

A low cost price is always beneficial, this year maybe even more so than in other times. In projects where cost price is a criterion (so far all projects ☺) I make sure an IKEA concept is developed alongside other concepts. The how to guide is below.

product type
DELFTIG
materiaal

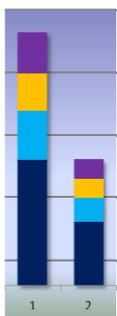
- beschrijving van het product.
- door wie ontworpen

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“we first design the price tag”

1. Visualise your own product in your local IKEA store. It's on the shelf, you pass it, the price is mentioned, it's really dead cheap! If it's small enough (Wow! Handy!), you put in your shopping cart along with the coat hangers and the energy saving lamps. If it's larger, an assembled example is shown on the shop floor, the tag says where to find it in the warehouse
2. Visualise the price tag. What does it say? Will you sell huge numbers for that price? If yes, fix this price; if no, at which price tag will you sell huge numbers? This price tag is your starting point.
3. Step by step, take of the margins from the sales price: VAT, IKEA margin (20 to 40%); your own contribution margin (5 to 15%); a fixed amount per product for depreciation of investments, transport, warehousing, customs etc. Make a bar chart and identify the big chunks. Resulting is cost price, 'ex factory'. This is the maximum cost price top-down.
4. Think of what the product looks like. It is packed in a flat pack that goes onto the pallet, it has a clear assembly manual. It has been designed carefully as a very basic product. It is easy to use, there are no extra functions. Even some functionality that the market incorrectly considered crucial is left out. In case there are more variants of the product than, like with IKEA, development has been focused on the most basic variant.
5. Consider the manufacturing of the modules. This has been done in such a way, that it enables low cost manufacturing using existing production infrastructure. Calculate the cost of the modules and make another bar chart. If there are modules that cannot be realised at rock bottom cost, solve the function in a different but robust manner. Make use of suppliers' ideas. Merge functions, reduce complexity, use low tech solutions, use cheaper material. If that does not work out, consider skipping the function.



6. Minimise cost of functions that do not contribute to the usage of the end product (e.g. logistics and packaging, see inset text).

A couple of years ago IKEA began to transport all mattresses in vacuum-pressed and rolled condition, including the ones with pocket springs. Which meant that a container could take 4 to 5 times the normal number of mattresses. Which meant that mattresses could be transported over longer distances. Which meant that fewer mattress factories could supply the entire world. Which meant that each factory could produce more mattresses and thus produce at lower cost. Which meant that cost prices of mattresses reduced more than just by reduction of transport cost. Which meant that also the price of a quality mattress could go to a level that was not achievable by competitors.

7. You have now thought up a rock-bottom low cost product that does what it should. And you have two bar charts, one with the cost price top-down, the other with the cost price bottom-up. If the cost price bottom-up is higher than the cost price top-down, go to point 4 again, and if that does not help, take out the margin for IKEA. Note that this means you'll have to use another sales channel (do you have that channel or do you have to build it?)
8. If you consider selling directly over the internet, consider the fact that also selling there does not happen by itself, that it takes time and organisation, money and margin.
9. Calculate the expected sales quantities and margins for this and the other concepts. Take these results into the comparison and choice of concepts.

Choose your concept wisely.

This newsletter with hints and tips on product development is sent about once every six weeks to those interested. If you know people who might like to read this newsletter, please forward it to them. Thanks very much for doing so. Comment, subscribe or unsubscribe via maurits@innovationtools.nl

For various customers I work as a project manager in product innovation. I usually support in the definition phase and then support by managing the project.

Kind regards, Maurits Willemsen

Next newsletter: mid-February. Subject: crowd funding and open innovation