Case History
IKEA's Global Strategy: Furnishing the World

IKEA is a furniture manufacturer and retailer, well known throughout the world for its knockdown furniture. Its large retail stores in the blue-and-yellow colors of the Swedish flag are located on the outskirts of major cities. attracting shoppers who are looking for modern designs at good value. The low-cost operation relies on buyers with automobiles to carry the disassembled furniture in packaged kits and assemble the pieces at home.
The IKEA case is interesting because it shows how even retailers can go global once the key competitive advantages of the offering are standardized. The case focuses on the American entry, which posed barriers IKEA had not encountered before and which forced adaptation of some features.
IKEA, the Swedish furniture store chain virtually unknown outside of Scandinavia 25 years ago, has drawn large opening crowds to its stores as it has pushed into Europe, Asia, and North America. Along the way it has built something of a cult following, especially among young and price-conscious consumers. But the expansion was not always smooth and easy, for example, in Germany and Canada, and particularly difficult in the United States.

Company Background

IKEA was founded in 1943 by Ingvar Kamprad to serve price-conscious neighbors in the province of Smaland in southern Sweden. Early on, the young entrepreneur hit upon a winning formula, contracting with independent furniture makers and suppliers to design furniture that could be sold as a kit and assembled in the consumer's home. In return for favorable and guaranteed orders from IKEA. the suppliers were prohibited from selling to other stores. Developing innovative modular designs whose components could be mass produced and venturing early into eastern Europe to build a dedicated supplier network. IKEA could offer quality furniture in modern Scandinavian designs at very low prices. By investing profits in new stores, the company expanded throughout Scandinavia in the 1950s.
Throughout the following years, the IKEA store design and layout remained the same; IKEA was basically a warehouse store. Because the ready-to-assemble "knockdown" kits could be stacked conveniently on racks, inventory was always large, and instead of waiting for the store to deliver the furniture, IKEA's customers could pick it up themselves. Stores were therefore located outside of the big cities. with ample parking space for automobiles. Inside. an assembled

version of the furniture was displayed in settings along with other IKEA furniture. The purchaser could decide on what to buy. obtain the inventory tag number. and then either find the kit on the rack, or, in the case of larger pieces, have the kit delivered through the back door to the waiting car.

This simple formula meant that there were relatively few sales clerks on the floor to help customers sort through the more than 10.000 products stocked.rhc sales job consisted mainly of making sure that the assembled pieces were attractively displayed. that clear instructions were given as to where the kits could be found. and that customers did not have to wait too long at the checkout lines. IKEA's was a classic "cash-and-carry" approach. except that credit cards were accepted.

This approach, which trims costs to a minimum. dependent on IKEA's global sourcing network of more than 2.300 suppliers in 67 countries. Because IKEA's designers work closely with suppliers, sayings are built into all its products from the outset. Also since the same furniture is sold all around the world, IKEA reaps huge economies of scale from the size of its stores and the big production runs necessary to stock them. Therefore, IKEA is able to match rivals on quality while undercutting them up to 30 percent on price.

To draw the customers to the distant stores, the company relies on word-of-mouth, limited advertising. and its catalogues. These catalogues are delivered free of charge in the mailboxes of potential customers living in the towns and cities within reach of a store, The catalogues depict the merchandise not only as independent pieces of furniture but also together in actual settings of a living room, bedroom. children's room. and so on. This enables the company to demonstrate its philosophy of creating a "living space", not just selling furniture. It also helps the potential buyer visualize a complete room and simplifies the planning of furnishing a home. It also shows how IKEA's various components are stylistically integrated into a complete and beautiful whole. Even though furniture is hardly high-tech, the philosophy is reminiscent of the way high-tech producers. such as mobile phone makers. attempt to develop add-on features that fit their particular brand and not others.

As the company has grown. the catalogue has increased in volume and in circulation. By 2003, the worldwide circulation of the 360-page catalogue reached over 130 million, making it the world's largest printed publication distributed for free, In 2003 the catalogue was distributed in 36 countries and 28 languages, showing more than 3.000 items from storage solutions and kitchen renovation ideas to office furniture and bedroom furnishings.

Sales totaled about 12.2 billion U.S. dollars in 2003 with a net profit margin around 6-7 percent. Of this, Europe accounted for over 80 percent of revenues,

with Asia accollnting for 3 percent. and North America 15 percent. The huge stores are relatively few in number - only 175 worldwide but growing rapidly - and the company employs about 76.000 people around the world. Many of the stores have only one expatriate Swedish manager at the top. sufficient to instill the lean Ingvar Kamprad and I KEA ethos in the local organization.
Although the firm remains private, it continues to innovate and reorganize itself. For instance, fast decision making is aided by a management structure that is as flat as the finn's knockdown furniture kits, with only four layers separating IKEA's chief executive from its checkout workers. In 1992 IKEA abolished internal budgets and now each region must merely keep below a fixed ratio of costs to turnover.

European Expansion

In the 1960s and 70s, as modern Scandinavian design became increasingly popular. expansion into Europe became a logical next step. The company first entered the German-speaking regions of Switzerland, thereby testing itself in a small region similar to Scandinavia. Yet expansion so far away from Sweden made it necessary to develop new suppliers. which meant that Kamprad traveled extensively. Visiting potential suppliers and convincing them to become exclusive IKEA suppliers. Once the supply chain was established, the formula of consumer-assembled furniture could be used. After some resistance from independent furniture retailers who claimed that the furniture was not really "Swedish" since much of it came from other countries. IKEA's quality/price advantage proved irresistible even to fastidious Swiss consumers.
The next logical target was Germany, much bigger than Switzerland, but also culturally close to IKEA's roots. I n Germany, well-established and large furniture chains were formidable foes opposed to the competitive entry and there were several regulatory obstacles. The opening birthday celebration of the first store in 1974 outside Cologne was criticized because in German culture birthdays should be celebrated only every 25 years. The use of the Swedish flag and the blue-yellow colors was challenged because the IKEA subsidiary was an incorporated German company (IKEA GmbH). The celebratory breakfast was mistitled because no eggs were served. Despite these rearguard actions from the established German retailers, IKEA GmbH became very successful, and was thus accepted, being voted German marketer of the year in 1979. The acceptance of IKEA's way of doing business was helped by the fact that IKEA had enlarged the entire market by its low prices, and some of the established retailers adopted the same formula in their own operations.

To get the stores abroad started, Kamprad usually sent a team of three or four managers who could speak the local language and had experience in an existing IKEA store. This team hired and trained the sales employees. organized the store layout, and established the sales and ordering routines. Although the tasks were relatively simple and straightforward. IKEA's lean organizational strategies meant that individual employees were assigned greater responsibilities and more freedom than usual in more traditional retail stores, Although this was not a problem in Europe and Japan (where its Japanese-sounding name also was an advantage), it was a problem in the United States.

Canadian Entry

To prepare for eventual entry into the United States, IKEA first expanded into Canada. The Canadian market was close to the U.S. market. and creating the supply network for Canada would lay the foundation for what was needed for the much larger US. market. Drawing upon a successful advertising campaign and positive word-of-mouth, and by combining newly recruited local suppliers with imports from existing European suppliers, the Canadian entry was soon a success. The advertising campaign was centered around the slogan. "IKEA: The impossible furniture store from Sweden," which was supported by a cartoon drawing of a moose's head, complete with antlers. The moose symbol had played very well in Germany, creating natural associations "with the north" and also creating an image of fun and games that played well in the younger segments the company targeted. The Canadians responded equally well to the slogan and the moose, as well as to IKEA's humorous cartoonlike ads poking fun at its Swedish heritage ("How many Swedes does it take to screw in a lightbulb? Two-one to screw in the lightbulb, and one to park the Volvo") which became often-heard jokes.

The United States presented a much different challenge, as it offered a much larger market with its population dispersed, great cultural diversity, and strong domestic competition. The initial problems centered around which part of the United States to attack first. While the east coast seemed more natural, with its closer ties to Europe, the California market on the west coast was demographically more attractive. But trafficking supplies to California would be a headache, and competition seemed stronger there. with the presence of established retailers of Scandinavian designs.

Then, there was the issue of managing the stores. In Canada, the European management style had been severely tested. The unusually great independence and authority of each individual employee in the IKEA system had been welcomed, but the individuals often asked for more direction and specific guidance, for example. the Swedish start-up team would say to an employee. "You are in charge of the layout of the office furniture section of the store" and consider this a perfectly actionable and complete job description. This seemed to go against the training and predisposition of some employees, who came back with questions such as, "How should this piece of furniture be displayed?" IKEA's expansion team suspected that the situation would be possibly even more difficult in the United States. The team also wondered if the same slogan and the moose symbol would be as effective in the United States as it had been in Germany and Canada.

Entry Hurdles in the United States

From the outset IKEA had succeeded despite breaking many of the standard rules of international retailing: enter a market only after exhaustive study: cater to local tastes as much as possible; and tap into local expertise through acquisitions, joint ventures, or franchising. Although breaking these rules had not hurt IKEA in Europe. the firm got into some trouble in America with its initial seven stores; six on the east coast and one in California. Many people visited the stores, looked at the furniture, and left empty-handed, citing long queues and not available stock as chief complaints.

IKEA managers believed that their most pressing problem in entering the U.S. market was the creation of a stable supply chain. By taking an incremental approach, starting with a few stores on the east coast including an initial one outside Philadelphia, IKEA managers believed that they had ensured a smooth transition from the eastern United States, with its relative proximity to European suppliers, and its Canadian beachhead. Although the store in southern California was much farther away, its large market and customer demographics - young and active - favored IKEA's modern designs and assemble-it-yourself strategy. The California entry was also precipitated by the emergence of a local imitator, "Stor" which had opened ahead of IKEA. capitalizing on the word-of-mouth generated by IKEA'S new concept.

IKEA's early effort had problems because of less adaptation to the American market than customers desired. For example, IKEA decided not to reconfigure its bedroom furniture to the different dimensions used in the American market. As a result, the European-style beds sold by IKEA were slightly narrower and longer than standard American beds, and customers' existing mattresses and sheets did not fit the beds. Even though IKEA stocked European-sized sheets in the stores, bed sales remained very slow. IKEA ended up redesigning about a fifth of its American product range and sales immediately increased by around 30-40 percent.

The American suppliers, whom IKEA gradually recruited to reduce the dependence on imports, also proved in need of upgrading and instruction in IKEA's way of producing furniture. IKEA sent its people to the suppliers' plants, providing technical tips about more efficient methods and helping the suppliers shop around for better-quality or lower-price materials. Now IKEA produces about 45 percent of the furniture sold in its American stores locally, up from 15 percent just a few years earlier. In turn this has helped the firm cut prices in its American stores for three years running. The American difficulties also highlighted how growth could lead to quality problems in managing its increasingly complex global supply chain, so IKEA began conducting random checks.

Other adaptations to the American market proved just as successful. For instance, new cash registers were installed to speed throughput by 20 percent, with the goal of eliminating long checkout lines. Store layout was altered to conform more with American aesthetics and shopping styles. A more generous return policy than in Europe was instituted and a next-day delivery service was implemented.

Promotion

While some managers helped establish the supply side of the stores, IKEA's marketing staff was busy with the promotional side of the business. Store locations had generally disadvantaged IKEA relative to competitors. Because of the huge size of the stores (typically around 200,000 square feet), the need to keep a large inventory so that customers could get the purchased furniture immediately, and the amount of land needed for parking around each store, most stores were located in out-of-the way places next to the airport in New Jersey in one case and in a shopping mall 20 miles south of Washington, DC, in another. Thus, advertising was needed to make potential customers aware of store locations. It was thought that lower prices and selection would do the rest positive word-of-mouth had proven the best advertising in most other markets,

But in the United States' competitive retail climate IKEA found that more focused media advertising was needed. As one manager stated: "In Europe you advertise to gain business; in the United States you advertise to stay in business." The diversity of the consumers made word-of-mouth less powerful than in ethnically more homogeneous countries. Management decided that a strong slogan and unique advertising message were going to be necessary to really bring awareness close to the levels in other countries.

The Moose symbol of IKEA, although successful in Germany and Canada was considered strange and too provincial for the US. market and would project the

wrong image especially in California. Instead IKEA, in collaboration with its New York-based advertising agency Deutsch. developed a striking slogan that combined the down-home touch of the company philosophy with the humorous touch of the Moose: “It's a big country. Someone's got to furnish it".
Following the success of this advertising strategy, the company ventured further to establish itself as a pioneering store and to attract new kinds of customers. IKEA and Deutsch developed a series of eight TV advertising spots that featured people at different transitional stages in their lives, when they were most likely to be in the market for furniture. One spot featured a young family who had just bought a new house. another a couple whose children had just left home, and so on. IKEA even developed one spot that featured a homosexual couple, two men talking about furnishing their home. It was a daring step, applauded by most advertising experts and impartial observers. The campaign had a positive impact on IKEA’s image-and on IKEA's sales. The company has continued the trend. One 30-second TV spot showed a divorced woman buying furniture for the first time on her own.
The privately held company won't reveal income figures, but it is successful in each of the market areas where it has located its US. stores. It is credited with being partly responsible for a shift in furniture buying behavior in the United States. Choosing furniture has become a matter of personality. lifestyle, and emotions in addition to functionality. IKEA’s managers like that - they want IKEA to be associated with the "warmest. most emotional furniture in the world".