



## Ingvar Kamprad and IKEA

With a 1988 turnover of 14 <sup>1</sup>/<sub>2</sub> billion Swedish Kronor (US \$1  $\approx$  SKr 6 in 1988) and 75 outlets in 19 countries, IKEA had become the world's largest home furnishings retailer. As the company approached the 1990s, however, its managers faced a number of major challenges. Changes in demographics were causing some to question IKEA's historical product line policy. Others wondered if the company had not bitten off too much by attempting major new market entries simultaneously in two European countries (U.K. and Italy), the United States, and several Eastern Bloc countries. Finally, there was widespread concern about the future of the company without its founder, strategic architect, and cultural guru, Ingvar Kamprad.

### IKEA Background and History

In 1989, furniture retailing worldwide was still largely a fragmented national industry in which small manufacturers and distributors catered to the demands of their local markets. Consumer preferences varied by region, and there were few retailers whose operations extended beyond a single country. IKEA, however, had repeatedly bucked market trends and industry norms. Over three and a half decades it had built a highly profitable worldwide network of furniture stores. (See Exhibit 1.)

### Company Origins

IKEA is an acronym for the initials of the founder, Ingvar Kamprad, his farm Elmtaryd, and his county, Agunnaryd, in Småland, South Sweden. In 1943, at the age of 17, Kamprad began his entrepreneurial career by selling fish, Christmas magazines, and seeds. Within a few years he had established a mail-order business featuring products as diverse as ballpoint pens and furniture. It was in furniture, however, that he saw the greatest opportunity.

Even as the pent-up wartime demand found expression in the post-war boom, the traditional Swedish practice of handing down custom-made furniture through generations was giving way to young householders looking for new, yet inexpensive, furniture. But while demand was growing, inter-association supply contracts and agreements between Swedish manufacturers and retailers kept prices high while foreclosing entry. As a result, between 1935 and 1946 furniture prices rose 41% faster than prices of other household goods. Kamprad felt that this situation represented both a social problem and a business opportunity. He commented:

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*Professor Christopher A. Bartlett and Research Associate Ashish Nanda prepared this case as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation.*

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A disproportionately large part of all resources is used to satisfy a small part of the population. . . . IKEA's aim is to change this situation. We shall offer a wide range of home furnishing items of good design and function at prices so low that the majority of people can afford to buy them. . . . We have great ambitions.

When Kamprad's upstart company started participating in the annual furniture trade fair in Stockholm, traditional retailers complained that IKEA was selling imitations. In 1951, when the company was explicitly forbidden from selling directly to customers at the fairs, it responded by only taking orders. In 1952, such order taking was banned at the fair, so Kamprad told employees to take down the names of potential customers and contact them after the fair. Subsequently, IKEA was forbidden from showing prices on its furniture. Finally, the retail cartel members pressured the manufacturers cartel not to sell to IKEA. Kamprad responded by buying from a few independent Swedish furniture makers and by establishing new sources in Poland. To his delight, he found that his costs actually fell and he could charge even lower prices. "[IKEA] resembles the monsters of old times," fumed one retailer in a letter to the cartel. "If we cut one of its heads, it soon grows another."

In 1953, Kamprad converted a disused factory in Älmhult into a warehouse-showroom. Company sales grew from SKr 3 million in 1953 to SKr 6 million in 1955. By 1961, IKEA's turnover was over SKr 40 million—80 times larger than the turnover of an average furniture store. (See Exhibit 2.) Of a total SKr 16.8 million furniture mail-order business in Sweden, IKEA had SKr 16 million.

In 1965, Kamprad opened a second outlet in Stockholm. Sensitive to the impact of the automobile on shopping habits, he gave priority to creating ample parking space rather than the focus, as was traditional, on downtown location. His new store, built on the outskirts of the city, was the largest in Europe at the time. Several of IKEA's basic practices were developed in this period: the self-service concept facilitated by the wide distribution of informative catalogs and the use of explanatory tickets on display merchandise, the knock-down kits that allowed stocks of all displayed items to be kept in store warehouses in flat pack boxes, and the development of suburban stores with large parking lots that brought the cash-and-carry concept to furniture retailing. Each of these practices resulted in economies that reinforced IKEA's position as the industry's low-price leader.

Between 1965 and 1973, IKEA opened seven new stores in Scandinavia, capturing a 15% share of the Swedish market. Rather than appeal to the older, more affluent consumers who had been the prime target of those offering the traditional, more expensive lines of furniture, Kamprad focused on younger buyers, who were often looking to furnish their first apartments. (See Exhibit 3 for customer data.) However, by the early 1970s, growth in the Swedish furniture market was stagnating. Kamprad felt it was time for IKEA to expand internationally.

## Entry into Continental Europe

"It is our duty to expand," Kamprad said, dismissing those who insisted that furniture retailing was a strictly local business. "He ignored the economic downturn caused by the 1973 oil shock," remarked an executive, "and oddly, it worked in our favor. Our overhead costs were low, and the customers really appreciated our value-for-money approach." Because the German-speaking countries constituted the largest market for furniture in Europe, they became his priority, with Switzerland being the first target.

As in other European countries, Swiss furniture retailing was highly fragmented, with 67% of all firms employing three people or less. Most were in expensive, downtown locations. IKEA opened a large store in the suburbs of Zurich, in a canton which had about 20% of the country's consumer purchasing power. Ignoring the fact that furniture in Switzerland was of traditional design, very sturdy construction, and made from dark woods, the new store offered IKEA's line of

simple contemporary designs in knockdown kits. Besides, rather than conform to the local service-intensive sales norms, the IKEA stores introduced self-service and cash-and-carry concepts. By distributing half a million catalogs and backing them with humorous, off-beat advertising (see **Exhibit 4**), the new store attracted 650,000 visitors in its first year.

In 1974, IKEA opened near Munich. Not only was West Germany Europe's largest and best organized furniture market (estimated at DM 12 billion in 1973), but it was also the largest furniture producer and exporter. German retailers were set up as elaborate furniture showrooms and they had adopted the role of order takers for manufacturers, holding little inventory of their own. As a result, consumers typically had to wait weeks for delivery, and manufacturers often faced sharp swings in demand as styles changed or the economy slowed. Again IKEA promoted itself as "those impossible Swedes with strange ideas." Promising inexpensive prices, immediate delivery, and the quality image of the Swedish Furniture Institute's Möbelfakta seal, the company attracted 37,000 people to the store during its first three days.

German retailers responded vigorously. Their trade association complained that the Möbelfakta requirements of the Swedish Furniture Institute were "considerably below the minimum requirements for quality furniture in West Germany and neighboring countries." Following legal proceedings against IKEA for deceiving customers with the Möbelfakta seals, the German court put constraints on how IKEA could use the seals. Other retailers initiated legal action challenging the truthfulness of IKEA's aggressive advertising. Again, the courts supported the German retailers and curtailed IKEA's activities.

Nonetheless, business boomed, with IKEA opening 10 new stores in West Germany over the next five years. By the late 1970s, it had built a 50% share in the cash-and-carry segment of the West German market. Retailers who had earlier fought IKEA's entry began to acknowledge the potential of this new retailing concept, and imitators began to mushroom. IKEA continued opening stores in Europe and franchising others outside Europe into the 1980s. (**Exhibit 5** details IKEA's worldwide expansion.)

## **IKEA's Culture, Strategy, and Organization**

As IKEA's spectacular growth and expansion continued, its unique management philosophy and organizational approach developed and changed. At the core was the founder, Ingvar Kamrad.

### **Ingvar Kamrad**

Ingvar Kamrad seemed driven by a vision larger than IKEA. "To create a better everyday life for the majority of people," he said, "once and for all, we have decided to side with the many. We know that in the future we may make a valuable contribution to the democratization process at home and abroad." One of his executives said of him, "He focuses on the human aspect. What motivates Ingvar is not profit alone but improving the quality of life of the people."

Throughout IKEA, Kamrad was revered as a visionary. "He consistently turned problems into opportunities and showed us how it is not dangerous to be different," said one executive. But Kamrad also paid extraordinary attention to the details of his business, and could operate simultaneously on multiple levels. "In a group of 600 items, he will ask about a particular product, know its price, its cost and its source, and he will expect you to know it, too. He checks everything and wants to do everything he can. He does not seem to believe in delegation. He is constantly bypassing formal structures to talk directly with front-line managers, particularly the designers and the purchasing group."

Kamprad's interest in front-line operations also extended to IKEA's staff. Whenever he visited a store he tried to meet and shake hands with every employee, offering a few words of praise, encouragement or advice as he did so. The simple—some said spartan—values of his native Småland had stayed with Kamprad, and he still rose early, worked hard, lived simply, and took a common-sense approach to management. One executive's account of Kamprad's recent visit to a newly opened store in Hamburg captured much of the founder's management style:

During his rounds of the new store, he made points that covered 19 pages of notes. They ranged from comments about the basic design—he felt the building had far too many angles which added to construction costs—to the size of the price tags and the placement of posters in the store.

He invited the employees to stay after work—and almost all did—so he could thank them for their efforts, since most had transferred from a distant store site. The dinner was typical IKEA style—the employees went first to the buffet, the managers went next, and Ingvar Kamprad was among the last when only the remnants were left. After dinner, Ingvar shook hands and talked with all 150 present, finally leaving the store well past midnight. That experience will keep the motivation high for weeks. Each employee will go back home and tell his family and his friends that Ingvar shook hands with him.

When the store manager arrived at 6:30 the next morning, he found that Ingvar had been in the store for over an hour. Although he was staying in a modest hotel, he remarked that it was probably priced 5 DM too high. That story will probably circulate through the company as many others do—like the one about Ingvar driving around town late at night checking hotel prices, till he found one economical enough. It's all part of the aura and the legend that surrounds him.

## **IKEA's Management Philosophy and Practices**

In many ways, IKEA developed as an extension of Kamprad and his view of life. "The true IKEA spirit," he remarked, "is founded on our enthusiasm, on our constant will to renew, on our cost-consciousness, on our willingness to assume responsibility and to help, on our humbleness before the task, and on the simplicity in our behavior." Over the years a very distinct organization culture and management style had emerged.

The company operated very informally. It was reflected in the neat but casual dress of the employees (jeans and sweaters were the norm), in the relaxed office atmosphere with practically everyone sitting in an open-plan office landscape, and in the familiar and personal way the employees addressed each other—with the personal "du" rather than the more formal "sie" in Germany, and in France, with "tu" rather than "vous." Kamprad noted, "A better everyday life means getting away from status and conventions—being freer and more at ease as human beings." But a senior executive had another view: "This environment actually puts pressure on management to perform. There is no security available behind status or closed doors."

The IKEA management process also stressed simplicity and attention to detail. "Complicated rules paralyze!" said Ingvar Kamprad. An oft-repeated IKEA saying was "Retail is detail." Store managers and corporate staff alike were expected to fully understand the operations of IKEA's stores. The company organized "antibureaucrat weeks" that required all managers to work in store showrooms and warehouses for at least a week every year. The work pace was such that executives joked that IKEA believed in "management by running around."

Cost consciousness was another strong part of the management culture. "Waste of resources," said Kamprad, "is a mortal sin at IKEA. Expensive solutions are often signs of

mediocrity, and an idea without a price tag is never acceptable." Although cost consciousness extended into all aspects of the operation, travel and entertainment expenses were particularly sensitive. The head-office travel department had circulated a pamphlet titled "Travelling for IKEA," which contained tips on qualifying for the most inexpensive air fares, and listed economical, simple "IKEA hotels." "We do not set any price on time," remarked an executive, recalling that he had once phoned Kamprad to get approval to fly first class. He explained that economy class was full, and that he had an urgent appointment to keep. "There is no first class in IKEA," Kamprad had replied, refusing his request. "Perhaps you should go by car." The executive completed the 350-mile trip by taxi.

The search for creative solutions was highly prized within IKEA. Kamprad had written, "Only while sleeping one makes no mistakes. The fear of making mistakes is the root of bureaucracy and the enemy of all evolution." Though planning for the future was encouraged, overanalysis was not. "Exaggerated planning can be fatal!" Kamprad advised his executives. "Let simplicity and common sense characterize your planning."

Kamprad had created company legends out of stories where creative common sense experiments had changed the way the company did business. On opening day of the original Stockholm store, for example, the warehouse could not cope with the rush of customers. The store manager suggested that they be allowed to go into the warehouse to pick up their purchases. The result was so successful that future warehouses were designed to allow self-selection by customers, resulting in cost savings and faster service.

Because it had such a strong and unique culture, IKEA preferred not to recruit those who had already been immersed in another cultural stream. Nor was higher education necessary or even advantageous in IKEA. "The Stockholm-raised, highly educated, status-oriented individuals often find it difficult to adjust to the culture of the company," remarked one executive. "Younger, more open recruits not only keep costs low, but they also absorb and amplify the enthusiasm of the company. We can develop them quickly by delegating responsibilities early, rotating them frequently, and offering rapid promotions to the high performers. The average age of a store manager is only 34." An executive listed the characteristics of the successful new applicants to IKEA:

They are people who accept our values and are willing to act on our ideas. They tend to be straightforward rather than flashy, and not too status-conscious. They must be hardworking and comfortable dealing with everyone from the customer to the owner to the cashier. But perhaps the most important quality for an Ikee is ödmjukhet—a Swedish word that implies humility, modesty and respect for one's fellow man. It may be hard to translate, but we know it when we see it. It's reflected in things like personal simplicity and self-criticism."

The people and the values resulted in a unique work environment of which Kamprad was genuinely proud. "We take care of each other and inspire each other. One cannot help feeling sorry for those who cannot or will not join us," he said.

In 1976, Kamprad felt the need to commit to paper the values that had developed in IKEA during the previous decade. His thesis, *Testament of a Furniture Dealer*, became an important means for spreading the IKEA philosophy during a period of rapid international expansion. (Extracts are given in Exhibit 6.) With the help of this document, the organization strove to retain much of its unique culture, even as it spread into different countries. The big ideas contained in Kamprad's thesis were spread through training and "mouth to ear" transfer. Specially trained "IKEA ambassadors" were assigned to key positions in all units to spread the company's philosophy and values by educating their subordinates and by acting as role models. By 1989, about 300 such cultural agents had been trained in a special week-long seminar which covered not only the

company's history and culture (presented personally by Kamprad), but also detailed training on how to spread the message.

## The Adapting IKEA Strategy

At the heart of the IKEA strategy was its product range. Ingvar Kamprad called it "our identity" and set up clear and detailed guidelines on profile, quality and price. While leaving considerable flexibility for fringe products, he decreed that IKEA should stand for essential products for the home—simple, durable, and well designed—priced to be accessible to the majority of the people.

IKEA had over 20,000 product offerings, of which 12,000 formed the core of simple, functional items common across IKEA stores worldwide. Of these, the 2,000-3,000 items displayed in the catalog received special attention since the catalog was the centerpiece of the company's product promotion policy. Indeed, management saw it as the principal means of educating consumers to the IKEA product line and concept. By 1988, the annual distribution of 44 million catalogs in 12 languages and 27 editions accounted for half the company's marketing budget.

In order to maintain its low-price reputation and allow catalog prices to be guaranteed for a year, management promoted an organization-wide obsession with cost control. The importance of production flexibility and responsiveness led to the following activities:

- **Finding low-priced materials:** IKEA designers and buyers were always looking for less-expensive, good quality alternative materials, and, in the early 1960s, led the trend to replace traditional teak with less costly oak materials. In the 1970s, IKEA helped win a broader acceptance of inexpensive pinewood furniture.
- **Matching products to capabilities:** "We don't buy products, we buy production capacities," remarked a purchase executive. In an effort to maximize production from available capacity, IKEA constantly searched for unconventional suppliers. For example, it had offered contracts for table manufacture to a ski supplier, and cushion covers to a shirt manufacturer with excess capacity. "If the suppliers have capacity, we ask them to produce first, and then we worry about selling the output. It is by ensuring our suppliers' delivery schedule security and by filling their available manufacturing capacity that we maintain our unique price levels."
- **Developing long-term relations with suppliers:** IKEA supported its suppliers both technically and financially even to the point of designing their factories, buying their machines and setting up their operations. In order to meet cost objectives and maintain long-term supplier relationships, designers worked two to three years ahead of current products. By ensuring a high, steady volume of orders, IKEA encouraged the suppliers to invest and drive down manufacturing costs. In furniture alone, IKEA purchased from about 1,500 suppliers in more than 40 countries. Purchases were consolidated in 12 central warehouses, which maintained high inventories not only because of commitments to suppliers, but also to meet the company's 90% to 95% service level objective on catalog items.

The most visible aspect of IKEA's strategy was its highly successful retail operations. The distinctive stores with their constant innovations had changed the face of furniture retailing in Europe. As IKEA expanded, tremendous internal competitiveness developed among the stores. "The newly set-up stores would look at the previously developed stores and try their hardest to improve on them," recalled an executive. "One would set up a green plant department, so the next would create a clock section." It was by this process that some of the unique distinguishing

characteristics of the typical IKEA store emerged: supervised play areas for children, which featured a large "pool" filled with red styrofoam balls; in-store cafes that served inexpensive exotic meals, such as Swedish meatballs; and fully equipped nursery and baby-changing facilities.

Although this inter-store competition resulted in numerous innovative new ideas, it also led to a certain amount of unnecessary differentiation and wheel reinvention. So much so that by the mid-1980s, some senior managers began proposing greater coordination and standardization of the diverse operations and multiple approaches. They argued that not only would such standardization project a clearer IKEA image, but it could also result in considerable savings. An executive recalled:

Hans Ax was the major champion of the "IKEA concept." He felt that we were spending too much on diverse development projects instead of taking the best ideas, standardizing our approach, and applying it to all the stores. As a result of this effort, a uniform concept has emerged. Guidelines have developed ranging from the basic color of the IKEA signs to the size of plants sold in our garden shops.

An important part of the IKEA concept was the development of standard in-store display areas. In every store there were five or six areas called studios which displayed some of the best-selling products. Under the IKEA concept, the locations of the studios within the retail store and their display settings were standardized, down to the last centimeter of layout design.

The concept also specified store architecture more precisely, defining the classic IKEA traffic flow that took customers through the store in a four-leafed clover pattern to maximize their exposure to the product line. It prescribed standard in-store facilities including baby-changing rooms, a supervised play area for children, information centers, and cafes. "We have become a little like McDonald's in our insistence that all the stores conform on these points," said one headquarters executive. "We want to create a unique ambience that makes IKEA not just a furniture store, but a family outing destination that can compete with the entertainment park and the zoo for family time."

## **The Evolving Organization**

When IKEA started internationalizing, Kamprad organized its non-Scandinavian business into an Expansion Group and an Operations Group. (See Exhibit 7.) The former was responsible for initial planning for new market entry. First, a construction team was sent in to set up the new facility. Then, two months before the opening, a "build-up" team from the first-year group would take charge, training the staff, establishing operations, and managing the opening. After about a year, they would hand over to the Operations Group.

This organization allowed rapid growth and also propelled many of IKEA's top managers to positions of responsibility. Recalled an IKEA executive:

The pioneering spirit of a core group allowed our international expansion to succeed. With no guidelines except Ingvar's thesis and a general objective, young entrepreneurs would buy land, build and set up a store, and quickly move on to the next store. The pace was breathtaking. You could be hired on Monday and sent out on Thursday on a key mission. The company had unbelievable confidence in its people, and this experience created today's leaders in IKEA—Anders Moberg, Thomas Blomquist, and many others.

Responsibilities shifted frequently and careers progressed rapidly. Most senior executives were in their thirties. Anders Moberg, now IKEA's CEO at 38, had started his career in store administration, moving to work in build-up groups before being appointed store manager in Austria and in Switzerland. He then led the IKEA entry into France as country manager.

In the early 1980s, with a well-established international organization, IKEA retail was reorganized into four geographical regions, headed by regional managers. However, the purchasing, distribution, and design functions continued to be centrally controlled and were staffed by specialists who rarely migrated to other functions. Most purchasers, for example, came from Småland, Kamprad's home region whose inhabitants were renowned for their thriftiness. They rarely had a college education, and their job rotation and career growth were slower and more specialized than the retailers'.

IKEA's senior management remained predominantly Scandinavian. "There is an efficiency in having a homogeneous group," reasoned a Swedish manager of a foreign operation. "They instinctively follow the Scandinavian management philosophy of simple, people-oriented, nonhierarchic operations." Although there was no overt discrimination, some non-Swedes felt it was important to speak Swedish and understand the Smålandish psyche to be a member of the inner management circle since the dominant company ethic was viewed internally as systematized Smålandish common sense. Indeed, IKEA's president, Anders Moberg, had been publicly quoted as saying, "I would advise any foreign employee who really wants to advance in this company to learn Swedish. They will then get a completely different feeling for our culture, our mood, our values. All in all, we encourage all our foreign personnel to have as much contact with Sweden as possible, for instance, by going to Sweden for their holidays."

Over the years, the legal ownership structure of the IKEA group had been shaped by several influences. Above all, Kamprad wanted to ensure that the business would live on after him and would not be broken up in some kind of inheritance dispute. He and his family controlled a company whose income derived from franchise fees and royalties paid by IKEA stores. Operating profits were transferred to a charitable foundation Kamprad had set up in the Netherlands to escape stringent Swedish taxes and foreign exchange regulations. (See Exhibit 8.) Kamprad himself had moved to Lausanne, Switzerland, partly to escape the high Swedish taxes.

## **New Directions and Future Issues**

By the late 1980s, Kamprad and his management team were working on some bold new strategies to take IKEA into the next decade. Along with the new directions, however, came some questions about how long the company could maintain its remarkable record of growth and expansion.

### **New Horizons**

In 1979, Kamprad had bought a faltering IKEA franchise in Canada, and turned it into a lucrative business within three years. Thereafter, management had been eyeing the United States, the largest furniture market in the world (estimated at \$15 billion in 1985). The decision process leading to entry into the United States was in classic IKEA style, as Björn Bayley, head of the Canadian operations at the time, recalled:

The U.S. market had enormous potential. There are 18 million people in New York alone—more than the population of Scandinavia. Once it became known within IKEA that we were planning to open stores in the United States, three or four managers staked out a claim to head the U.S. operations. But Ingvar was not ready to decide and, for several months, confusion reigned. Finally, he called me from a railway station in Stuttgart. He had decided to run the new U.S. stores as part of the Canadian operation. He wanted us to open two stores on the East Coast with as little hoopla as possible, and, once these were successful, follow with further expansion.



As usual, it didn't take long for imitators to appear. Indeed, a California-based retailer calling itself Stör began emulating IKEA's concepts so exactly—from product designs to ball-filled children's play areas—that the company launched legal proceedings against them. To preserve its image and to preempt imitators, management decided to accelerate its national expansion plans. By 1989, stores had been opened in Philadelphia, Washington, Baltimore and Pittsburgh, and six more openings were scheduled by 1992.

In 1987, IKEA entered the U.K., a market estimated at £5 billion, and home of the only other large multinational furniture retailer—the more upscale Habitat. A successful entry in Warrington (in the northwest) was followed by the opening of the country's largest home furnishing store close to London. Plans for another 10 stores in the U.K. were announced.

In 1989, IKEA opened its first store in Italy—one of Europe's largest furniture markets. Again its initial reception was excellent. For the first three days of operation, there were one-hour-long queues outside the store. As soon as it could obtain the necessary permits, the company hoped to expand south from its base in Milan.

IKEA had also taken the first steps in its plans to build a major presence in Russia and East Europe. Not surprisingly, the unconventional idea was hatched by Ingvar Kamprad in the mid-1980s. Recalled an IKEA executive, "Our entire East European strategy was mapped out by Ingvar on a small paper napkin. Just about every aspect of the entry strategy was laid out on this small piece of paper—we call it his Picasso—and for the past few years we have just built on and expanded that original vision."

The bold plans called for new skills and involved different risks. To source from 15 factories in Russia and many others in East Europe would require an investment in excess of SKr 500 million. The limited ability to transfer hard currency from East Europe forced the company to plan for extensive countertrade deals so that dividends and capital repayment could be replaced by furniture exports to the West. Some felt that it was too early to risk heavy resource dependence on the Eastern Bloc countries, given their low reliability of service and poor quality image. Others were concerned that recent economic and political reforms in many of these countries could easily suffer major reversals. However, in face of Kamprad's persistence, IKEA was proceeding with this major thrust.

The site of its first East Europe outlet was in Budapest, where the company took a 50% share in a joint venture with a Hungarian retail chain. Soon after, it entered an agreement to open a store in Leningrad. In 1988, IKEA Poland decided to build a \$25 million warehouse and retail center near Warsaw. As part of that plan, IKEA would buy furniture and establish a joint-venture woodworking factory in Poland. Outlets were also planned in Yugoslavia. An office in Vienna coordinated the administration of these various East European activities.

## **New Organization and Leadership**

In 1986, Ingvar Kamprad appointed 35-year-old Anders Moberg as president. At the same time, IKEA operations were reorganized on functional lines (see **Exhibit 9**). At the top of the group was the four-person supervisory board, which reviewed the group's general direction. Under the supervisory board was the executive board, which was responsible for the day-to-day operations of the group. Except for Björn Bayley, all executive board members were based in IKEA's 50-person headquarters in Humlebaek, Denmark. Of the group's four basic functions, product range, purchasing, and distribution service reported directly to Moberg in his operating capacity as head of wholesale. Ingvar Kamprad also continued his deep involvement with the purchase and product range functions and often spent time discussing the intricacies of purchasing or design with managers five or more levels below him.

The leadership shift had an impact on the company's management style. Remarked one executive, "With over 13,000 employees worldwide, some have begun to push for a more formalized approach. Anders is more committed to systematization, and he delegates much more than Ingvar." In 1988 Moberg introduced a formal budgeting and planning process. Business plans from the various country operations and product groups were integrated and modified at the executive board level. A corporate plan with three years' horizon was developed and sent back to the country units and the product groups to ensure their actions were in conformity with the plan.

Blanket cost consciousness at all levels was giving way to cost-benefit studies. Instead of seeking out the least expensive sites, the company was now more willing to locate new stores at A-class sites, where justified. Furthermore, while earlier stores had been built for the midweek crowds, newer store capacity was being matched with weekend crowds. Although many applauded the changes as overdue, some felt they were not coming fast enough:

There is a time bomb ticking inside IKEA's growing profitability that makes employees less willing to sacrifice and more anxious to share the rewards. There is often a conflict between cost consciousness and efficiency. It's hard to keep the old spirit of frugality when the business is doing so well.

## Future Directions and Concerns

Overall, IKEA hoped to reach a turnover of SKr 19 billion by 1990 and perhaps three times that amount by the year 2000, principally through rapid geographical expansion. But there was some cause for concern. Said one executive, "We are currently making annual risk capital investment of about SKr 500 million, which translates to opening 4 to 6 new stores every year. But our expansion plans are much more ambitious. In the U.S. alone, our rollout plan calls for 2 to 3 new stores every year, accelerating to 5 or 6 a year by the mid-1990s. I just hope we are not overextending ourselves."

Over the next few years, the median age and income level in most developed countries was expected to rise, while IKEA's target market segment of young, low- to middle-income families would be shrinking. A senior executive reflected:

We have to expand into other segments like office furniture and more traditional designs for the older, richer people. In our advertising also, we have started playing down the image of the "crazy Swedes," replacing it with a superior quality image. In entering the United States, for example, we have tried to project a sober image right from the beginning. But we cannot risk making our profile too diffuse, or distorting the IKEA image.

Perhaps the biggest concern was whether the rapid growth and increasing geographic spread of IKEA would make it difficult to retain the company's cultural values. With over 13,000 employees worldwide and 1,000 new recruits being added annually, many newcomers had only a vague sense of the IKEA way. Björn Bayley, head of North American operations, commented:

The only constraint to our growth is people. At the top levels, our commitment to Ingvar's thesis still exists. But these days the pioneers are having to learn how to fill in forms. IKEA is adding about 10% to its work force every year, in addition to normal personnel turnover, which can be as high as 20% in some departments. Inculcating the IKEA way into such a rapidly growing community is itself a tremendous challenge.

Another barrier we now face is the differences in attitudes between America and Scandinavia. Because of the low job security here, American employees are always looking for guidance—despite their higher education and need to achieve.

The IKEA way requires openness and a willingness to take responsibility. We want people to stand up and disagree with authority if they have confidence in their beliefs. Despite intensive training programs it has been hard making the IKEA way their way of life here in the United States.

Even Kamprad conceded:

Before, it was more concrete, the will to help each other, the art of managing with small means—being cost conscious almost to the point of stinginess, the humbleness, the irresistible enthusiasm and the wonderful community through thick and thin. Certainly it is more difficult now when the individual is gradually being wiped out in the gray gloominess of collective agreements.

The importance of a homogeneous management group in maintaining this common cultural bond was also being debated within the company. "When we open in a new country, we need the top management to be culture bearers for IKEA," remarked an executive, "so they are Scandinavian." Of the 65 senior executives in IKEA, 60 were Swedish or Danish, and almost all the non-Scandinavians were concentrated in distribution services. Furthermore, most of the senior executives came from the retail side of business. Some in the company felt such similarity of background was no longer in IKEA's best interest, as reflected by the comments of one company executive:

Sometimes, I think there is too much ideology bordering on religion. You sell your soul to IKEA when you start internalizing the culture. Ingvar is obsessed with his own ideas, and there is an element of fanaticism and intolerance towards people who think differently. I, for one, react negatively to the stingy mentality that sometimes shows through our cost-consciousness, or when Ingvar says that we can reach self-fulfillment only through our jobs—we work hard, but there is no reason that our jobs should necessarily dominate our lives.

Concerns were also being raised about how far IKEA could or should push its common concept across all stores even as it rapidly expanded internationally. As one executive put it:

Our common concept should leave sufficient room for creativity and freedom at the individual store level. Very often, market orientation and IKEA concept orientation clash. The U.S. market wants shelves with space for TV sets while European shelves are designed only for books. Should we adapt our line, or continue to sell bookshelves in the United States? The Scandinavian-designed bed and mattress is fundamentally different from the standard approach that is the norm in continental Europe. Should we continue to push the Scandinavian sleeping preferences on the rest of Europe?

But it's more than an issue of product design—it extends to how much we should adapt our organization and culture. Humility may be a virtue in Europe, for example, but should we impose it on our U.S. organization? Or is the attitude of "success breeds success" more appropriate there? Should our business drive our culture, or should our culture drive our business?

Perhaps the deepest concern was one that was often unspoken. How well would IKEA survive Ingvar Kamprad's eventual departure from the company? To this concern, Ingvar Kamprad responded, "The IKEA ideology is not the work of one man but the sum of many impulses from all the IKEA leadership. Its supporting framework is massive." But others were less sanguine. One manager summed up the concerns of many: "Ingvar is a patriarch. His dominating personality has been the life breath of the company, and you have to question how we will survive when he is gone."

Exhibit 1 IKEA Growth and Performance Indicators

| Year | Turnover<br>(m SKr) | Outlets | Countries | Co-workers | Catalogs<br>(000s) |
|------|---------------------|---------|-----------|------------|--------------------|
| 1954 | 3                   | 1       | 1         | 15         | 285                |
| 1964 | 79                  | 2       | 2         | 250        | 1,200              |
| 1974 | 616                 | 10      | 5         | 1,500      | 13,000             |
| 1984 | 6,770               | 66      | 17        | 8,300      | 40,000             |
| 1988 | 14,500              | 83      | 20        | 13,400     | 44,000             |

| Year                               | 1979-<br>1980 | 1980-<br>1981 | 1981-<br>1982 | 1982-<br>1983 | 1983-<br>1984 | 1984-<br>1985 | 1985-<br>1986 | 1986-<br>1987 | 1987-<br>1988 |
|------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Turnover (billion SKr)             | 3.6           | 4.1           | 4.8           | 6.0           | 6.8           | 8.2           | 10.7          | 12.6          | 14.5          |
| Estimated PAT<br>(million SKr)     | 250           | 280           | 300           | 420           | 500           | 500           | 630           | 930           | 1100          |
| Total surface area<br>(000 sq. m.) | 425           | 458           | 483           | 533           | 606           | 825           | 907           | 953           | 973           |
| Number of visitors<br>(millions)   | 25            | 30            | 34            | 36            | 38            | 44            | 53            | 60            | 65            |

IKEA was a closely held private company. Accounting data were not made public. The company's capitalized market value was estimated conservatively at SKr 10 billion in 1987. Profits are best-estimates from available information.

| Region            | % of Sales (1988) | Region            | % of Purchases (1988) |
|-------------------|-------------------|-------------------|-----------------------|
| West Germany      | 29.7%             | Scandinavia       | 50%                   |
| Scandinavia       | 27.5              | East Europe       | 20                    |
| Rest of Europe    | 28.5              | Rest of Europe    | 22                    |
| Rest of the world | 14.3              | Rest of the world | 8                     |

Sources: 1. Company documents.  
2. *Affärsvärlden*, December 8, 1987.

Exhibit 2 IKEA and the Swedish Furniture Industry: 1961

Personnel Functions in Swedish Furniture Stores in 1961

| Personnel Occupied<br>with | IKEA | Furniture Stores | Furniture Sections of<br>Department Stores |
|----------------------------|------|------------------|--|
| Selling                    | 29%  | 42%              | 65%  |
| Clerical                   | 44   | 13               | 6  |
| Warehouse                  | 17   | 11               | 16   |
| Transportation             | 5    | 13               | 5  |
| Workshop                   | 5    | 21               | 8  |

Productivity of Swedish Furniture Retailers in 1961

| Measure                                   | IKEA  | Large Store <sup>a</sup> | Average Store |
|---|-------|--------------------------|---------------|
| Annual turnover in 1,000<br>SKRr/employee | 202   | 114                      | 93            |
| Annual turnover in<br>SKR/sq. m.          | 1,453 | 1,076                    | 704           |
| Rent as percent of annual<br>turnover     | 0.6%  | 3.0%                     | 3.4%          |
| Annual stockturn                          | 3.2   | 2.9                      | 2.3           |

Source: R. Marteson, *Innovations in Multinational Retailing: IKEA in Swedish, Swiss, German, and Austrian Markets*, Doctoral Dissertation, (University of Gothenburg: Gothenburg, Sweden, 1981).

<sup>a</sup> Annual turnover SKr 1 million or more.

**Exhibit 3** IKEA Customer Profile and Buyer Behavior**Profile of IKEA Customers (Stockholm, 1975)**

| Age   |     | Children |     | Status  |     | Income<br>(000 SKr) |    | Education<br>(yrs) |     | Home        |     |
|-------|-----|----------|-----|---------|-----|---------------------|----|--------------------|-----|-------------|-----|
| 0-25  | 47% | 0        | 55% | Married | 65% | 0-2                 | 6% | 0-6                | 24% | House       | 25% |
| 25-35 | 32  | 1        | 22  | Single  | 35  | 2-4                 | 31 | 7-11               | 63  | Apartment   | 63  |
| 35-45 | 14  | 2        | 16  |         |     | 4-6                 | 25 | 12+                | 38  | Condominium | 12  |
| 45+   | 7   | 3        | 7   |         |     | 6+                  | 38 |                    |     |             |     |

**Buyer Behavior at IKEA (1975)**

| Primary determinants of purchase | %    |
|----------------------------------|------|
| Design                           | 14%  |
| Price                            | 44   |
| Quality                          | 3    |
| Large assortment                 | 16   |
| Catalog                          | 11   |
| Recommendations                  | 1    |
| Guarantees                       | 0    |
| Others                           | 11   |
| Total                            | 100% |

| Importance of criteria for store-choice: | High | Low | No Response |
|--|------|-----|-------------|
| Design                                   | 69%  | 5%  | 26%         |
| Price                                    | 54   | 11  | 35          |
| Quality                                  | 90   | 0   | 10          |
| Distance                                 | 19   | 66  | 15          |

| Consumer attitude to IKEA | Positive | Negative | Neither |
|---------------------------|----------|----------|---------|
| Design                    | 51%      | 10%      | 39%     |
| Price                     | 73       | 4        | 23      |
| Quality                   | 27       | 29       | 44      |
| Distance                  | 56       | 29       | 15      |

**Purchase decisions were based on:**

|                           |     |
|---------------------------|-----|
| Prior visits to the store | 37% |
| Visits to other stores    | 72  |
| Information from catalog  | 78  |

Source: R. Marteson, (*op. cit.*)

**Exhibit 4    Introductory Promotion Campaigns of IKEA in Continental Europe**

**Advertising Themes for IKEA Store Opening: Switzerland, 1973**  
(Six letters from Herr Bunzli)

| <b>No.</b> | <b>Theme</b>                                 | <b>Abstract from the Advertisement</b>  |
|------------|--|---|
| 1.         | The new sales concept                        | Jokes about Swiss unwillingness to transport and assemble furniture, even for lower prices. |
| 2.         | No delivery by IKEA                          | "That is a stupid thing."   |
| 3.         | Assembly of knocked-down furniture           | "You can't do that to us Swiss."  |
| 4.         | The wood used for furniture                  | "No teak . . . we are not Swedes."  |
| 5.         | The Swiss needing furniture as status-symbol | "Swedes go home."   |
| 6.         | Swiss quality                                | "Quality can come only from Switzerland."   |

**Advertising Themes for IKEA Store Opening: Munich, 1974**

| <b>No.</b> | <b>Theme</b>  |
|------------|---|
| 1.         | Young people have more taste than money.                              |
| 2.         | We achieve the impossible.  |
| 3.         | On October 17, we'll open Munich's furniture highway.                 |
| 4.         | At long last, the impossible furniture store will open on October 17. |
| 5.         | Trees off the ground we take, and furniture for you we make.          |

**Promotion Campaigns: West Germany 1974-1979**

| <b>No.</b> | <b>Campaign</b>          | <b>Theme</b>   |
|------------|--------------------------|--|
| 1.         | The day of the singles   | Single visitors could get their socks washed at IKEA.  |
| 2.         | The day of the baker     | Crispy bread straight from the oven to all store visitors.   |
| 3.         | The day of the barber    | Free manicure and haircut to store visitors.   |
| 4.         | The day of the breakfast | All visitors were offered free breakfasts.   |
| 5.         | IKEA birthday            | Free gifts to visitors.  |
| 6.         | Rent a Christmas tree    | Customers could rent a Christmas tree for 10 D Marks, refundable after Christmas if the tree was returned.                               |
| 7.         | Day of the sleeper       | Offered 300 people the opportunity to test the new IKEA mattresses overnight in its store, and buy them the next morning for 10 D Marks. |

Exhibit 5 IKEA's Worldwide Expansion

| AUSTRIA         | Area in sq.m.* |
|-----------------|----------------|
| 1977(81) Vienna | 23,500         |
| 1981 Wels       | 11,700         |
| 1989 Graz**     | 14,900         |

| BELGIUM                | Area in sq.m.* |
|------------------------|----------------|
| 1984 Ternat (Brussels) | 15,100         |
| Nossesgem              | 11,100         |
| 1985 Wilrijk (Antwerp) | 14,200         |
| Hogrioul (Liege)       | 12,900         |

| CANADA             | Area in sq.m.* |
|--------------------|----------------|
| 1976(83) Vancouver | 14,700         |
| 1977(87) Toronto   | 20,000         |
| 1978(85) Edmonton  | 10,400         |
| 1979 Calgary       | 5,700          |
| Ottawa             | 6,600          |
| 1982 Quebec        | 9,600          |
| 1982(86) Montreal  | 15,400         |

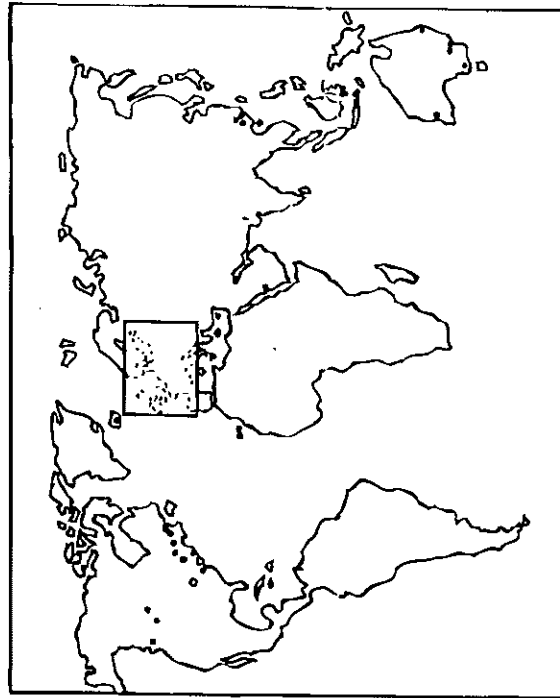
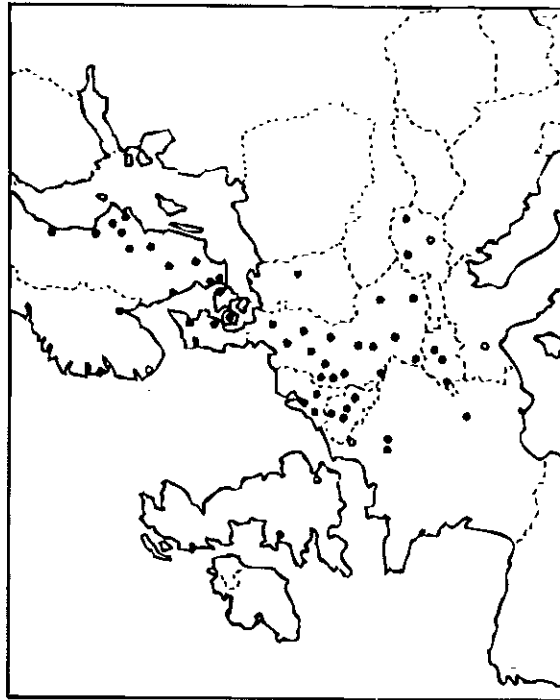
| DENMARK                 | Area in sq.m.* |
|-------------------------|----------------|
| 1969(75) Tastrup        | 39,500         |
| 1980 Arhus (Copenhagen) | 9,700          |
| 1982 Aalborg            | 6,700          |
| 1985 Odense             | 1,400          |

| FRANCE                          | Area in sq.m.* |
|---------------------------------|----------------|
| 1981 First establishment        |                |
| 1982(87) Lyon                   | 18,900         |
| 1983 Evry                       | 24,000         |
| 1985 Vitrolles (south of Paris) | 15,700         |
| 1986 Marseilles                 | 24,800         |
| 1988 Paris-Nord                 | 15,100         |
| Lomme** (Lille)                 |                |

| ITALY                        | Area in sq.m.* |
|------------------------------|----------------|
| 1989 Futuro Testi** (Milano) | 11,900         |

| THE NETHERLANDS             | Area in sq.m.* |
|-----------------------------|----------------|
| 1979 Sliedrecht (Rotterdam) | 16,600         |
| 1982(85) Amsterdam          | 19,600         |
| 1983 Duiven                 | 10,800         |

## IKEA retail outlets worldwide



## WEST GERMANY

|                                  |        |                               |        |
|----------------------------------|--------|-------------------------------|--------|
| 1974(86) Eching                  | 24,800 | Schwalbach-Bous (Saarbrücken) | 6,200  |
| 1975(78) Godorf (Cologne)        | 16,100 | Freiburg                      | 6,100  |
| 1975 Dorsten                     | 17,600 | Waldorf                       | 18,300 |
| 1976 Grossburgwedel (Hanover)    | 14,300 | Löhne-Gothfeld                | 6,200  |
|                                  |        | Schenker** (Hamburg)          | 22,800 |
| 1977 Suhl (Bremen)               | 8,000  |                               |        |
| 1977(85) Kalkenkirchen (Hamburg) | 23,800 |                               |        |
| 1978 Kamen (Dortmund)            | 14,200 |                               |        |
| 1979 Stuttgart                   | 4,500  |                               |        |
| 1979 Berlin                      | 17,700 |                               |        |
| 1980 Kaarst (Düsseldorf)         | 14,200 |                               |        |
| 1981 Kassel                      | 4,200  |                               |        |
| Poppenreuth (Fürth/Nuremberg)    | 19,100 |                               |        |

Figures in brackets refer to the date of rebuilding

\* Incl. adjacent warehouses.

\*\* Will be inaugurated after 88.08.31. Not included in total figures.

## SWITZERLAND

|                                |        |
|--------------------------------|--------|
| 1973(79) Spreitenbach (Zurich) | 25,500 |
| 1979 Aubonne                   | 17,500 |
| 1986 Emmen (Lucerne)           | 3,000  |

## UNITED KINGDOM

|                              |        |
|------------------------------|--------|
| 1987 Warrington              | 17,100 |
| 1988 Brent Park** (London)   | 23,300 |
| USA                          |        |
| 1985 Philadelphia            | 15,500 |
| 1986 Woodbridge (Washington) | 14,500 |
| 1988 Baltimore**             | 19,700 |
| 1989 Pittsburgh**            | 19,900 |

## NORWAY

|                            |        |
|----------------------------|--------|
| 1963(75) Sleipenden (Oslo) | 19,600 |
| 1984 Bergen                | 10,500 |
| 1988 Foss** (Stranger)     | 14,000 |

## SWEDEN

|                    |        |
|--------------------|--------|
| 1958 Almhult       | 18,400 |
| 1965 Stockholm     | 44,000 |
| 1966 Sundsvall     | 11,800 |
| 1967(77) Malmö     | 19,900 |
| 1972 Gothenburg    | 24,700 |
| 1977 Limköping     | 16,000 |
| 1981(87) Jönköping | 3,500  |
| 1982(88) Gävle     | 6,700  |
| 1982 Örebro        | 11,600 |
| 1982(86) Uppsala   | 2,300  |
| 1984 Västerås      | 13,000 |
|                    | 10,900 |



**Exhibit 6** Extracts from the 11-Page Document, *Testament of a Furniture Dealer*

What is good for our customers is also good for us in the long run. . . . We know we can have an important effect on practically all markets. We know that we may make a valuable contribution to the democratization process at home and abroad. . . . That is why it is our duty to expand.

The following section describes our product range and price philosophy, which is the backbone of our work. Furthermore, we describe rules and methods which will continue to make IKEA a unique company.

1. **The Product Range—Our Identity**

**Range:** To cover the total home area, indoors as well as outdoors, with loose as well as fixed home furnishings. This range shall always be limited.

**Profile:** Our basic range shall be . . . simple and straightforward . . . durable and easy to live with . . . (and) shall express design, color, and joy. In Scandinavia [it] should be regarded as typically IKEA and outside Scandinavia as typically Swedish.

**Quality:** Throw-away products is not IKEA. But quality should never be an end in itself. It should always be adapted to the consumer's interests in the long run.

**Changes:** Our basic policy to serve the majority of people can never be changed.

2. **The IKEA Spirit. A Strong and Living Reality**

The true IKEA spirit is still founded on our enthusiasm, on our constant will to renew, on our cost consciousness, on our willingness to assume responsibility and help, on our humbleness before the task, and on the simplicity in our behavior. . . . The IKEA spirit is still here, but it has to be taken care of and developed with time. **Development, however, is not always equal to progress.** It depends upon you, as a leader and a responsible person, to make development progressive.

3. **Profit Gives Us Resources**

Profit is a wonderful word! Let us rely on ourselves when it comes to creating resources. The aim for accumulating our resources is **to obtain the best results in the long run.**

4. **To Reach Good Results with Small Means**

Expensive solutions . . . are often a sign of mediocrity. We have no interest in a solution until we know what it costs.

5. **Simplicity is a Virtue**

Bureaucracy complicates and paralyzes! Exaggerated planning can be fatal. . . . Simplicity in our behavior gives us strength.

6. **The Different Way**

By daring to be different, we find new ways . . . I hope we never have two stores completely alike (because) a healthy appetite for experimenting will lead us forward.

7. **Concentration of Energy—Important to Our Success**

The general who splits up his forces inevitably fails. . . . We too have to concentrate. We cannot do everything everywhere, at the same time.

8. **To Assume Responsibility—A Privilege**

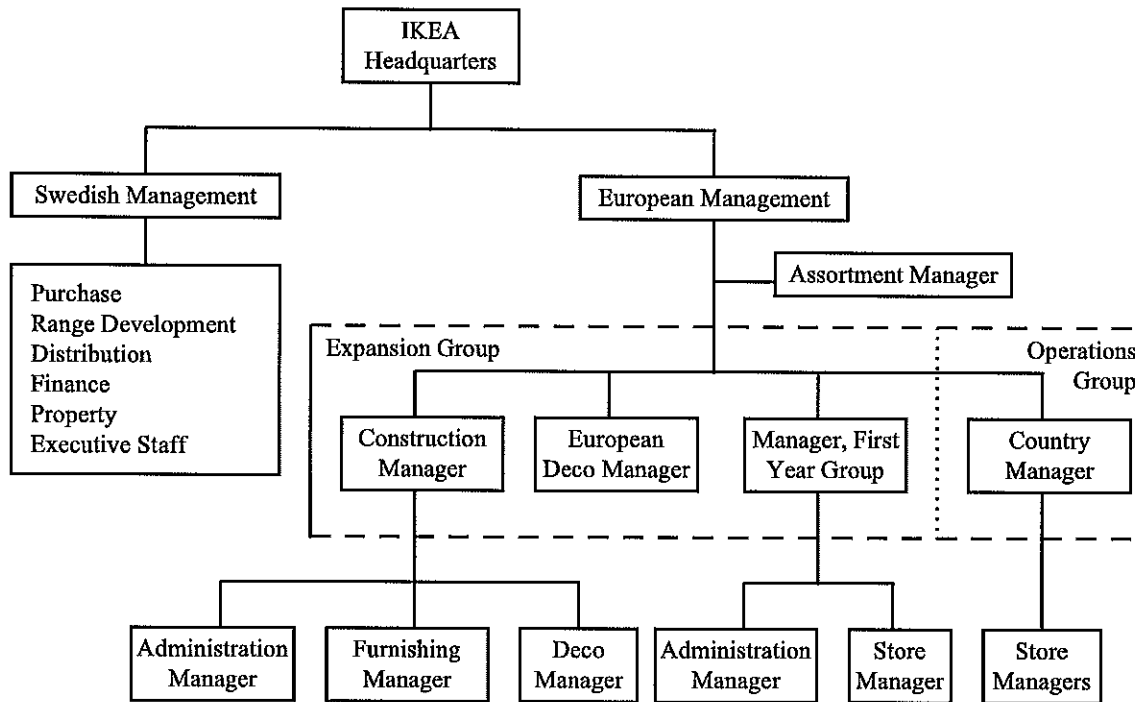
To assume responsibility has nothing to do with education, economy or position. In our IKEA family we want to keep the human being in the center, and to support each other. . . . To make mistakes is the privilege of the active person.

9. **Most Things Still Remain to be Done. A Glorious Future**

Happiness is not to reach one's goal but to be on the way. Experience is the drag on all evolution. . . . Humbleness, will, and strengths are your secret weapons. . . . Time is your most important asset. What we want, we can and will do. Together. A glorious future!

Exhibit 7

Organization of the IKEA Group During the 1970s



Organization of IKEA Group During the Early 1980s

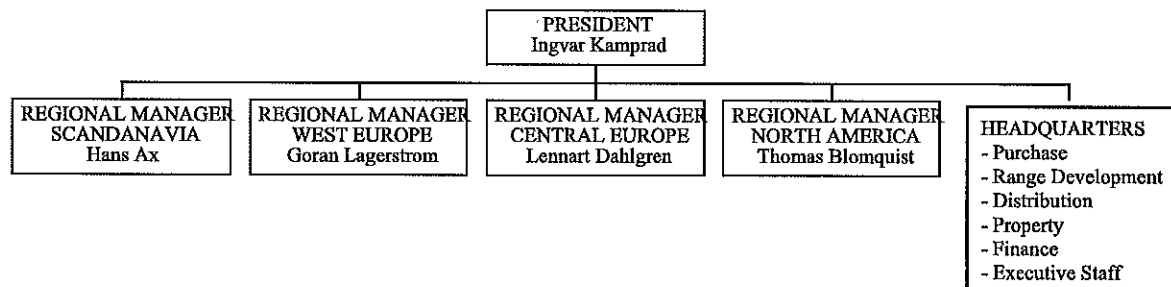
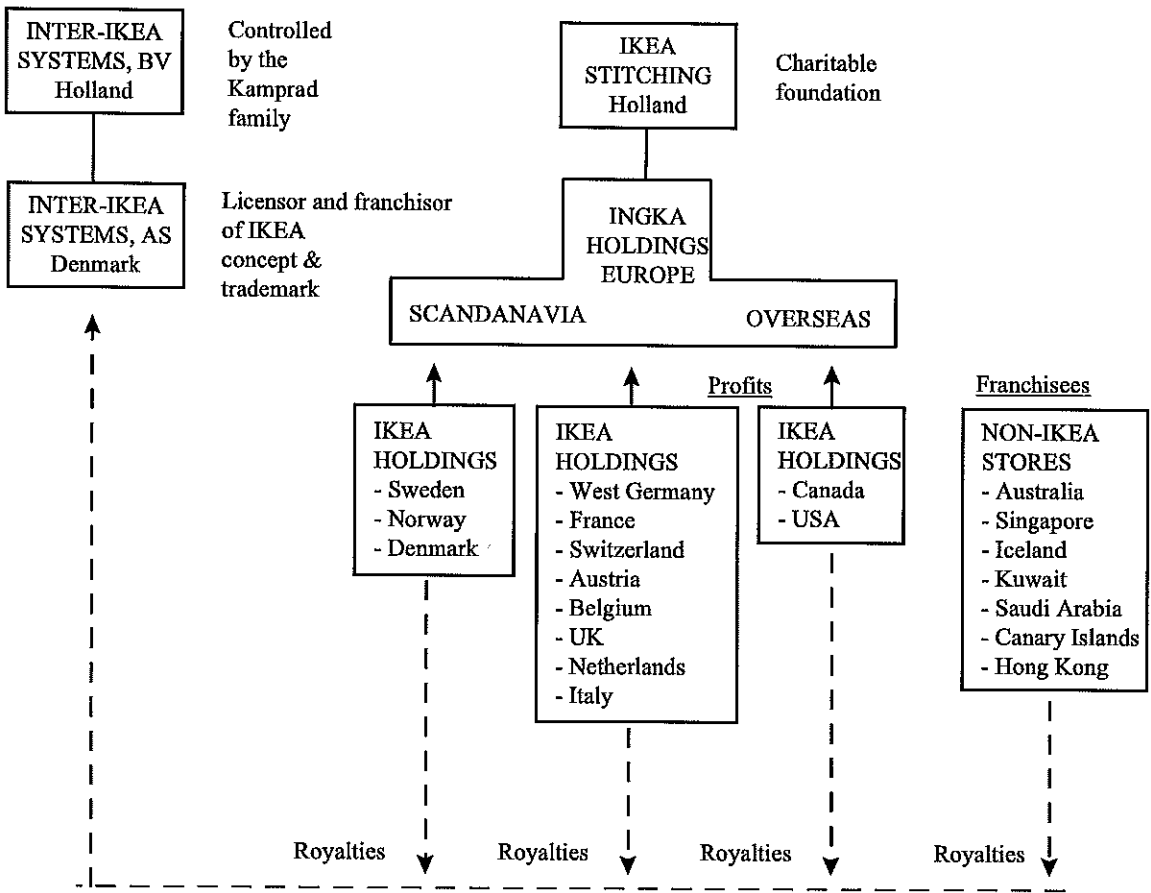


Exhibit 8 Ownership Structure of the IKEA Group



**Exhibit 9** Organization Structure of IKEA after 1986

