

IKEA: PAST, PRESENT AND FUTURE

Research Associate Colleen Lief prepared this case under the supervision of Professor Daniel Denison as a basis for class discussion rather than to illustrate either effective or ineffective handling of a business situation

Ingvar Kamrad's early experiences informed his approach not only to furniture retailing but also, more broadly, to his life. In the frugal farmlands of southern Sweden, IKEA's founder quickly learned the value of hard work, personal responsibility and independence.

As his own success in following his strong convictions proved fruitful and satisfying, he realized he had a responsibility to share this journey with his customers, suppliers and employees – in essence, to “bring a little bit of Sweden to the world.”

This phrase, from Kamrad's 1976 manifesto, *A Testament of a Furniture Dealer*, captured his philosophy toward business. His company did not just produce profits but rather served a larger and higher purpose in society. It brought style, value and a better life to many. IKEA's products were not destined only for wealthy customers who could afford distinctive and contemporary furnishings. They were intended for everyone.

The idea was radical. Everyone deserved the opportunity to be part of the IKEA revolution, which embodied bold fashion and functionality. It seemed almost a sacred mission to IKEA's people to bring this message to global consumers.

But how would IKEA develop around the globe with decidedly different values and traditions in each of the new markets that it entered? IKEA had to stay IKEA. How would the lessons learned in new markets affect the basic principles and practices that had fueled its progress for decades?

History and Background

The Early Days

For a company consumed with making every minute and every opportunity count, it should come as no surprise that IKEA's unique and colorful history started with a clock. Rumor had it that the young Ingvar Kamprad found it difficult to rise for early morning chores on the family farm, Elmtaryd, located in the Smaland region of Sweden. Even though Kamprad learned at a tender age that life could be hard, it was when he received an alarm clock for a birthday present that his entrepreneurial spirit was launched. As a boy, he purchased matches in bulk and then sold them in smaller lots to his neighbors. Time – and speed – also played a key role in the success of an early Christmas card business. Word was that because the teenage Kamprad could pedal his bicycle faster than the woman who had been on the route for years, he cornered the market in selling cards to customers in his rural village of Agunnaryd.

The missionary zeal that Kamprad displayed in these early business ventures reflected strong traces of the community and circumstances of his youth. The stark landscape of southern Sweden, the positive yet hard-working values borne of a strict religious heritage and a family history marked by significant challenge all influenced Kamprad and IKEA. Kamprad's grandfather had been a German immigrant who sought better opportunities for farming in Sweden, with mixed success. When his grandfather died leaving a young family in dire straits, all that stood between them and disaster was a stubborn refusal to admit defeat. The family ultimately overcame these difficulties and the next generation of Kamprads had life slightly better. The dignity of hard work, thrift, freedom and independence continued to be family ideals.

Birth and Development of IKEA

At age 17, upon receiving another important gift from his father – money in recognition of good academic performance – Kamprad founded IKEA (Ingvar, Kamprad, Elmtaryd, Agunnaryd) in 1943 to sell pens, pencils and seeds through the local milk delivery network. Before long, he had established a household goods and furniture mail order business. In 1951, the decision was made to concentrate solely on furniture sales and the premier edition of the IKEA catalog came rolling off the presses. The first furniture showroom opened in 1953.

Kamprad's success at consistently selling at rock-bottom prices angered competitors. The fledgling company faced a serious obstacle in the mid-1950s, as Swedish furniture companies coordinated a supplier boycott of IKEA. Fearful of losing the patronage of the large furniture retailers, suppliers restricted the supply of furniture products to IKEA. Rather than cave in to this pressure and raise prices (and thereby assure himself a comfortable living), Kamprad remained dedicated to his personal credo. Independence, freedom and trust in his personal vision ruled the day. Kamprad overcame a seemingly hopeless situation with his creativity. If his company could not buy furniture from domestic producers, it would design its own products and then identify manufacturers elsewhere, particularly in nearby

lower cost countries, that could provide a steady source of product. This early test of philosophy and character opened the door to one of the industry's most significant innovations and paved the way for what would become one of the most successful global businesses.

The next significant event in IKEA's history would revolutionize retailing. Quite by accident, Gillis Lundgren, IKEA's fourth employee, invented the flat pack approach to furniture in 1955. While trying to fit a customer's furniture in the car, Lundgren removed the legs of a table and the rest was history. Reducing furniture to its basic elements so it could be packed in a flat box cut transportation costs for IKEA and reduced the price tag for the client. The idea that the customer could be a participant, rather than merely an observer, in furnishing a home was a natural, but revolutionary result. The flat pack took on a life of its own and became an integral part of the IKEA experience in 1956. Customers seemed to embrace the idea of self-assembly and the accompanying cost savings.

Kamprad's unique approach to retailing and furniture sales took root in 1958 with the opening of the first IKEA store in Almhult, offering "visitors" their first IKEA "shopping experience." This success was followed by the inauguration of the first IKEA store outside of Sweden in 1963 in Oslo, Norway.

IKEA Today

By 2008, there were 276 IKEA stores in 36 countries employing 118,000 "co-workers." In all, 244 stores in 24 nations are owned by IKEA and 32 stores in 16 countries are owned by franchisees. Annual expansion was limited, in order to ensure product availability and the veracity of the IKEA brand. IKEA's stores welcomed an average of 522 million customers per year, sold countless Swedish meatballs and distributed 191 million IKEA catalogs in 27 languages, surpassing the number of Bibles. The internet has also become a critical method of reaching customers. The IKEA website, with 450 million hits in 2008, was one of the world's most popular sites.

IKEA's revenues reached \$27 billion in 2007 (FYE 8/2007), a 14.5% increase over the previous year. The European market constituted 82% of sales, followed by North America with 15% and Asia/Australia with 3%. While the bulk of company revenues were generated in Germany, the US, France and the UK, most goods were from China, Poland, Italy, Sweden and Germany. IKEA stores stocked 9,500 items, manufactured by 1,350 suppliers located in 50 nations. Furniture was also sourced through Swedwood, an IKEA-owned manufacturer of wood-based furniture and components. Third party suppliers, however, provided the bulk of the company's inventory, in line with its belief in flexibility and its strategy of limiting investment in productive capacity. (Refer to *Exhibit 1 for the IKEA Business Idea.*)

Organization, Ownership and Governance

Ingvar Kamprad managed IKEA's day-to-day operations for 43 years, until his retirement in 1986 at age 60. Although aged 82 years in 2008, Kamprad held the position of senior advisor to Inter IKEA Systems BV, owner of the IKEA brand. (IKEA was ranked 38th among global brands by Interbrand in 2007.) His influence remained strong, even if his appearances were limited to store openings and other significant company events. Caring deeply that his vision endured, Kamprad was known to conduct several store visits annually.

In 1982 ownership of IKEA was transferred to Stichting INGKA Foundation in the Netherlands. The Foundation, in turn, held 100% of INGKA Holding BV, (Holding Company) the parent of all IKEA Group companies. (*Refer to **Exhibit 2** for a description of the organization and related entities.*) Anders Dahlvig became CEO of IKEA Group in 1999. Only four layers separated him from a store cashier in this large, yet flat organization. IKEA Group's divisions included the Swedwood manufacturing arm (which supplied 10% of IKEA products), Purchasing, and Distribution and Wholesale.

IKEA Services BV (IKEA Services AB) was the holding company of IKEA of Sweden, the locus of most furniture design activities. To ensure ongoing competition and creativity, the company actively sought product proposals from independent furniture designers. Inter IKEA Systems managed the IKEA concept and trademark and, as such, managed franchise relationships with all IKEA stores. Whether owned by IKEA Group or a franchisee, each store negotiated its use of the IKEA concept. This complex and tax-conscious ownership structure was designed to protect the firm's independence and preserve Kamprad's vision well into the future.

Kamprad's three sons were all involved in family business enterprises. The oldest, Peter, sat on the boards of Inter IKEA Systems and INGKA Holding BV, along with his father and five other members. The next son, Jonas, worked in the IKANO Group, a Kamprad family business which owned Habitat Stores, a British home furnishings chain purchased from the founder in 1992. Matthias Kamprad served as country manager for IKEA Denmark. The BBC quoted Kamprad as saying that whichever of his sons was judged to be the most successful businessman would become IKEA's next leader.

Continued Expansion and Internationalization

Growth and Stability

IKEA opened 21 stores in 11 nations during FY 2007. In 2008 the plan was to launch 25 more. The company would also introduce 3,000 new products in 2008, renewing the existing 9,500-item product line by substituting new products for existing ones.

Compared with many international retailers, IKEA's growth was modest, with the number of stores growing at around 10% per year. IKEA was dedicated to global

growth, but took seriously the task of preserving its core mission in its approach to the international market. Deliberate, well-founded and successful expansion into new markets could deliver the IKEA message of democratic ideals, self-actualization and taste to a large and growing audience.

In his 1976 *Testament of a Furniture Dealer*, Kamprad laid out his rationale for the importance of IKEA in society. He believed that the company's ideals of freedom with responsibility, access to lifestyle choices, will and strength tempered by humility, and continuous improvement fed by a healthy disregard for convention made the world a better place. (*Exhibit 3 describes the underpinnings of IKEA's corporate culture.*)

Its ownership status as a private concern allowed IKEA to remain immune from typical pressures to expand rapidly to keep sales rising sharply. Its ownership form might also be expected to inject more complacency into its corporate culture. In the absence of this pressure to expand, what motivated IKEA to grow? IKEA's private ownership allowed it to act on what it believed was its duty – to spread the “gospel” of freedom, independence, egalitarianism and access to style, regardless of economic status.

The limited legal ability of the Foundation to change the provisions of its organizing documents meant that Kamprad could fulfill a dream held by many business founders. The laws of the Netherlands severely limited adjustments to the purpose of the Foundation and its relationships with related entities as spelled out in the original documents. Therefore, Kamprad's vision for IKEA was indelibly imprinted on the company. Even Kamprad's successors would have few options for making any changes they might deem necessary.

Although neither Kamprad nor his family directly owned shares in IKEA, their ability to influence the company remained robust. The holding company's executive committee was controlled by the Kamprad family and associates. This situation was assured for some time to come, since vacancies were filled by a consensus decision of the existing members. IKEA's organizational form placed it in a strong position to retain its founder's philosophy and core values into the future.

Some Surprises

The adherence to cherished philosophies and methods provided a solid base from which to launch international expansion. And balancing the apparent contradiction of unswerving principles and the vibrancy and enthusiasm required to reach new parts of the globe with the corporate message seemed to come naturally to IKEA.

IKEA had much room to grow. For although it was a well-known brand, it actually claimed a modest market share in each country in which it operated, said to be 5% to 10%. However, that did not seem to impact profitability, as its profit margin was rumored to hover around 18%, compared with single-digit margins for competing retailers.

Expansion made a lot of sense and came with some surprises. Experience demonstrated that customers at IKEA's new Russian stores, for example, bought \$85 worth of goods during each visit – the same figure as in the firm's home base of Sweden.¹

Many elements of IKEA's philosophy were contrarian. Rising prices seemed natural to most retailers. But IKEA took immense pride in actively working toward a lower price for even top-selling products. Its goal was to reduce a product's price level by 2% to 3% annually.

The Challenge of Emerging Markets: Knowledge Transfer²

IKEA avoided major errors in growing its chain of stores. Initially it approached new markets in a relatively simplistic fashion, choosing to locate stores in large urban population centers. But with much practice, IKEA seemed to unlock the secret to retaining its core values and philosophy, which are proudly Swedish, while successfully entering markets with completely different national cultures. Essential to the recipe for success was bringing in old hands schooled in the IKEA way to plan and execute store openings. That meant the involvement of expatriates schooled in the best practices and nuances of the global IKEA. Lessons learned in past store openings were brought to bear on new situations. As a country manager said:

If we are going to build a good IKEA then we can only do it with people who know what IKEA is...the reason for having foreigners here is for the simple reason that there are no Russians with IKEA experience.³

When recruiting, the country manager thus looked for enthusiastic people to go to Russia to share their IKEA "corporate knowledge". The "old entrepreneurs" within IKEA who had been responsible for earlier country expansions were therefore employed for two reasons: first because of their "internationalization knowledge". A second reason was to teach Russian employees how to manage IKEA according to the IKEA way rather than the traditional Russian way... The local employees were to play an important role in sharing their "market knowledge" with the expatriates.⁴

¹ Capell, Kerry and Ariane Sains, Cristina Lindblad, Ann Therese Palmer. "IKEA: How the Swedish Retailer Became a Cult Brand." *Business Week*, 14 November, 2005: 96.

² Much of the information in this section comes from the two works by Anna Jonsson (one with co-author Ulf Elg) specifically cited below.

³ Jonsson, Anna and Ulf Elg. "Knowledge and Knowledge Sharing in Retail Internationalization: IKEA's Entry into Russia." *International Review of Retail, Distribution and Consumer Research*, Vol. 16, No. 2, 2006:239-256.

⁴ Jonsson, Anna and Ulf Elg. "Knowledge and Knowledge Sharing in Retail Internationalization: IKEA's Entry into Russia." *International Review of Retail, Distribution and Consumer Research*, Vol. 16, No. 2, 2006:239-256.

According to research on the method and consequences of IKEA's international expansion, the firm encouraged forward, reverse and lateral knowledge sharing in its forays into Russia, China and Japan.⁵

Geographically and culturally, these three nations could not have been further removed from Sweden. Some issues such as the frequent presence of import barriers and local infrastructural challenges were similar. Others, however, were unique: Despite the well-known Japanese penchant for quality, a growing chain of "100 yen stores" was becoming increasingly popular, sending a mixed message to IKEA planners in Japan. Each situation required a different set of competencies, thought processes and organizational strategies. IKEA's response had to be unique in each circumstance.

The knowledge of expatriates allowed IKEA Russia, IKEA China and IKEA Japan to benefit from the company's repository of best practices in opening nearly 300 stores globally. These seasoned employees shared their experiences via the corporate intranet, company manuals, a staff magazine, information-laden wallpaper at the entrance to employee restaurants and through daily hands-on, side-by-side involvement in new markets.

Perhaps more unexpected was the way these new markets offered fresh insights to headquarters. Annual "Range Week" meetings held in Sweden provided a forum for feedback on the product line. In addition, "Commercial Reviews" of how closely various stores or markets were adhering to the IKEA way were conducted each year throughout the system. This process served not only its intended purpose but also brought the perspectives of new markets, new customers and new ways of preserving and building the brand to the fore of IKEA-land thinking.

Expatriates also contributed to knowledge diffusion across the company, through official means as discussed, but more importantly through the personal networks that were at the heart of IKEA's operations. As in most organizations, individuals developed a professional reputation and network of contacts throughout the company. By informal communication with their networks, employees spread the word of what was working and what was not in a highly effective manner. Knowledge sharing was particularly potent at IKEA, since the prevailing entrepreneurial culture meant that good ideas were worth a try and mistakes, if they happened, constituted learning opportunities.

Disseminating information presented no problem for IKEA. But how did employees internalize their mission and sustain their passion for the company, whatever the local and competitive environment? Truly understanding IKEA's larger purpose in the world and how the individual employee contributed to the cause harmonized belief, learning and action.

⁵ Jonsson, Anna. "A Transnational Perspective on Knowledge Sharing: Lessons Learned from IKEA's Entry into Russia, China and Japan." *International Review of Retail, Distribution and Consumer Research*, Vol. 18, No. 1, 2008: 17-44.

Cultural Implications of Growth

How could IKEA continue to live by a Scandinavian philosophy while entering a diverse array of new markets? There had been missteps along the way. But IKEA seemed to have uncovered the secret of keeping the founder's vision alive while also embracing growth.

A major challenge of the growth imperative was the difficulty in hiring and training a large number of new staff each year. Staff turnover was estimated at 20% per year. Just locating like-minded people and training them further in the IKEA way could strain resources. Yet without great care applied to this issue, the very thing that made IKEA great – its culture and well-defined values – could be jeopardized. The quandary IKEA faced was how to benefit from size but not fall victim to it.

The credo at IKEA was to acknowledge and learn from mistakes. As Kamprad said in his *Testament of a Furniture Dealer*:

Only while sleeping one makes no mistakes.⁶

Acceptance of errors, of course, implied the individual's freedom of action. One was not likely to make a mistake if thinking inside the box was the expected norm. But neither entrepreneurship nor relationships grew when employees were concerned only with safety. This idea of freedom came out of Kamprad's own reluctance to travel with the herd. Going against the grain was a fundamental tenet of life at the company and led it to attract innovative thinkers.

Only employees who had the courage to follow their own dreams and consider alternative paths could thrive in such an unconventional environment. One of the most important qualities of IKEA employees was a comfort with natural incongruity. The company was famous for both large scale production and attention to detail, for centralization in purchasing and decentralization in decision making, for standardization of approach and adaptation to local markets and for a relaxed corporate demeanor and a philosophy of controlling all possible variables.

As noted by Steen Canter, a former IKEA executive, when discussing the allegiance of the staff to Kamprad and all things IKEA:

He has a core group of people who are culture bearers for the brand, who will go out and fight World War III for him.⁷

How would the corporate culture and the passion employees felt for the company be affected by Kamprad's diminishing personal impact on the business? Was Kamprad's stamp on the company indelible or could time erode the intangibles that made IKEA so special?

⁶ Chaundy, Bob. "IKEA's Self-Assembled Billionaire." BBC News, 28 July 2000. <http://news.bbc.co.uk/1/hi/world/europe/855984.stm> (accessed 16 June 2008).

⁷ Capell, Kerry. "Sweden's Answer to Sam Walton." *BusinessWeek.com*, 14 November 2005.

Exhibit 1 IKEA's Business Idea



we design the price tag first

The LAMPAN is created from the fundamental idea that it is possible to combine extreme low price, beautiful design and high quality. With low price in mind our designers began by reviewing the whole production process, for example materials used, logistics, labour and transport costs. The outcome was a new successful packing where the lampshade could be used as a bucket for the lamp foot.



we see things differently

One IKEA product developer decided to use a door as a tabletop when he toured a door factory that used board-on-frame construction - a layering of sheets of wood over a honeycomb core that gives a strong, lightweight structure with a minimal wood content. This type of construction is cost-effective and environmentally friendly and is used today in IKEA products such as the LACK table from 1980.



flat packing saves shipping cost

Our flat packs and our customers' willingness to assemble products themselves, enable us to reduce labour, shipping and storage costs. IKEA designs furniture so that it can be packed unassembled. Ultimately, this means that we are able to offer our customers products at low prices.



our responsibility

At the IKEA Group, we believe that taking responsibility for people and the environment is a prerequisite for doing good business. IKEA works actively to reduce our impact on climate change and IKEA products must be produced under acceptable working conditions at suppliers that take responsibility for the environment.

Source: Company website www.ikea.com © Inter IKEA Systems B.V. 1999–2008

Exhibit 2 The IKEA Group: Organization



Ingvar Kamprad, IKEA's founder

The founder of IKEA, Ingvar Kamprad, wanted to create an ownership structure and an organization that stand for independence and a long-term approach. That is why, since 1982, the IKEA Group has been owned by a foundation. In 1986 Ingvar Kamprad retired from Group Management and today acts as senior advisor to the parent company.

Stichting INGKA Foundation is the foundation that owns the IKEA Group. It is based in the Netherlands.

INGKA Holding B.V. is the parent company for all IKEA Group companies, based in the Netherlands. Members of the Supervisory Board are: Göran Grosskopf (Chairman), Mathias Kamprad, Lars-Johan Järnheimer, Göran Lindahl, Carl Wilhelm Ros, Bruno Winborg and Magdalena Gerger. Ingvar Kamprad is Senior Advisor.

IKEA Group Management: Anders Dahlgv (Group President and CEO), Ian Duffy, Sören Hansen, Peter Högsted, Lars Gejrot, Pernille Lopez, Torbjörn Lööf, Mikael Ohlsson, Josephine Rydberg-Dumont, Göran Stark and Werner Weber.

IKEA Services B.V. and IKEA Services AB with nine staff units in the Netherlands and Sweden support the work in all Group companies - from the Swedish industrial group to the sales companies that own the stores in the respective countries.

Exhibit 3 IKEA Corporate Culture

A corporate culture based on shared values.

At IKEA, we don't just want to fill jobs; we want to partner with people. We want to recruit unique individuals who share our values. Co-workers are not restricted at IKEA; we listen and support each individual to identify his or her needs, ambitions and capabilities. Here are a few examples of our shared values:

TOGETHERNESS
COST-CONSCIOUSNESS
RESPECT
SIMPLICITY

You can take IKEA out of Småland, but you can't take Småland out of IKEA



Småland, where the company's founder was born and raised, can be easily identified as the source of our shared values. Simplicity, humility, thrift and responsibility are all evident in the lifestyle, attitudes and customs of the place where IKEA began. An example of the Smålanders' way of doing things is not to ask others what you should be doing, but to ask yourself and then get on with it!

It was among the small, hardworking communities of Småland that Ingvar Kamprad started his first mail order company at 17, and registered the name IKEA which is based on his own initials. Ten years later, the first IKEA showroom was opened nearby in Älmhult. 50 years on, Älmhult is still at the heart of our enterprise. Amazing as it may seem, from this tiny dot on the map, we continue to develop solutions that will influence the future of millions.