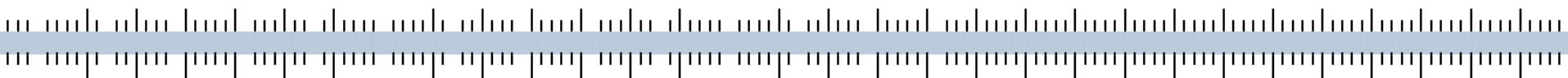


Marianne Baxter and Anthony Landry: IKEA: Product, Pricing and Pass-Through

Discussion by Christoph Fischer
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Content of IKEA catalogues (1)

- Incredible dataset, but still lacking in some respects.
- Section 2: “number of (distinct) goods available from IKEA”.
- Implicit assumption: range of products offered in IKEA stores is more or less completely covered by the catalogue.
- Interview with Kai Hartmann, contact person for questions concerning the enterprise at the headquarters of IKEA Germany (Germany is most important market for IKEA).

Content of IKEA catalogues (2)

Mr. Hartmann:

- In fact, around one third of all IKEA products on offer in a given country are included in the catalogue; this is more or less constant
 - over time
 - across countries
 - across product groups (→ focussing on furniture does not solve the problem).
- The ten products which, in a long-term perspective, generate the largest revenues are always included in the catalogue.

Content of IKEA catalogues (3)

Mr. Hartmann, ctd:

- 95% of all the products on offer are identical worldwide.
- Increasingly, catalogues for different countries are produced cooperatively (synergy effects).
- However, a given product may be included in the French but not in the German catalogue although it is on offer in both countries.

Content of IKEA catalogues (4)

- As a consequence, any result in section 2 may be due to changes or differences in catalogue design rather than reflecting changes or differences in the range of products offered by IKEA.
- Mr. Hartmann's more specific comments on some of the results:
 - he does not agree with the globalisation hypothesis (dramatic rise in the number of goods offered in all countries);

Content of IKEA catalogues (5)

- Some more of Mr. Hartmann's specific comments:
 - he does not agree with the hypothesis that IKEA has reduced the number of goods in its catalogues *in response to the recent recession* ("Recessions are good times for IKEA"); instead slight change in catalogue design ("less presentation of single products, more inspiration").
 - hypothesis that average price of IKEA products has fallen is correct; this is, however, not due to diversification towards low and medium-low priced products (as suggested in section 4.3), but rather to a negative price trend for existing product groups.

Content of IKEA catalogues (6)

**Schubladen ohne Ende!
Über 60 Kommoden
zur Auswahl.**

Alle in unterschiedlichen Stilen, Größen und Farben unter www.IKEA.de/Kommoden

**PREIS
GEGENSTÄNDLICH**
HEMNES Kommode mit
4 Schubladen 249,-
199,-

neue
HEMNES Kommode
mit 3 Schubladen
99,-

neue
RAST Kommode
mit 5 Schubladen
49,99

1. **neue** BRILHENS Kommode mit 4 Schubladen 55.
Design: K. Hagberg/M. Hagberg. 78x41 cm, 75 cm hoch. Weiß. 601.803.00
2. **RAST** Kommode mit 5 Schubladen 49,99. Massive Kiefer, unbehandelt.
Kiefer. 62x30 cm, 70 cm hoch. 753.057.00 3. **neue** WANDALL Kommode
mit 4 Schubladen 199. Massive Kiefer, weiß gebeizt und klar lackiert.
Design: Frands Cayouette. 130x48 cm, 70 cm hoch. 001.763.20
4. **neue** VALLVIK Kommode mit 3 Schubladen 79. Massive Kiefer,
weiß gebeizt und klar lackiert. 73x49 cm, 75 cm hoch. 001.966.01

5. **HEMNES** Kommode mit 5 Schubladen 199,- 249,-. Massive Kiefer,
blau gebeizt und klar lackiert. Design: K. Hagberg/M. Hagberg.
162x51 cm, 97 cm hoch. 401.805.51 6. **WALN** Kommode mit
6 Schubladen 155. Schwarzbraun gebeiztes, klar lasiertes Schenkler.
160x48 cm, 78 cm hoch. 701.033.49 7. **AST** ELUND Kommode mit
3 Schubladen 79. Mit separater Innenschublade. 88x44 cm,
110 cm hoch. Weiß. 801.908.35 8. **HEMNES** Spiegeikommode 199.
Weiß lackiert/Spiegelglas. 110x51 cm, 101 cm hoch. 801.607.06

9. **ENGAN** Kommode mit 2 Schubladen 55. Design: Henrik Provo.
78x41 cm, 70 cm hoch. Ausbaumachbildung. 001.587.35
10. **HEMNES** Kommode mit 3 Schubladen 99. Massive Kiefer,
rot gebeizt und klar lackiert. Design: K. Hagberg/M. Hagberg.
110x51 cm, 97 cm hoch. 101.212.47 11. **neue** **WALN** Kommode mit
6 Schubladen 119. Weiß lasiertes, klar lasiertes Schenkler.
80x48 cm, 123 cm hoch. 601.786.13 12. **TRÖNDHEIM** Kommode mit
6 Schubladen 229. Weiß lackiert. Design: Magnus Björklöv. 162x50 cm,
92 cm hoch. 201.645.09 13. **NO PEN** Kommode mit 4 Schubladen 175.
Schubladenfront mit gehärtetem Glas. 80x49 cm, 86 cm hoch.
Schwarzbraun 301.235.89 14. **neue** **EDLAND** Kommode mit
3 Schubladen 149. Massive Kiefer, grau gebeiztes, klar lasiert.
Design: T. Christensen/K. Leppard. 82x52 cm, 95 cm hoch. 201.835.78
15. **ANEBODA** Kommode mit 3 Schubladen 55. Design: Torbjörn Lund.
80x40 cm, 100 cm hoch. Weiß. 701.217.63

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Content of IKEA catalogues (7)



Content of IKEA catalogues (8)

- If it were admissible to assume that a “destruction” implied that the good is not available any more (actually, it does not), the observed rise in destructions could be due to
 - shorter product cycles or
 - a shift towards products with shorter product cycles.
- Here, a distinction between product groups might have been helpful.

Frequency and distribution of price changes (1)

- Results on frequency and timing of price changes interesting in their own right; since catalogue prices cannot be raised for a full year (Mr. Hartmann: only exception are cases of VAT rate increases), one may suspect that comparability with most of literature limited.
- Inflation persistence network of the eurosystem; for a summary of results, cf eg “Price changes in the euro area and the United States: some facts from individual consumer data”, 2006, Journal of Economic Perspectives 20(2), 171-192.

Frequency and distribution of price changes (2)

- Their results: 9.2% (euro area) and 22.4% (USA) of non-energy industrial goods' prices respectively are adjusted per month (cf Table 3, p 178).
- Inflation persistence network's finding concerning the distribution of price changes similar to the one in the paper: price reductions are on average larger than price increases.
- Paper does not offer an explanation for the scarcity of small price reductions.

Frequency and distribution of price changes (3)

- Inflation persistence network's explanation: Reluctance to reduce prices; prices are only reduced when negative shocks are large.
- Mr. Hartmann's explanation: Consumer psychology; it is important for IKEA to make sure that customers take notice of any price reductions.

Deviations from the LOP (1)

- LOP can only be observed in markets where agents can conduct arbitrage activities.
- IKEA is a highly vertically integrated enterprise and, in particular, an important retailer for itself.
- First thought: who would engage in arbitrage and thus enforce the LOP?
 - Customers?
 - Retailers?

Deviations from the LOP (2)

- Mr. Hartmann: quite naturally, arbitrage activities exist; eg AEKI.
- Indeed, results for France and Germany suggest that arbitrage cannot be inhibited: common border and common currency → small deviations from the LOP.
- IKEA dataset may have potential to further illuminate the issue of the effects of a common currency on deviations from the LOP, especially if dataset is extended to include further European countries as planned.

Deviations from the LOP (3)

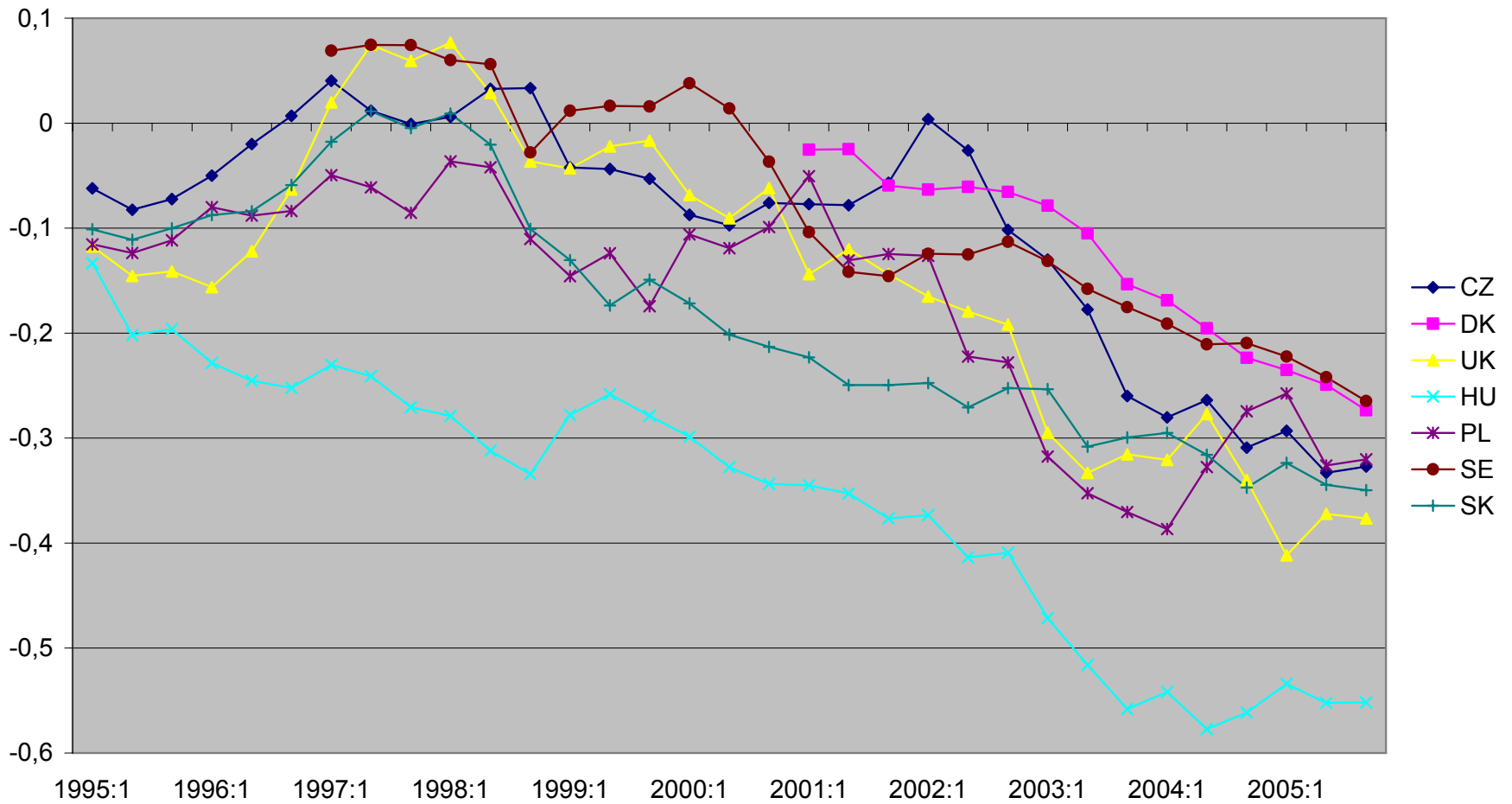
- C Fischer, 2009, Price convergence in the EMU? Evidence from micro data, Deutsche Bundesbank Discussion Paper, Series 1, No 06/2009.
- Considers extremely rich micro database on the European washing machine market bought from a market research firm; data include
 - absolute prices in local currency or euro
 - quantities sold
 - characteristic featuresof washing machine models in 17 European countries.

Deviations from the LOP (4)

- The data
 - are mostly collected as electronic (“scanner”) data,
 - are collected in samples stratified by distribution channel,
 - and extrapolated data cover 90% of all sales in those countries in the period 1995 – 2005.
- Hedonic regression yields country-time dummies which reflect the average quality-adjusted price deviation of the washing machines in country i at time t from the base case expressed in percentage terms.

Deviations from the LOP (6)

Figure 2b: Quality-adjusted net price deviations of washing machines in non-EMU countries (sample 1; base: Italy, 2001:2)



Deviations from the LOP (7)

- Main results:
 - Deviations from the LOP can be considerable.
 - Alternative tests show that washing machine prices within the EMU have not tended to converge at all.
 - Convergence clusters are unrelated to EMU membership.
- Case of Sweden: washing machines expensive compared with non-EMU countries, but display fairly average prices compared with EMU countries.
- Why are IKEA products cheapest in Sweden?

Deviations from the LOP (8)

- Mr. Hartmann refers to Sweden's exceptional position for the enterprise (IKEA's market share is highest in Sweden) and to society's view that anyone who pays taxes is entitled to purchase cheap IKEA products.
- More generally, what accounts for price differences of IKEA products across countries, Mr. Hartmann?
 - VAT
 - Administration costs (wages, rents ...)
 - Logistics (number of empty trips, shop density ...)
 - Market situation (general price level)
 - Consumer habits and preferences

Exchange rate pass-through (1)

- Technical note: Pass-through equations (6) and (7) estimated as (goods \times time) panels. The estimated equations contain a single constant, α_j , and no goods-specific fixed effects. So, an assumption of homogeneity across goods is imposed although, in the theoretical equations (4) and (5), the local distribution costs and the markup are modelled as being goods-specific. Why is that?
- Potential autocorrelation presumably a less severe issue and more difficult to fix.

Exchange rate pass-through (2)

- Cumby's (1997) findings of a tendency for nominal exchange rates to make up for international Big Mac price differences are interpreted as price setting according to (correct) forecasts of exchange rate changes.
- Given the well-known difficulties in forecasting exchange rates, might the reverse causality not be more plausible?
- Firms set prices according to the economy-wide (high) wage and price level, this affects competitiveness negatively and triggers arbitrage movements, which in turn results, in the long run, in nominal exchange rate depreciation.