

The Boy, His Mother and The Garden Project

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It's a Wednesday afternoon during my Summer exeat. The doorbell rings, and I open it to a delivery man with a package: it's the garden table. Unassembled, along with a barely legible instruction manual. Annoyed, we drag it into the garden, and my mum and I stare at it for a good minute, knowing the effort that comes with assembling it. Finally, my mum turns to me and says: "Let's make this a project...". A few months later, and every time I look at it, I am filled with pride: I did that. Why is it, that even though it took hours of hard work on a hot day, I still look at it with deep fondness? It's all down to the IKEA effect. The IKEA effect, according to Consumer Think is "a phenomenon in which consumers place a higher value on things they have helped to create". The company the effect is named after has used this knowledge to its advantage ever since its inception in 1983.

Ingvar Kamprad started IKEA, selling matches in his local neighbourhood, but soon he expanded into selling furniture. However, instead of selling run-of-the-mill premade tables and beds, Kamprad chose a different route; he decided to sell flat-pack versions of the furniture, along with an instruction guide. Whether it was intentional or not, it certainly worked and Kamprad has now built a \$23 Billion company.

But, why does the effect work? In some cases, the human brain benefits from reassurance that it's functioning properly. By building something like a coffee table, the brain gets the reassurance of competence that it craves. Furthermore, a factor of ego comes into play. When an idea pops into our mind, often we find ourselves becoming defensive when questioned. The reason for this is simple. The effort that goes into thinking about something comes with the self-justification that it holds the same weight as you value it.

So now, knowing what it is and why it works, let's take a look at other places where the IKEA effect is used. Take the example of 'Hello Fresh', a food preparation company that provides the buyer with the necessary ingredients and a recipe (much like IKEA's flatpack model). It is evident that it works what with the \$2.8 Billion valuation (according to Companies Market Cap). To me, companies like Hello Fresh have cracked the code when it comes to cutting costs. They sell their ingredients and recipe as an experience, inspiring families to come together and cook a meal. To their buyers, the £30 price tag for 2 meals is worth it, afterall, aren't memories priceless? In selling this story, companies like Hello Fresh can cut costs as they don't have to precook anything and hence skyrocket their margins per box.

The IKEA effect can also be used in other industries as well. Parents nowadays look for non-screen engagement for their children as our world sees too many addicted to gaming consoles and Netflix binge sessions. For this reason, companies such as Build-a-bear and LEGO have seen huge rises in popularity. Not only do children get to hone their creativity skills, but also get to make something they will cherish for years to come. For some, it's LEGO and for others, it's garden furniture, but whatever the chosen project, this business model can profit off of all ages and project genres.

The last and perhaps most popular instance of the IKEA effect would be personalisation. As stated before, the IKEA effect induces the buyer to feel proud of their work, and in some cases, position their own above others (cognitive bias). It is no wonder why businesses such as Etsy and brands like Nike and Edjvntge incorporate this into their business model. They advertise this as an opportunity for the customer to build a one-of-a-kind shoe or keyring, perfectly complementing their style and personality. But, what comes with this freedom? A much higher price point: Nike makes buyers pay an extra £30, and Etsy sellers can price their products up to 300% of a normal version of their product. But, Nike and Etsy sellers can afford to do this because there will always be a market where people's emotions are being satisfied.

So, where do I think the IKEA effect will affect the future economy? As people's habits change and research enlightens huge conglomerates about where to focus their attention, it is no coincidence that the economy will adapt to serve the buyers' needs.

The first area I see the economy changing would be that the brands already invested in models centred around the IKEA effect will continue to grow. This is for two reasons. The first is that as people take a liking to their creations and experience that 'high', their customers will crave that feeling again. This would lead to greater brand loyalty and repeat customers, in turn generating more revenue for the companies in question.

The second reason is because of social media. Influencers collaborating with companies like Nike and Edvntge provide the companies with targeted advertisements as they show off the latest trends to their ever-growing following base. Via this route, these companies are actively creating a market for their products as well as connecting to more people. In doing so, they can heavily increase revenue and solidify their position in the market as their following base creates a sense of stability for the company.

The second area I see the economy changing is from a behavioural economics perspective. As technology improves, studies on people's psychology and habits can influence companies to tailor their models to suit the research's findings. This finding may also push companies to invest further in research and development and connect better with their customers.

As we have explored, behavioural economics is fundamental to understanding how and why certain companies and business models succeed. Using methods such as the IKEA effect companies can start to unlock the secrets to build a loyal customer base and grow exponentially.

Links:

<https://medium.com/beautiful-life-101/the-ikea-effect-why-we-cherish-what-we-create-5576165fcaa6>

<https://thedecisionlab.com/biases/ikea-effect>

<https://www.statista.com/topics/1961/ikea/#:~:text=IKEA%20worldwide,visited%20IKEA%20stores%20in%202020>

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