustainable is not clear. The time range was not long enough to see if the changes in retail sales and the trade index are permanent. According to earlier studies conducted in rural USA (Stone and Artz, 2012), most of the early impacts should disappear after a longer period of time. It is reasonable to assume that the same would happen in Sweden.

In summary, the expected economical outcome for a town where an IKEA is opening is positive: IKEA, at least, partly keeps its promises. For example, in Haparanda the trade increased drastically after the IKEA opened, and this probably stimulated the whole region. However, if data would have been available on a micro level, the relations between investments and regional changes could have been measured on a more elaborate level. The paper by Ingraham, Singer and Thibodeau (2005) strongly indicates that the gain of one community is the loss of another. These hypothesized cannibalization effects remain to be investigated for IKEA in Sweden.
References


Ingraham, A., Singer, H., and Thibodeau, T., 2005. Inter-City Competition for Retail Trade: Can Tax Increment Financing Generate Incremental Tax Receipts?.

41


**Online References**


Appendix

Three face-to-face interviews were taken to understand what the public officials from the Umeå municipality think about the opening of the new IKEA store and what their expectations are about the impact on the city and the region. Unfortunately it was not possible to talk to a person in charge of the new IKEA store in Umeå because, according to IKEA’s public relations office in Helsingborg, the store probably will not open until the next three years so that no store manager is available yet (Paulsson, 2013).

The first and most important interview was recorded with Staffan Sjöström, one of the city planners of Umeå. He works for the Umeå municipality in the fields of land development for living, retail and industry as well as urban design. He is specialized in the opening of the new IKEA store (Umeå kommun, 2012a). It was possible to meet him in his office and ask questions about the new IKEA settlement and his thoughts about that. Selected questions from the interview asked by the interviewer are given in italics. All persons agreed on the interviews' reprints in this thesis.

1. First Interview

Q1: *When will the new shop open in Umeå?*

Staffan: Don’t know yet. IKEA’s final decision is not made yet. But they paid 100 million SEK for the land, begun to plan the land use and started blueprints. Probably they will open in autumn 2014.

Q2: *Did the city apply for the IKEA store?*

Staffan: No, but the city is trying to have an IKEA for the last 25 years now. Municipality and IKEA are working together on this problem. Another problem can appear if IKEA does not come in the end. Because then further investments in the city will be absent. For the last 18 months no new investments were made in the city. All are waiting for the opening of the IKEA and the Ikano center. IKEA will come to the Umeå. IKEA bought the land. It may be that the opening is delayed. But they will come of course.
Q3: What impacts does the opening have on Umeå?

Staffan: A big message for all retailers. We hope that more retailers will be attracted by that signal and come here to settle down. Around 1000 new jobs will be created; summer jobs and good student jobs for all the students of the Umeå University. Of course some stores might close as well but most of them are very stable.

Q4: How much does it cost to get an IKEA to town?

Staffan: I do not know, but the city will not get rich by the opening of the new IKEA. The municipality has to build streets and so on. The balance of accounts will probably be zero or close to it. But the message for other retailers and the tax revenue of following investments will make the cut.

Q5: Do you have any researches on the expected economical outcomes of the opening?

Staffan: No, unfortunately not.

Since Staffan could not provide information about the expected economical outcome of the opening, Anders Kjellander and Erik Sandemo were interviewed. Anders Kjellander is a business developer in the economic development and promotion office in Umeå. He studied Economics at the Umeå University and recently worked for a large Swedish retail chain (ICA) as the establishment manager for the northern part of Sweden. Erik Sandemo is currently working for Svensk Handel, the Swedish Trade Federation, as regional director. It is the largest member organization within Swedish trade and industry. Large members of the union amongst others are IKEA and ICA (Svensk Handel, 2012). He is responsible for lobbying decision makers and providing advice and services.

The following interview was taken with Erik Sandemo at his office in the Svensk Handel building.

2. Second Interview

Q1: When will the shop open in Umeå?

Erik: Late 2014; probably in autumn. Some prospecting difficulties appeared. That will delay the opening a little bit.

Q2: What is the expected economical outcome of the opening?
(He showed a couple of slides he prepared for the municipality and retailers in Umeå and explained the numbers. He could not give any precise researches or references but said that he based this numbers on his life time experience as a person working in the retail business.)

Erik: 650 new jobs will be created in Umeå and 1.5 billion SEK more will be consumed. The whole retailing sector is increasing and people will buy more if you offer more. The spending capacity in Umeå will increase in Umeå from 1.270 million crowns to 2.879 million crowns in the year 2025. The trading index of Umeå will also increase drastically; from 105 to 111 in groceries and from 117 to 160 in non-groceries. The new IKEA and Ikano center has a lot to offer. The retailing will suffer mostly in Örnsköldvik and Skellefteå, cities of comparable size that are relatively close. Besides that shopping is the biggest part of tourism and this is one of the fastest growing industries today. Attractions are fine, but shopping is the biggest tourist attraction.

Q3: How do calculate the index and what does it mean?

The population in Umeå was 116.465 inhabitants the 31 December 2011. In average each person in Sweden buys daily products (mostly food) for SEK 30.800 per year (2011). The total market in Umeå will then be 116.465 x 30.800 = 3.587.122.000 SEK. The total turnover was 3.696.000.000 SEK. If you put the turnover in relation to the total market you will get an index of 103. You calculate in the same way with index for the rest of retailing, so called "sällanköpsvaror" (all other products except for food). In average each person in Sweden buys these products for SEK 29.656 (2011). The total market in Umeå will then be 116.465 x 29.656 = 3.453.886.040 SEK. The total turnover was SEK 3.937.000.000 which gives us an index of 114. The indicator shows the relation between the actual retail turnover and the estimated turnover. This allows the city planners to see how many people from outside the town come to shop in the city.

In this type of index we don't calculate with exact figures of income index in each municipality. Neither do we calculate with demographic facts. So, in that perspective it is no exact science but we use the same way every year so we get interesting comparison.

Q4: Why the investments in the city were stopped?

Erik: There is just not enough space. The new shopping mall is already sold out and new ground in Ersboda is not planned yet; the only region that has enough space
right now in Klockarbäcken. But this is not attractive enough for new investors. This region will probably be abandoned a couple of years after the opening of the new mall. It is planned to sell land in Ersboda to attract new investors in this area.

Q5: How will the city center and the other retail areas get affected by the new mall?

Erik: I strongly believe that the new mall will make the city center more competitive. The new shopping center is only 2km from the city center and a company is caring for the development of the center. In Helsingborg and Sundsvall the big shopping malls replaced the city center and made it unattractive for tourists and residents. The city center in Umeå is safe because of the variety of offers given there; restaurants, Hotels, coffee shops and culture houses. Strömpilen will suffer after the opening of the new mall. The only thing remaining there will be the System Bolaget and ICA Maxi. The smaller stores will probably close down. Maybe a new large retailer is coming instead of all the small stores.

Q6: Why is IKEA so reluctant to come to Umeå? Did they ever fail in a Swedish city?

Erik: I do not know, but yes IKEA failed once. They opened a shop Köping 1965. They had to close it down a couple of years later. The expected customers did not show up. So the IKEA store closed down in the same year as a store opened in the close by Örebro.

Erik added that it was not wise to develop four different shopping areas in Umeå. He said that it would have been better to develop one large area. But these errors were made by politicians, who had no idea of retailing, twenty years ago.

3. Third Interview

The last interview was taken with Anders Kjellander who works for the city of Umeå. Some of the answers given to the question above were redundant. For this reason only diverse questions will be listed below.

Q1: Do you have any researches on the expected economical outcomes of the opening?

Anders: No, but this summer we will measure how retail performs in the different retail areas in Umeå. This data will be used to compare the performance of the area before and after IKEA. In Sundsvall one large shopping mall was built outside of the city. This was not good for the city center and the city in general. It grew out of
control. I am not so confident any more that one big shopping would have been better for the city. The city center and the retailing in this area are really important for the city.

Q2: What do you expect that will happen?

Anders: The trade index in Umeå will increase from 114 to 150. That means that we will have a bright future. A lot of people from Örnskoldvik travel to Sundsvall and go shopping there. They will all come to Umeå when the new mall is built. Also customers from Vasa will come. New ferries were purchased for this reason.

Q3: Why IKEA will not fail in Umeå?

Anders: The city is constantly growing. Approximately 37,000 students are living in the area and have a need for all kinds of retail and nightlife. The city is a fast growing one; 1000 people are coming to Umeå per year. The people feel they are living in a growing and attractive city. That attract others to the city and the city will continuously grow.

4. Fourth Interview

The fourth interview was with the public relation office of IKEA Group in Helsingborg. Unfortunately they were not able to give the interview in person and were only available for a phone call. The interview was taken with Sara Paulsson.

Q1: Is it possible to talk the responsible person for the new IKEA in Umeå?

Sara: No, unfortunately not. The store will probably not open in the next three years. A store manager is not chosen yet.

Q2: What else can you tell me about the store in Umeå?

Sara: I am not allowed to give any information about the new store to the public yet. I am sorry.

Q3: How does IKEA find a new location for a store in Sweden?

Sara: It is complicated procedure. One part is includes the trade index of likely locations.

The conclusion of the interviews with the person in power of the municipality and the economical advisors of the politicians, make clear that they all look forward to new IKEA and the shopping mall. They were aware of the shifting in the retail sector but
they do not expect any major losses. The numbers Erik used to proof his point suggest a huge win for the region and the city when IKEA comes to Umeå.