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CASE 1

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RAD AND IKEA

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1. Synopsis

- In 1989, IKEA, the world's largest furniture retailer, was facing a number of new challenges to its successful international expansion.
 - (1) There was concern whether the company could successfully expand on four major new fronts---the US, the U.K., Italy, and Eastern Europe---without the highly successful strategy and organization on which it had been built.

Synopsis

- (2) Secondly, there were some questions concerning the company's recent decision to adopt a more standardized approach to a strategy which had succeeded in the past through its flexibility and innovativeness.
- (3) There was a concern with the fact that Ingvar Kamprad, IKEA's entrepreneurial founder, would shortly be retiring.

2. Objectives

- The case contributes to learning at three broad levels:

2.1. The strategic level

2.2. The organizational level

2.3. The managerial level

2.1. The strategic level

- To focus on industry structure-conduct-performance and the dynamics of successful entry, first at a national level, and on an international canvas
- To study how a dynamic entrant can blaze new trails, and take on the mantle of industry leadership, transforming industry structure and conduct
- To explore how to identify emerging strategic challenges.

2.2. The organizational level

- To explore whether successful strategic execution requires an organization to go beyond strategic intent to organizational capability, and to study the linkage between intent and capability
- To study how this organizational capability needs to evolve with time.

2.3. The managerial level

- To focus on the role of leadership in establishing organizational purposes and vision
- To examine not only the power, the limitations also, of this tool in managing a corporation

3. Learning strategy and assignment questions

- 3.1 Teaching strategy
- 3.2 Subject and Assignment questions

3.1 Teaching Strategy

- The session will be divided into two parts.

The first part will discuss IKEA has evolved at the three levels---strategic, organizational, and managerial.

The second part will then address the challenges currently facing IKEA and recommended courses of action at each of the levels.

3.2 Subject and assignment questions

3.2.1. Subject: IKEA strategy in Sweden/ Questions: What were the sources of IKEA's successful entry in furniture retailing business in Sweden?

3.2.2. Subject: IKEA's strategy while expanding internationally/ Questions: How important was internationalization to IKEA? What challenges did IKEA face while expanding internationally, and how did it overcome them?

Subject and assignment questions

- 3.2.3 Subject: Organizational capabilities of IKEA/
Questions: What were the management processes by which IKEA coordinated and controlled its Euro-wide operations? How effective were they?
- 3.2.4. Subject: Organizational value and Ingvar Kamprad's vision/
Questions: What were Ingvar's role in IKEA's development?
- 3.2.5. Subject: Action plan for the future/
Questions: What challenges lie ahead for IKEA? Please recommend what course of action Anders Moberg should follow in order to deal with them?

4. Analysis

4.1 what were the sources of IKEA's successful entry in furniture retailing business in Sweden?

Framework

4.1.1 Buyer's profile

4.1.2 Seller's profile

4.1.3 IKEA's strategy

4.1.4 Implication

4.1.1 Buyer's profile

The furniture market of the 1950s was booming.

The market profile was changing with the reducing importance of the wealthy upper-middle class, who had been the traditional market target for furniture retailers.

There was a new important market segment, which are the increasingly important segment of young couples, who are looking to furnish their first homes.

See exhibit 3.

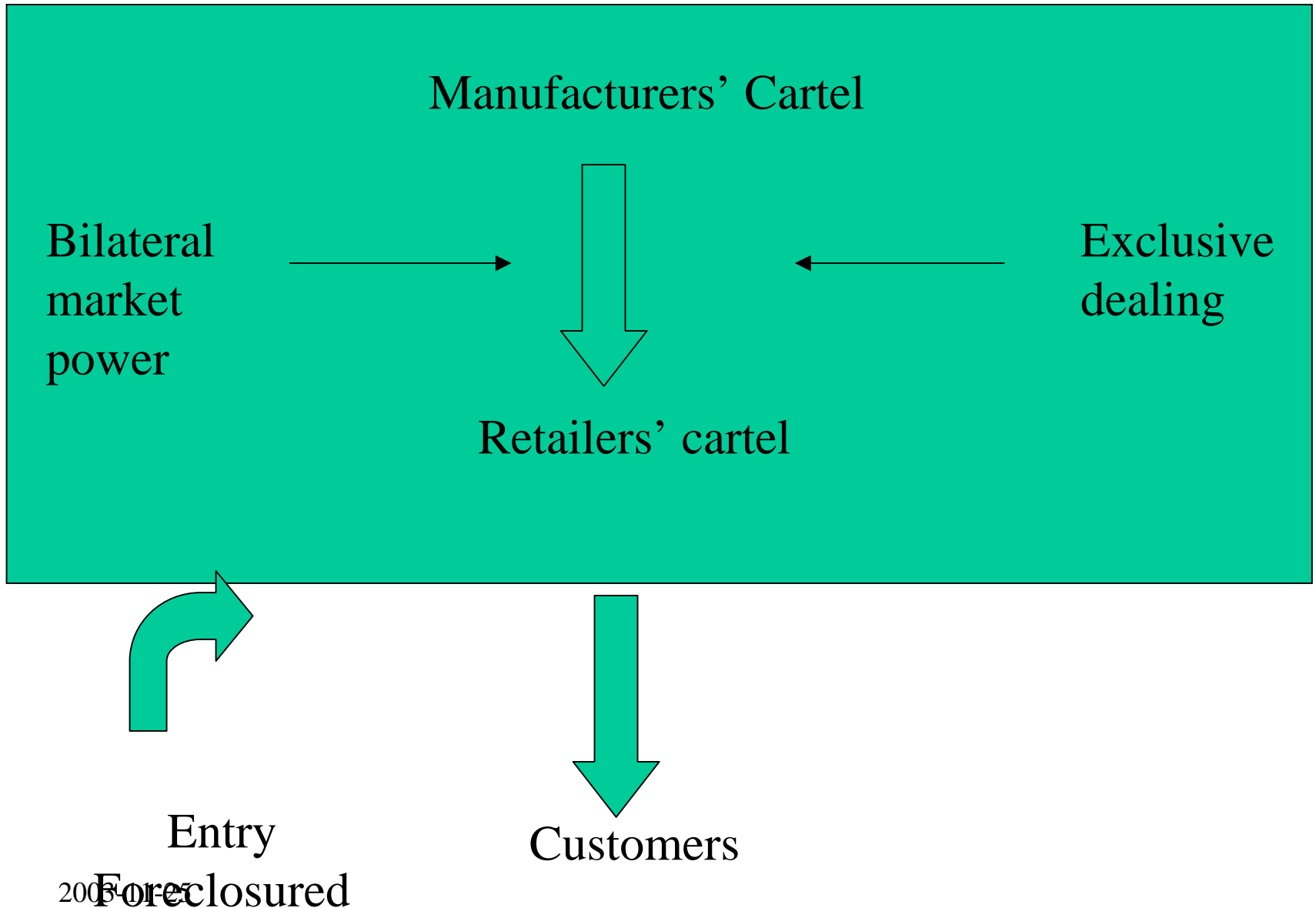
4.1.2 Seller's profile

The furniture manufacturers were cartelized, and so were the furniture retailers.

The cartels gave the manufacturers and retailers market power against the consumers, helping them realize high prices.

Besides, by engaging in exclusionary contracts, the manufacturers and retailers were able to foreclose potential entry.

Traditional Industry Structure



4.1.3 IKEA's strategy

He targeted his products at the emerging market segment of freshly established new families in the low to middle income group.

He effectively broken away from cartel and in departing from established industry norms.

He locate his stores in the suburbs, he was able to anticipate before his competitors the impact of the automobile on the buying habits of customers.

His products and concepts were promoted unconventionally. He believed in pulling customers into the store by aggressive and conventional advertising, and particularly through catalog.

4.1.4 Implication

- Standing back and looking at the elements of this strategy, one can highlight that it is the visionary, not the cautious, who often lead the major industry changes, and outstandingly successful strategies rarely extrapolate on the trends of the past---they chart new directions.

4. Analysis

4.2 How important was internationalization to IKEA? What challenges did IKEA face while expanding internationally, and how did it overcome them?

Framework

4.2.1 The market nature and characteristics of furniture industry.

4.2.2 Motivation

4.2.3 Challenges

4.2.4 Meeting challenges

4.2.1 The market nature and characteristics of furniture industry

- At a first glance, the furniture industry appears basically a regional business.
- Regional tastes vary widely.
- Tastes may change over time, and a local firm may have the flexibility to respond to such changes faster than a large firm.
- Furniture is heavy and bulky, and transport costs would limit the market that a single production facility may serve.

4.2.2 Motivation

IKEA management had apparently recognized the emergence of consumer segment that cut across national markets. It was the young married consumers who had grown up in the 1960s, typically looking for something different from older generations, fast-growing but ignored by most of furniture industry throughout Europe.

4.2.3 Challenges

- IKEA must differentiate local demand and developed a strong presence internationally by remaining responsive and sensitive to the needs of this segment across all national markets.

4.2.4 Meeting challenges

IKEA maintained tight, centralized control over the various links in the value-added chain of its products, it's as follows:

- IKEA maintained tight control over product design to ensure that the products had a distinct IKEA identity.
- Production was subcontracted out to low cost, specialized manufacturing sources.
- In distribution, IKEA was able to effect economies of scale by virtue of its size.
- At the retail end, he was a trail-blazer.

4. Analysis

4.3 What were the management processes by which IKEA coordinated and controlled its Europe-wide operations?

Framework

At this point it is useful to recognize that the strategic intent of IKEA had to be supported by organizational capabilities, in order for it to be realized. It is important to identify the management processes that allows IKEA to deliver its strategy.

- 4.3.1 Structure
- 4.3.2 System
- 4.3.3 Manning

4.3.1 Structure

- See exhibit 7 indicates the organization structure for IKEA during its expansion in the 1970s.

Construction-commissioning-operations;

The corporate office remained very lean and power remained firmly with the line managers;

- The office played a key transition role in establishing the new stores, setting up the system and controls, and training the operations staff;

The office helped quickly transfer and reproduce knowledge at different geographical locations.

The office helped integrate the company closer with broad geographical experiences.

4.3.2 System

- See exhibit 8.
- IKEA was organized as holding company with a group of operating subsidiaries.
- The management practiced an almost yin-yang system of loose systems but tight controls. For instances: (1) Creativity is encouraged, but in some issues, the approach to standardization was to be like McDonald's; (2) There were new rigid systems, but “management by running around” was encouraged; (3) The work atmosphere was informal and relaxed, but there was “no security behind status and closed doors”.

4.3.3 Manning

- IKEA recruited the kind of people who would blend well with the IKEA organization. He went for homogeneity of personalities rather than variety, simplicity and hard working rather than flair.
- IKEA preferred job-enrichment led to high labor productivity, rather than restrict his employees to limited job description. Kamprad would have personnel on information desks serving dual functions of accounting clerks and salespersons, and the warehouse staff would help assist the customers as well as maintain the warehouse.
- IKEA's culture was the binding glue that integrated the organization together. It is simplicity, cost-consciousness, and creativity.

4. Analysis

4.4 What was Ingvar Kamprad's role in IKEA's development?

Vision

- Create a better everyday life for the majority of people.
- He took this vision and translated it into the IKEA spirit—cost consciousness, humility, simplicity and enthusiasm.

4. Analysis

4.5 What challenges lie ahead for IKEA?

What course of action should Moberg follow in order to deal with them?

4.5.1 Challenges

- Strategic concerns
- Organizational concerns
- Managerial concerns

- Whether or not the company continue in its culturally driven entrepreneurial form at its current size?
- Whether or not it should continue growth by geographically dispersed or product diversification?
- Whether or not in the current situation the company should develop a stronger set of structures, systems and controls to manage its dispersed operations.
- Whether or not it is important to develop infrastructure, specially in the logistics of sourcing.