



# ICM

SEPTEMBER 2015

CONTEMPORARY STRATEGIC MANAGEMENT – PRE-ISSUED CASE STUDY & GUIDELINES

The following provides details on a case study involving **IKEA**. Candidates should read this case study carefully in preparation for the examination.

**Note:** A copy of this case study will be available in the examination. Therefore, you will NOT be allowed to take this case study into the examination room. Candidates are allowed to take into the exam a maximum of two pages/four sides A4 of draft working notes which should be handed in and attached to the exam script.

**DRAFT WORKING NOTES GUIDANCE [15 marks] – to be handed in with exam script.**

Researching, preparing and understanding the case study and compiling these notes provides the essential case preparation necessary for all candidates to be successful.

The draft working notes (maximum of two pages/four sides A4) should be handed in and attached to the examination script. They should be word-processed (min. word size 12 pt) and contain key headings and areas relating to the strategic analysis of **IKEA** and should provide the analysis underpinning required to answer the exam questions.

The notes will be assessed as follows:

- Evidence of a good level of secondary research and understanding of the case [5 marks]
- Outline of FOUR strategic models relevant to the case analysis [5 marks]
- Report structure, readability and legibility [5 marks]

*N.B. Whilst it is hoped that all, or most, information required to analyse and evaluate this case study is contained in the case, it is recognised that this might not always be the situation as information relating to most companies is sometimes changing on a daily basis. It is suggested that secondary information (facts, figures, etc.) contained in this case should be utilised first. If the student still considers there is an absence of information in a particular area then it is quite reasonable for material external to the case to be gathered and utilised. External sources mentioned in the report should, of course, be referenced.*



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CASE STUDY – IKEA

## Introduction

IKEA is a multinational group of companies that designs and sells ready-to-assemble furniture (such as beds, chairs and desks), appliances, small motor vehicles and home accessories. As of January 2008, it is the world's largest furniture retailer. Founded in Sweden in 1943 by the then 17-year-old Ingvar Kamprad, the company's name is an acronym that consists of the initials of Ingvar Kamprad, Elmtaryd (the farm where he grew up), and Agunnaryd (his hometown in Småland, south Sweden). The company is known for its modern architectural designs for various types of appliances and furniture, and its interior design work is often associated with an eco-friendly simplicity. In addition, the firm is known for its attention to cost control, operational details, and continuous product development. The IKEA group has a complex corporate structure and is controlled by several foundations based in the Netherlands, Luxembourg and Liechtenstein.

As of December 2014, IKEA owns and operates 351 stores in 46 countries. The IKEA website contains about 12,000 products and is the closest representation of the entire IKEA range. The company is responsible for approximately 1% of world commercial-product wood consumption, making it one of the largest users of wood in the retail sector.

## History and Background

Ingvar Kamprad founded IKEA as a mostly mail-order sales business. It began to sell furniture five years later. The first Möbel-IKÉA store was opened in Älmhult, Småland, in 1958, while the first stores outside Sweden were opened in Norway (1963) and Denmark (1969). The stores spread to other parts of Europe in the 1970s, with the first store outside Scandinavia opening in Switzerland (1973), followed by West Germany (1974).

Later that decade, stores opened in other parts of the world, such as Japan (1974), Australia and Hong Kong (1975), Canada (1976), and Singapore (1978). IKEA further expanded in the 1980s, opening stores in countries such as France and Spain (1981), Canada (1982), Belgium (1984), the United States (1985), the United Kingdom (1987), Italy (1989) and Poland (1991). The company then expanded into more countries in the 1990s and 2000s. Germany, with 44 stores, is IKEA's biggest market, followed by the United States, with 40 stores. At the end of the 2009 financial year, the IKEA group operated 267 stores in 25 countries. The first IKEA store in Latin America opened on 17 February 2010 in Santo Domingo, Dominican Republic.

March 2013 saw IKEA open its first outlet in Qatar, after a delay of several months. Like others in the Gulf Cooperation Council, the Doha outlet is operated by the Al-Futtaim Group. In July 2014 IKEA announced it would open its first store in India in the city of Hyderabad, where the local government has committed to fast track all the required paperwork and permits, as it is seeking to attract foreign investment. The new IKEA is expected to open in late 2015.

The world's largest IKEA store at 59,000 square meters opened near the KTX Gwangmyeong Station, located at the heart of South Korea's Seoul Capital Area. A second store will open in Goyang, with a third one planned in Gangdong District, Seoul. IKEA plans to have 5 stores in the country by 2020.

## Operations

### Store Design and Layout

Older IKEA stores are usually blue buildings with yellow accents (also Sweden's national colours) and few windows. They are often designed in a one-way layout, leading customers counter clockwise along what IKEA calls "the long natural way", designed to encourage the customer to see the store in its entirety (as opposed to a traditional retail store, which allows a customer to go directly to the section where the desired goods and services are displayed). There are often shortcuts to other parts of the showroom. Newer IKEA stores make more use of glass both for aesthetics and functionality. Skylights are also now common in the self-serve warehouses; natural lighting reduces energy costs, improves worker morale and gives a better impression of the products.

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The sequence first involves going through furniture showrooms making note of selected items. The customer then collects a shopping cart and proceeds to an open-shelf "Market Hall" warehouse for smaller items, then visits the "Self Serve" furniture warehouse to collect previously noted showroom products in flat pack form. Sometimes, they are directed to collect products from an external warehouse on the same site or at a site nearby after purchase. Finally, customers pay for their products at a cash register.

The vast majority of IKEA stores are located outside of city centres, primarily because of land cost and traffic access. A new format for a full-size, city centre store was introduced with the opening of the Manchester (United Kingdom) store, situated in Ashton-under-Lyne in 2006. Another store, in Coventry, opened in December 2007. The store has seven floors and a different flow from other IKEA stores. IKEA's Southampton store, which opened in February 2009, is also in the city centre and built in an urban style similar to the Coventry store. IKEA built these stores in response to UK government restrictions blocking retail establishment outside city centres.

Another feature of IKEA stores is their long opening hours. Many stores are in operation 24 hours a day with restocking and maintenance being carried out throughout the night. Public opening hours tend to be much longer than most other retailers, with stores open well into the evening in many countries. In the UK, almost all stores are open past 8pm and open around 9am to 10am. IKEA Saudi Arabia stores have some of the longest opening hours worldwide being open from 10am to midnight, 7 days a week. Some IKEA stores are not open on Sundays due to local laws.

## **Food Markets**

Every store includes a restaurant serving traditional Swedish food, including potatoes with Swedish meatballs, cream sauce and lingonberry jam, although there are variations. In Kuala Lumpur, Malaysia, the usual boiled potatoes have been replaced with French fries. Besides these Swedish foods, hot dogs and drinks are also sold, along with a few varieties of the local cuisine, and beverages such as lingonberry juice. IKEA stores in Saudi Arabia, Kuwait, Qatar and the United Arab Emirates serve chicken shawarma at the exit café as well as beef hot dogs, while in the United Kingdom, a Quorn hot dog is available in the exit café.

In many locations, the IKEA restaurants open daily before the rest of the store and serve an inexpensive breakfast. Refills of coffee, tea, and soft drinks are, as is traditional in Sweden, free of charge within store premises, even in countries where this is uncommon. In Austria, IKEA restaurants offer a free refill policy for soft drinks, a practice that is otherwise unknown in the country.

## **Products and Services**

### Furniture

Rather than being sold pre-assembled, much of IKEA's furniture is designed to be self-assembled. The company claims that this helps reduce costs and use of packaging by not shipping by air; the volume of a bookcase, for example, is considerably less if it is shipped unassembled rather than assembled. This is also practical for many of the chain's European customers, where public transport is commonly used, because the flat-pack methods allow for easier transport via public transportation.

Not all furniture is stocked at the store level, such as particular sofa colours needing to be shipped from a warehouse to the customer's home (for a delivery charge). The item can also be shipped from the warehouse to the store. Some stores charge an extra fee for this service.

### Houses and Flats

IKEA has also expanded its product base to include flat-pack houses, in an effort to cut prices involved in a first-time buyer's home. At the end of September 2013, the company announced that solar panel packages for houses will be sold at 17 UK stores by the end of July 2014. The decision followed a successful pilot project at the Lakeside IKEA store, whereby one photovoltaic (PV) system was sold almost every day. The panels are manufactured by the Chinese company Hanergy.

## **Manufacturing**

Although IKEA's household products and furniture are designed in Sweden, they are largely manufactured in developing countries to keep costs down. China accounts for about 2½ times as much supply as Sweden. For most of its products, the final assembly is performed by the end-user (consumer).

Swedwood, an IKEA subsidiary, handles production of all of the company's wood-based products, with the largest Swedwood factory located in Southern Poland. According to the subsidiary, over 16,000 employees across 50 sites in 10 countries manufacture the 100 million pieces of furniture that IKEA sells annually.

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## Product Range

IKEA offers a wide range of products including upholstered furniture, dining tables and chairs, bookcases, bathroom articles, kitchens, curtains, carpets, lighting, wall decorations and also garden furniture.

## Catalogue

The catalogue is distributed both in stores and by mail, with most of it being produced by IKEA Communications AB in IKEA's hometown of Älmhult, Sweden.

The 2013 catalogue was smartphone compatible, containing videos and photo galleries that can be accessed via an app by scanning the catalogue's pages, while the 2014 catalogue incorporates an augmented reality app that projects an item into a real-time photograph image of the user's room. The augmented reality app also provides an indication of the scale of IKEA objects in relation to the user's living environment.

## Corporate Structure

IKEA is owned and operated by a complicated array of not-for-profit and for-profit corporations. The corporate structure is divided into two main parts: operations and franchising. Most of IKEA's operations, including the management of the majority of its stores, the design and manufacture of its furniture, and purchasing and supply functions are overseen by INGKA Holding, a private, for-profit Dutch company. Of the IKEA stores in 43 countries, 303 are run by the INGKA Holding.

In June 2013, Ingvar Kamprad resigned from the board of Inter IKEA Holding SA and his youngest son Mathias Kamprad replaced Per Ludvigsson as the chairman of the holding company. Following his decision to step down, the 87-year-old founder explained, "I see this as a good time for me to leave the board of Inter IKEA Group. By that we are also taking another step in the generation shift that has been ongoing for some years." Mathias and his two older brothers, who also have leadership roles at IKEA, work on the corporation's overall vision and long-term strategy.

## Social Responsibility and Environmental Issues

The INGKA Foundation is officially dedicated to promoting "innovations in architecture and interior design". IKEA is involved in several international charitable causes, particularly in partnership with UNICEF, including:

- In the wake of the 2004 Indian Ocean earthquake and tsunami, IKEA Australia agreed to match dollar for dollar co-workers' donations and donated all sales of the IKEA Blue Bag to the cause
- After the 2005 Kashmir earthquake, IKEA gave 500,000 blankets to the relief effort in the region
- IKEA has provided furniture for over 100 "bridge schools" in Liberia
- In the 2008 Sichuan earthquake in China, IKEA Beijing sold an alligator toy for 40 yuan (US\$5.83, €3.70) with all income going to the children in the earthquake struck area

IKEA also supports American Forests to restore forests and reduce pollution and the company, through IKEA Social Initiative, contribute €1 to UNICEF and Save the Children from each soft toy sold during the holiday seasons, raising a total of €16.7 million so far. IKEA Social Initiative provided soft toys to children in Burma after Cyclone Nargis. In September 2011, the IKEA Foundation donated \$62 million to help Somali refugees in Kenya.

## Environmental Issues

After initial environmental issues like the highly publicised formaldehyde scandals in the early 1980s and 1992, IKEA took a proactive stance on environmental issues and tried to prevent future incidents through a variety of measures. The environmental measures taken include the following:

Replacing PVC in wallpapers, home textiles, shower curtains, lampshades and furniture – PVC has been eliminated from packaging and is being phased out in electric cables. Minimising the use of formaldehyde in its products, including textiles. Producing a chair made from 100% post-consumer plastic waste and reducing the use of raw materials for framing and stuffing and reduce transportation weight and volume to about 15% of that of conventional furniture. Another key initiative is using wood from responsibly managed forests that replant and maintain biological diversity and using only recyclable materials for flat packaging and "pure" (non-mixed) materials for packaging to assist in recycling.

In 2000 IKEA introduced its code of conduct for suppliers, called the IKEA way of purchasing ... shortened to IWAY. Today IWAY is a totally integrated part of IKEA's purchasing model. IWAY covers social, safety and environmental questions. Today IKEA has around 60 IWAY auditors that perform hundreds of supplier audits every year. The main purpose with IWAY is to make sure that the IKEA suppliers follow the law in each country where they are based. Most IKEA suppliers respect the law today with exceptions for some special issues – one being excessive working hours in Asia, particularly in countries such as China and India.

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More recently, IKEA has stopped providing plastic bags to customers, but offers reusable bags for sale. The IKEA restaurants also only offer reusable plates, knives, forks, spoons, etc.

To make IKEA a more sustainable company, a product life cycle was created. For the idea stage, products should be flat-packed so that more items can be shipped at once; products should also be easier to dismantle and recycle. Raw materials are used, and since wood and cotton are two of IKEA's most important manufacturing products, the company works with environmentally friendly forests and cotton, whereby the excessive use of chemicals and water is avoided.

Manufacturing is third in the life cycle and includes IWAY, IKEA's code of conduct for manufacturers and suppliers that formulates and enforces requirements for working conditions, social and environmental standards, and what suppliers can expect from IKEA in return. Marketing is another part of IKEA's life cycle and a portion of the paper used for its catalogues is sourced from responsibly managed forests. The catalogue is also smaller, so that less paper is required, less waste is produced and more catalogues can be shipped per load.

IKEA stores recycle waste and many run on renewable energy with the use of energy-saving bulbs and sensors. All employees are trained in environmental and social responsibility, while good access to public transport is one of the priorities when the location of stores is considered. Also, the coffee served at IKEA stores is certified organic.

The last stage of the life cycle is the end of life. Most IKEA stores recycle light bulbs and drained batteries, and the company is also exploring the recycling of sofas and other home furnishing products. According to IKEA's 2013 "Sustainability Report", 23% of all wood that the company uses meets the standards of the Forest Stewardship Council, and the report states that IKEA aims to double this percentage by 2017. The company examined its wood consumption in 2013, and noticed that almost half of its global pine and spruce consumption was for the fabrication of pallets. The company consequently started a transition to the use of paper pallets and the "OptiLedge system". The OptiLedge product is totally recyclable, made from 100% virgin high-impact copolymer polypropylene (PP). The conversion began in Germany and Japan, before its introduction into the rest of Europe and North America. The system has been marketed to other companies, and IKEA has formed the OptiLedge Company to manage and sell the product – yet another successful diversification.

In February 2014, IKEA in the UK announced that from 2016 they will only sell energy-efficient LED light bulbs, lamps and light fixtures. LED light bulbs use only 15% of the power of a regular incandescent light bulb.

## **Controversial Issues**

There have been accusations of price gouging by IKEA who have been criticised by Citytv in Canada for charging up to twice as much in their Canadian stores as for the same items sold in their American stores, despite the Canadian dollar reaching parity with the U.S. dollar.

Also a number of labour issues have been cited against IKEA. In 2011, IKEA and its Swedwood affiliate came under criticism for its treatment of workers at a US factory in Danville, Virginia and its decision to hire the law firm Jackson Lewis, which is often employed by companies to counter labour demands, to consult with IKEA on attempts to form a union at Danville. A petition on Change.org has received more than 70,000 signatures urging IKEA to respect workers' rights.

In 2012, IKEA in France was accused by the independent newspaper *Le Canard enchaîné* and the investigative website *Mediapart* of spying on its employees and clients by illegally accessing French police records. The head of risk management at IKEA feared his employees were anti-globalists or potential eco-terrorists. These issues have somewhat tarnished the image of the company to date.

## **The Future**

Most established businesses experience cycles of success and decline. Effective strategic management is able to turnaround the decline and stave off failure. To date IKEA have been able to do this by fully understanding both their industry and, of course, changing customer needs. Maintaining the same level of success in the future is likely to prove highly challenging and one that the strategic management team at IKEA will need to carefully plan.

The IKEA management team will need to consider all of the major stakeholders involved, continually monitor the ever-changing external environment whilst building future strategy around the core competences, experience and skills that the company has built up over the many years of trading. It will not be easy but the future survival of the company will depend on it.

(Reference source – Wikipedia)