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 boxes 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 story, which proved far better. IKEA had not encountered before and which forced adaptation of some features.

IKEA, the Swedish furniture store chain virtually unknown outside of Scandinavia 23 years ago, has grown 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 had a waning formula, contracting with independent furniture makers and suppliers to design furniture which could be sold as a kit and assembled in the customer'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 furnishing early in the 1960s. IKEA could offer quality furniture at modern Scandinavian designs at very low prices. By investing profits in new stores, the company expanded throughout Scandinavia in the 1960s.

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 well large, and instead of waiting for the store to deliver the furniture, IKEA's customers could pick it up themselves. Showrooms 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 purchases 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 means that there were relatively low sales clerks on the floor to help customers sort through the more than 10,000 products stocked. The 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 was classic "cash-and-carry" approach, except that credit cards were accepted.
EUROPEAN EXPANSION

In the 1940s 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 expression 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 formulas 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. In Germany, well-established and large furniture chains were formidable foes opposed to the competitive entry and there were severe 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 misinterpreted 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 new format 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 existing IKEA stores. The 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 U.S. 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 passeable furniture store from Sweden,” which was supported by a cartoon drawing of a mouse’s head, complete with whiskers. The mouse symbol had played very well in Germany, creating natural associations “with the north,” and also creating an image of fun and games which played well in the younger segments the company targeted. The Canadians responded equally well to the slogan and the mouse, as well as its 13 IKEA hamster campaign ads poking fun at its Swedish heritage (“How many Swedes does it take to screw in a light bulb? Two— one to screw in the light bulb, 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, strong 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 design.

Then, there was the issue of managing the stores. In Canada, the European management style had been severely tested. It was usually good in dependence 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 its employees, "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 so 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 slogans and the motto symbol would be as effective in the United States as it had been in Sweden 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, tap into local expertise through acquisitions, joint ventures, or franchising. Although breaking these rules had not hurt IKEA in Europe, they feared that they could lose some of their competitive advantages in the United States.

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 traditions. Although the store in southern California was much farther away, its larger market and customer demographics—young and active— favored IKEA's modern design and assembly-it-yourself strategy. The California entry was also precipitated by the emergence of a local retailer, "Rowe," 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 adapting 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' raising 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 16–40 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's training and development of the suppliers' plants provided a technical tips about more efficient methods and helped the suppliers shop around for better-quality or lower-price materials. New IKEA purchases about 45 percent of its furniture in its American stores. Typically, up to 15 percent less than to five years earlier. In this way, 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 10 percent, with the goal of eliminating long checkout lines. Short 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
were going to be necessary to really bring awareness close to the levels in other countries.

TheMove symbol of IKEA (see Exhibit 1), although successful in Germany and Canada, was considered strange and too provincial for the U.S. 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" (see Exhibit 2).

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 an 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.

Data on global sales and retail operations for IKEA are given in Exhibits 3 and 4. The privately held company won't reveal its precise figures, but it is reported that it is successful in each of the market areas where it has located its U.S. stores. It is credited with being partly responsible for a shift in furniture buying behavior in the United States. Coastal furniture has become a matter of personality, lifestyle, and emotion in addition to functionality. IKEA managers like that—they want IKEA to be associated with the "warmest, most emotional furniture in the world."
**EXHIBIT 4 IKEA Retail Operations—(continued)**

**European Sales**

Number of active articles in an average full range store: 10,000

**Co-workers**

Number of co-workers worldwide: 36,000 (equivalent to 27,000 full-time)

**DISCUSSION QUESTIONS**

1. What are IKEA's firm-specific advantages? Country-specific advantages?
2. What are the cultural factors which make expansion abroad in retailing difficult? What has made it possible in IKEA's case?
3. Describe how IKEA's expansion has restructured mature markets around the world and changed the competitive situation.
4. How does the TV advertising campaign initiated by IKEA overcome the entry barrier of high advertising expenditures?
5. Should IKEA expand further in the United States or focus on other countries?


**Purchases**

Number of suppliers: 2,000 in 65 countries
Number of distribution centers: 14