

INTEGRATIVE CASE 3.0

IKEA: Scandinavian Style

"Behind the mountain there are people too." Old Swedish Proverb

CASE 3.0

As one of the world's most successful businessmen, Ingvar Kamprad never forgot the dreams, aspirations, and hard work of rural people or their ability to find solutions to difficult problems. Growing up on the farmland of southern Sweden, Kamprad embodied many of the traits of the hearty men and women who surrounded him and, as an ambitious working boy, revealed the business traits that contributed to his later success and reputation. As a child, Kamprad learned the concept of serving the needs of ordinary people by purchasing matches in bulk, which he then sold to rural customers at a profit. While still in his teens, he expanded his retail operation to sell everything from pencils to Christmas cards and upgraded the efficiency of his distribution by using the regional milk-delivery system.

Beginnings

In 1943, at age 17, Kamprad formed IKEA with initials representing his first and last names, along with that of the family farm (Elmtaryd) and the nearby village (Agunnaryd). Anticipating the rising consumerism amid the rebuilding boom that followed the war, IKEA moved quickly to provide families with low-cost furniture designs through the convenience of catalog sales. With the opening of the company's first showroom in 1953, Kamprad created a model of vertical integration, uniting a variety of suppliers under the IKEA umbrella, coordinating long-run production schedules, and controlling distribution. That model expanded in 1964 with the introduction of the first warehouse store, eliminating an entire step in product distribution by allowing warehouse container pick-up by customers.

The business lessons Kamprad mastered as a boy entrepreneur were evidenced at the corporate level in many ways. For example, the bulk purchasing of matches in his youth was a forerunner to the bulk purchase of fabric that expanded upholstery choices for consumers and made the luxury of fabric options, formerly limited to the wealthy, available to all customers. Likewise, IKEA used imaginative distribution and delivery options, such as when an IKEA employee cleverly discovered the company's "flat-box" approach in 1955. While attempting to load a table into a customer's automobile, an employee simply removed the table legs, enabling a new vision of selling furniture

unassembled. Practical solutions wedded to a low-cost promise created a new IKEA formula of "knock down" furniture, flat-box storage and shipping, and assembly by consumers armed with IKEA-developed assembly tools and visual instructions. This formula revolutionized the home-furnishings industry.

A major strength of IKEA lies in its pioneering distribution created through unique corporate-supplier relationships. In the earliest days of the company, Swedish fine furniture manufacturers attempted to boycott IKEA and drive it out of business for selling furniture at such low cost. Kamprad outmaneuvered them by forging new partnerships with other Scandinavian manufacturers, providing assurances of long production runs. Moreover, top managers learned that affordable furniture can be provided without the necessity of owning the factories. IKEA is something of a "hollow" or virtual corporation because nearly all of its manufacturing is outsourced. IKEA uses normal short-term purchasing contracts with suppliers, which means it can quickly adjust orders to changes in demand and not be saddled with huge unsold inventory. Suppliers also are in competition with one another to keep costs low. IKEA has indirect control over suppliers because it often purchases 90 to 100 percent of a supplier's production. Aware of the importance of supplier relationships, IKEA maintains a constant vigilance in working with suppliers to find ways to cut costs while keeping quality standards high, occasionally even agreeing to underwrite supplier technical assistance. That can-do attitude with suppliers has served IKEA well over time.

Supplier Relationships

Today, with 1,300 suppliers in 53 countries, IKEA's integrated design, production, and distribution faces new problems. The sheer numbers can weaken long production runs and disperse supply lines. Global reach also means that domestic requirements vary from one region to another or that certain areas, such as Eastern Europe, have few suppliers capable of high-quality, low-cost production. In addition, furniture competitors have not been idly sitting by but have garnered lessons from the furniture giant. In the face of these challenges, IKEA continues to believe in the power of its ingenuity. Design teams work with suppliers in imaginative ways. For example, the need for expertise in bent-wood design for a popular armchair resulted in a partnership with

ski-makers. Likewise, the need throughout Scandinavia for affordable housing resulted in IKEA's expansion into manufactured homes, built on supplier factory floors and delivered to construction sites, ready to be filled with IKEA furnishings, conveniently assisted through \$500 in IKEA gift certificates to the homeowner.

From the outset, IKEA represented more than catch phrases such as low price and convenience. Looking out for the families of modest incomes leads to IKEA's constant adherence to frugality, which is reflected in a cultural abhorrence for corporate office perks such as special parking or dining facilities. IKEA executives are expected to fly "coach." In his effort to bring "a little bit of Sweden to the world," Kamprad created a lifestyle model that would mold consumer habits and attitudes. True to the rural values of his homeland, Kamprad nurtured the ideal of the *IKEA family*, referring to employees as *co-workers* and bestowing the name *Tillsammans* (Swedish for "Together") on the corporate center.

Mission and Culture

The higher cultural purpose of IKEA was reaffirmed in 1976 with the publication of Kamprad's *Testament of a Furniture Dealer*, which states explicitly that IKEA is about "creating a better everyday life for the majority of people." He went on, "In our line of business, for instance, too many new and beautifully designed products can be afforded by only a small group of better-off people. IKEA's aim is to change this situation." The purpose of providing fine-looking furniture to the masses was to be met via an internal culture that Kamprad described with words such as the following: "informal, cost conscious, humbleness, down to earth, simplicity, will-power, making do, honesty, common sense, facing reality, and enthusiasm." Achieving this purpose meant employees had to have direct personal experience with the needs of the customer majority.

Visualizing the constantly changing needs of a customer base comprised of farmers and college students, young professionals, and on-the-go families, Kamprad defined IKEA's business mission as "*to offer a wide variety of home furnishing items of good design and function at prices so low that the majority of people can afford to buy them.*" This is "place-holder" furniture, filling the constantly changing needs in the lives of individuals and families. But the company would go further than merely providing the solution to a consumer's immediate needs. From furniture design to catalog layout or the arrangement of warehouse showrooms, Kamprad and his co-workers gently imprinted Swedish style and cultural values of home, frugality, and practicality. As CEO Anders Dahlvig explained in a 2005 interview for *Business Week*, "IKEA isn't just about furniture. It's a lifestyle."

That lifestyle is reflected in the consumer shopping experience. The convenience of helpful touches—providing

tape measures and pencils, a playroom that frees parents for leisurely shopping, and a restaurant midway through the building to provide a shopping break—is a key part of the IKEA experience. Also familiar is the gray pathway, guiding the shopper along wide aisles through the 300,000-square-foot store. A veritable labyrinth, the route provides the charm of surprise as shoppers venture past the showrooms or leads to total confusion for those who venture off the intended path. Everything is carefully orchestrated; price tags are draped always to the left of the object, large bins lure with the promise of practical and inexpensive "must-haves," and room arrangements include special touches that spark vision and stimulate add-on purchases.

IKEA's attention to detail is honed through a variety of strategies that link management and co-workers at all levels to their customers. *Antibureaucracy week* places executives on stock-room and selling floors, tending registers, answering customer queries, or unloading merchandise from trucks. IKEA's *Loyalty Program* and *Home Visits Program* allow company researchers entrance to consumer homes in order to better determine individual and community needs for furniture designs. The results of such efforts can be practical, such as specially designed storage units for urban apartment dwellers or deeper drawers to meet the wardrobe needs of Americans. They can also help in detecting or anticipating cultural shifts. IKEA was the first retailer to acknowledge through its advertising the broadening definition of family to include multiracial, multigenerational, and single-sex family arrangements and to promote its openness to "all families."

Challenges

Over the decades, efforts at strengthening IKEA and consumer family ties and encouraging repeat business as customers moved from one phase of life into another produced a unique global brand famous for innovation. The company's devotion to lifestyle solutions led to rapid movement on two fronts, the expansion of product lines (now over 9,500 products) and the expansion of global markets. By 2010, there were 332 IKEA stores in 41 countries. Global economic woes of recent years—including slumps in world stock markets, rising unemployment, and personal financial insecurity—increased sales and profits for IKEA. As consumers searched for ways to trim overall expenses and cut home-furnishing costs, the company continued experiencing steady growth with a sales increase of 7.7 percent to 23.1 billion Euros.

However, the company's rapid global expansion and the rise of imitators in providing low-cost, quality home furnishings led some critics to believe IKEA had abandoned its maverick methods and relinquished its innovative edge. They detected a loosening of the company's strict core values, established more than half a century ago and reinforced in the training of co-workers in the *IKEA Way*.

Other critics take the opposite view and claim that IKEA is provincial. The problems from this viewpoint are the result of those strict core values, monitored on a regular basis through *Commercial Reviews*, measuring how closely the various stores adhere to the IKEA Way. IKEA repeatedly surveys customers, visitors, suppliers, and co-workers about their satisfaction with the IKEA relationship. Repeating the surveys provides clear feedback and even measures important trends, especially if the results venture from the expected 5s toward the dreaded 1s. The critics would argue that the constant pressure for Kamprad's "little bit of Sweden" creates a culture that scorns strategic planning, is slow to react to cultural nuance in new locations, and offers limited opportunity for professional growth or advancement for non-Swedes. They could point out that the notion of *people behind the mountain* should work both ways.

Globalization

Global expansion into non-European markets, including the United States, Japan, and China, magnified the problems and the need for flexibility. Examples abound. The focus on standardization rather than adaptation poses problems for an industry giant such as IKEA, particularly as it enters Asian markets that are culturally different. IKEA's dependence on standardization for everything from store layout to the Swedish names of all products presented translation problems when informing Asian consumers about shopping and shipping procedures. Addressing cultural differences (women are the prime decision makers and purchasers for the home), store and product specifications (e.g., lowering store shelves and adjusting the length of beds), or consumer purchasing power (a worker may need up to a year and a half to purchase a product) was critical to company success in China. Furthermore, IKEA managers realized the need to shift focus from selling furniture to providing home decorating advice when they discovered that many skilled consumers could use the convenient tape measures and pencils to sketch pieces that they could then build for themselves at home.

In the U.S. market, IKEA was slow to make allowances, such as a shift from measuring in meters to feet and inches. While consumers embraced low pricing and the convenience of break-down furniture, the company's delay in bed size designation to the familiar king, queen, and twin drove U. S. customers bonkers because "160 centimeters" meant nothing to them. Co-worker issues also arose. Angry American workers in locations such as Danville, Virginia, moved to unionize amid complaints of discrepancies in pay (\$8.00 per hour compared to the \$19.00 per hour for workers in Sweden), vacation (12 days annually for U.S. workers compared to five weeks for their counterparts in Sweden), and the constant demands by strict managers in requiring, for example, mandatory overtime.

Officials with IKEA admit they "almost blew it" in America and that they are committed to being both global and local. They insist they are responsive to issues and people. The company points to a history of standing against corruption and to its own quick response when a subcontractor's bribery efforts brought the hint of scandal to IKEA's door. CEO Mikael Ohlsson proudly points to the company's recent record in looking out for the needs of ordinary people through charitable projects such as IKEA Social Initiatives, benefiting over 100 million children. Service to people "behind the mountain" also requires acknowledgement of the mountain. IKEA places a priority on sustainability, working to improve company energy efficiency as reflective of its commitment to thrift, the wise use of natural resources, and a family-level regard for stewardship of the earth. From the elimination of wood pallets and the ban on use of plastic bags to the installation of solar panels and the phasing out of sales on incandescent light bulbs, IKEA leads consumers and competitors by example and demonstration of its core values.

Behind the Curtain

Despite the concerns of critics, those values established by Kamprad remain intact through the combination of co-worker training in the IKEA Way and a carefully crafted organization structure that leaves little room for cultural or corporate change. Although retired (since 1986), Kamprad remains senior advisor on a board dominated by fellow Swedes. Organization structure resembles the IKEA flat box, with only four layers separating the CEO and the cashier on the sales floor. And the culture is in good hands with current CEO Mikael Ohlsson, who says bluntly, "we hate waste," as he points with pride at a sofa that his engineers found a way to ship in one-half the container space, thus shaving €100 from the price—and sharply reducing carbon-dioxide emissions while transporting it.

Historically, financial details about IKEA have been kept tight and neat and, until recently, secretive. The full public disclosure of information such as sales, profits, assets, and liabilities appeared for the first time in 2010 on the heels of a Swedish documentary. The ability to maintain such an opaque organization dates back 30 years. The year 1982 marked the transfer of IKEA ownership to Ingka Holding, held by Stichting INGKA Foundation (a Dutch nonprofit). Kamprad chairs the foundation's five-member executive committee. The IKEA trademark is owned by IKEA Systems, another private Dutch company whose parent, IKEA Holding, is registered in Luxembourg and owned by Interogo, a Liechtenstein foundation controlled by the Kamprad family. This complex organizational setup enables IKEA to minimize taxes, avoid disclosure, and through strict guidelines protect Kamprad's vision while minimizing the potential for takeover.

The Future

The vision remains, but with global expansion IKEA's corporate culture ventured into ways to use technology to bond loyal IKEA customers while tapping into their ideas and valuable feedback. The company expanded its e-commerce sales and initiated the *IKEA Family Club* in order to strengthen ties with existing customers and build long-term relationships. Family club members assist in sharing values and ideas and providing co-creating value for everything from product development to improvements in stores and service. Members are encouraged to increase their visits to stores, on-site "experience rooms," and the website to familiarize themselves with products and to build ties of shared-development in finding real-life solutions to the home-furnishings challenges they encounter at various stages of their lives. This latest development in the long history of IKEA reinforces the decades-old goal of the founder to continue to look behind the mountain to meet the needs of ordinary people.

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