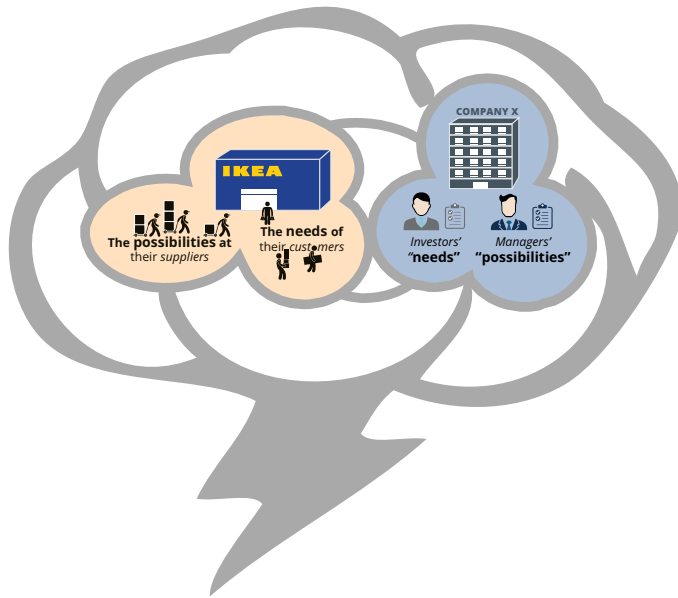


A Lesson From IKEA About Empowerment and Interfaces



Connecting IKEA's business model with the asset management space
Source: Cerulli Associates

Many of us have shopped for household goods at IKEA. It is a one-stop shop for your furnishing needs. In particular, it is a store where younger people—the newly married, students, those who have just left home—can make purchases as they set up their first homes.

Importantly, a buyer needs to have a rough idea of what he wants to purchase before going to the store. IKEA is not really a place for browsing and hoping you find something on the day. It is outcome-oriented. A sofa set or a queen-sized bed or a cupboard represents household goods that the buyer will have to live with for some time. As such, they are typically not impulse or frivolous buys. With this process in mind, people see several advantages to shopping in IKEA. These include convenience, competitive pricing, a wide product range that is regularly updated, and trained staff to help buyers.

Before you think that this commentary is a plug for IKEA, we note that some elements we mentioned in the previous paragraph can be applied to a person who is looking to buy a financial product like a mutual fund. Convenience, competitive pricing, a good product range and

trained staff—these are common drivers across many industries, including financial services.

With technological advances having an impact on how every industry operates these days, it makes sense to look at some potential lessons that IKEA can provide to asset managers as they ponder business models in an era of digital disruption. By now, it should be clear that technology is changing the way that financial products are being sold. For instance, we have seen the advent of robo-advisors that renders professional portfolio management more accessible to the masses.

The point about technology is that it is constantly changing and companies have to adapt themselves to operate in such an environment. IKEA is successful not only because of its customer experience. Its success can also be attributed to how it has developed its supplier base. On its supplier portal, it says that “the way IKEA creates a relevant offer at a genuinely low price is by shortening the distance between the needs of our customers and the possibilities of our suppliers.”

IKEA essentially acts as an interface between

its customers and its suppliers. This notion of being at the interface, or the interface itself, is gaining momentum in the financial sector. Talking about the impact of fintech firms in the financial industry, Stella Tang, managing director of Robert Half Singapore, was recently quoted by the media as saying that “the power of disruptive technology lies in owning the customer interface, not in owning assets.”

Paradoxically, this could be a source of encouragement for asset managers because it suggests that an outsider can come into the industry to “do an IKEA,” in the sense that it owns the interface between its customers and nameless suppliers, that is, the asset managers.

One of the key lessons about IKEA is that it empowers both customers and suppliers. We hardly see this in the asset management industry as captive products are predominantly sold and not enough is done on educating novice investors. Interfaces that are set up to connect investors and asset managers are often impersonal. They are not empowered to make decisions according to mutual beneficial outcomes and, at the same time, keep costs as low as possible. Most often, there is a focus on transactional outcomes, so that management fees and commissions can be extracted.

This suggests that there is room for a disruptive start-up to come from outside the asset management industry to set up an IKEA-like business model for financial products. It could be a company with access to a big customer base, like a public utility or a telecom company or an online retail or social media giant. It could leverage on a combination of bricks-and-mortar and technology, like Amazon. While there are many purely online platforms selling financial products, they have typically been unable to draw scale. Perhaps retail investors do not want to be captive but communal.

A disruptive firm in the asset management space could comprise a multinational group of companies coming together to facilitate mutually beneficial outcomes for all stakeholders at low cost. This may seem impossible at this stage, but not too long ago, no one thought to put cameras on phones.

– Thusitha De Silva