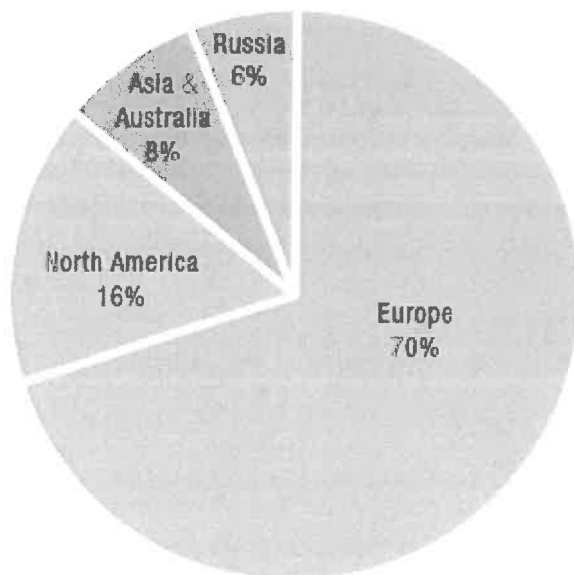




A Global Strategy - IKEA

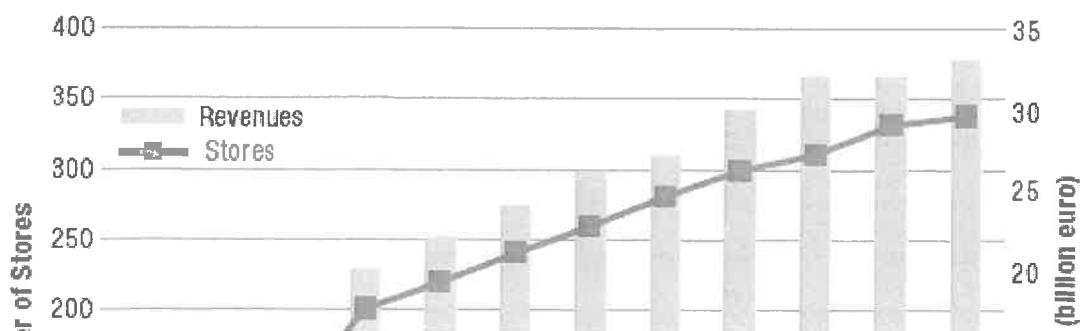
IS IKEA'S SUCCESS SUSTAINABLE?

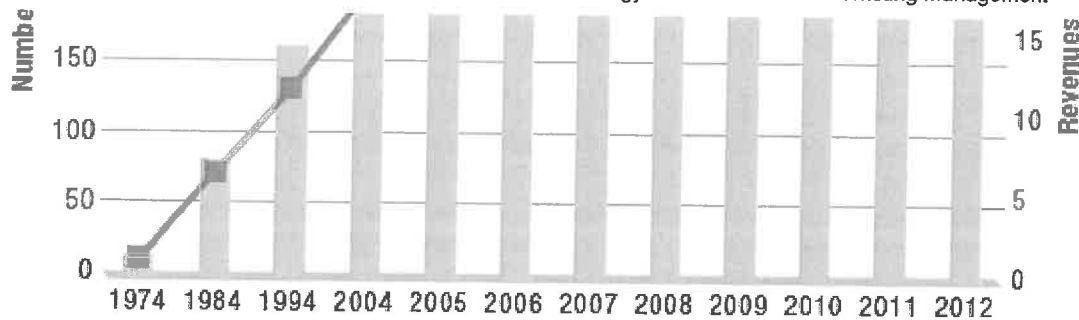
THE WORLD'S MOST SUCCESSFUL GLOBAL RETAILER, in terms of profitability, is not Walmart or the French grocery chain Carrefour, but IKEA—a privately owned home-furnishings company with origins in Sweden. In 2012, IKEA had more than 330 stores worldwide in 38 countries, employed some 140,000 people, and earned revenues of 33 billion euros. IKEA's revenues by geographic region are 70 percent from Europe, with the rest from North America (16 percent), Asia and Australia (8 percent), and Russia (6 percent) (Exhibit MC5.1). Although IKEA's largest market is in Germany (14 percent of total sales), its fastest-growing markets are the United States, China, and Russia. Exhibit MC5.2 shows IKEA's growth in the number of stores and revenues worldwide since 1974. Known today for its iconic blue-and-yellow big-box retail stores, focusing on flat-pack furniture boxes combined with a large DIY component, IKEA started as a small retail outlet in 1943 by then-17-year-old Ingvar Kamprad.



IKEA's Sales by Geographic Region (2012)

SOURCE: Author's depiction of data from "IKEA's Yearly Summary FY 2012" (www.ikea.com).





IKEA Stores and Revenues, 1974–2012

SOURCES: Author's depiction of data from "The secret of IKEA's success," *The Economist*, February 24, 2011, and various IKEA "Yearly Summaries" (www.ikea.com).

Though IKEA has become a global phenomenon, it was initially slow to internationalize. It took 20 years before the company expanded beyond Sweden to its neighboring country of Norway. After honing and refining its core competencies of designing modern functional home furnishings at low prices and offering a unique retail experience in its home market, IKEA followed an *international strategy*, expanding first to Europe, and then beyond. Using an international strategy allowed IKEA to sell the same types of home furnishings across the globe with little adaptation (although it does make some allowances for country preferences).

Because IKEA focuses on low cost, it shifted more recently from an international strategy to a global-standardization strategy, in which it attempts to achieve economies of scale through effectively managing a global supply chain. Although Asia accounts currently for only 8 percent of its sales, IKEA sources 32 percent of its inputs (mostly timber) from this region. To drive costs down further, IKEA has begun to implement production techniques from auto and electronics industries, in which cutting-edge technologies are employed to address complexity while achieving flexibility and low cost.

Despite its success, IKEA faces significant challenges going forward. Opening new stores is critical to drive future growth (see Exhibit MC5.2). Finding new sources of supply to support more store openings, however, is a challenge. Although demand for IKEA's low-cost home furnishings increased during the global financial crisis as more customers became price conscious, IKEA's annual store growth has slowed to less than five new stores a year. This is because its supply chain has become a bottleneck. IKEA has difficulty finding suppliers that are a strategic fit with its highly efficient operations. Related to this issue is the fact that wood remains one of IKEA's main input factors, and the world's consumers are becoming more sensitive to the issue of deforestation and its possible link to global warming. In the near future, IKEA must find low-cost replacement materials for wood. In addition, powerful competitors have taken notice of IKEA's success. Although IKEA is growing in North America, it holds less than 5 percent of the home-furnishings market. In some European markets, IKEA holds 30 percent market share. To keep IKEA at bay in the U.S., Target has recently recruited top designers and launched a wide range of low-priced furnishings. Kmart, likewise, has enrolled Martha Stewart to help with the design of its offerings of home furnishings.

Besides these external challenges, IKEA also faces significant internal ones. Since the company's founding in 1943, no strategic decisions have been made without Mr. Kamprad's involvement and explicit approval. In 2012, Mr. Kamprad (now in his late 80s) announced he is stepping down from

Activity Details