

Step 1. Pick a Price

Product Development—A sketch for a new product? Yes, but it's also a calculation of what that product will cost. The low price begins at the drawing board.

The team behind each product consists of designers, product developers, and purchasers who get together to discuss design, materials, and suitable suppliers. Everyone contributes with their specialist knowledge. Purchasers, for example, use their contacts with suppliers all over the world via IKEA Trading Service Offices. Who can make this at the best quality for the right price at the right time?

When product developers were given the task of creating a new mug over five years ago, they were told how much it should cost in the stores. In the case of Trofé, the price had to be incredibly low—five Swedish kronor! This mug had to have a real knockout price.

To produce the right mug at the right price, the developers had to take into account materials, colors, and design. For example, the mug is made in green, blue, yellow, or white because these pigments cost less than other shades, such as red.

Step 2. Choose a Manufacturer

Suppliers and Purchasing—The task of developing products never ends. Working with suppliers, the mug was shortened and the handle changed so it stacks more efficiently, saving space for transport, warehousing, and store display—and, not least, in the customers' cupboards at home. IKEA is always keen to banish as much air as possible from its packaging. Packages should preferably be flat for efficient transport and storage.

One supplier, a factory in Romania, has worked with IKEA for 15 years. Long-term relationships help both parties to build up a huge fund of knowledge about demands and expectations. That is why products are often developed in close cooperation with suppliers. In the case of Trofé, for example, the new size has rationalized production by making better use of the space in the kiln during the firing process. That's cost-effective and saves time.

IKEA has introduced a code of conduct governing working conditions and environmental awareness among suppliers. This deals with matters such as health and safety in the workplace and forbids the use of child labor. The practical work of implementing this code of conduct is carried out by co-workers in IKEA Trading Service Offices worldwide. Many suppliers already meet the demands; others are working together with IKEA to carry out the necessary improvements. IKEA also works closely with external quality control and audit companies that check that IKEA and its suppliers live up to the requirements of the code of conduct.

The low price tag is crucial to the vision IKEA has of creating a better everyday life for many people. That is why IKEA works nonstop to reduce costs. But it's also a question of saving raw materials and, ultimately, the environment. The low-cost mug is one example of how

environmental considerations can influence the development of products. For example, the new mug is lighter in color—a move that cuts costs and is more environmentally friendly. The less pigment that is used, the better. The mug is also lead- and cadmium-free.

Step 3. Design the Product

With a price point and a manufacturer in place, IKEA once again uses internal competition to find a designer and select a design for production. The designer begins the design process by writing a brief that explains the product's price, its function, the materials to be used, and the fabricator's capabilities. The designer then sends the brief to IKEA's staff designers and freelancers, and refines promising designs until settling on the one to produce. The designer wants products to be like Swiss Army knives—to get maximum functionality at minimum cost.

Step 4. Ship It

Distribution and logistics are the lifeblood of IKEA and important pieces of the puzzle on the road to a low price. IKEA strives to deliver the right number of goods to the right stores at the right time. It calculates the goods requirements and makes sure that deliveries are efficient. Each pallet holds 2,024 mugs, which are transported from Romania by rail, road, and sea to IKEA distribution centers around the world. Transportation does, of course, have an effect on the environment, but IKEA is working toward reducing environmental impact.

Many of IKEA's products are bulky—for example, tables and chairs. IKEA pioneered the concept of flat. The company's eureka moment occurred in 1956, when one of IKEA's first designers watched a customer trying to fit a table into his car. There was only one way to do it: Remove the legs. From that day forward, most IKEA products have been designed to ship disassembled, flat enough to be slipped into the cargo hatch of a station wagon or safely tied down on an auto's roof rack.

In IKEA's innately frugal corporate culture, where waste has been declared a "deadly sin," the flat package is also an excellent way to lower shipping costs by maximizing the use of space inside shipping containers. The company estimates transport volume would be six times greater if its items were shipped assembled. From the design studio to the warehouse floor, IKEA employees' mantra is always the same: "We don't want to pay to ship air."

Making things flat is an IKEA obsession. How many times can you redesign a simple fired-clay coffee mug? IKEA's mug was redesigned three times—simply to maximize the number of them that could be stored on a pallet. Originally, only 864 mugs would fit. A redesign added a rim such as you'd find on a flowerpot, so that each pallet could hold 1,280 mugs. Yet another redesign created a shorter mug with a new handle, allowing 2,024 to squeeze onto a pallet. While the mug's sales price has