



An ally to the customer

The farmer who, through IKEA, has reinvented the furniture manufacturing and sales processes.

In 1943, at a small village in the south of Sweden, a 17 years old young countryman made a decision that would change his life as well as a whole industry. With the money he received from his father as a reward for being a good student, Ingvar Kamprad started a business. He named his company IKEA, an acronym consisting of his initials, plus E for Elmtaryd, the family farm, and the A for Agunnaryd, the village at Smoland where he grew up. Initially, he sold different kinds of articles to the farmers at reduced prices.

IKEA evolved to enter the furniture and decoration market and turn into one of the world's most prestigious, innovative, and renowned company, according to business analysts and the specialized press.

Today, with 202 huge stores around the world (180 of its own and 22 franchises), the Swedish company is considered an icon of contemporaneous design and a true representative of the Scandinavian culture, besides being a case study for business schools.

From a total of 84,000 employees, 65,000 work in facilities that have customer attendance; 11,000 belong to the Swedwood industrial group, and the remaining 8,000 are responsible for acquisitions, wholesale activities, and stocks, among other tasks. For the fiscal year that ended on 31st of August 2004, the company presented revenues of 12.8 billion euros (around US\$ 15.5 billion, at the exchange rate for that period). Its largest markets are Germany (20 per cent of the sales), England (12 per cent), United States (11%), France (9%) and Sweden (8%).

Before getting to these business results, IKEA, led by the talent of Ingvar Kamprad, reformulated the furniture manufacturing and merchandising models. Most part of the products sold can be unassembled and stored and transported inside flat and uniform boxes, which reduces costs and prices. The goal is to offer true cost-effective products to a massive public, without compromising quality or functionality.

The results achieved so far are an answer to the promise embodied by the young Ingvar, whose extraordinary vision for the business was precociously revealed. Legend has it that he started selling matches to his neighbors at the age of five.

The self-made man

Today, six decades after founding his company and at the age of 79, he continues to be the admired and incontestable leader of IKEA, and the power behind the world's largest furniture business. He left the executive board of directors in 1986 and the presidency a few years ago, but he keeps playing a very active role in leading the company and is

always alert to the smallest details, for instance, he often gives advice to the commercial area on the best way to expose and sell each of the products. His actual position is senior adviser at the supervising committee of INGKA Holding B.V., the holding company of the group.

Kamprad also has an obscure side. To avoid the high taxes he would have to pay in his country, he has been living in Switzerland since 1976. Besides, he got himself involved with nazi groups during his youth. When this became public in 1994, the founder of IKEA expressed his deep regret for what he defined as being the biggest mistake of his life. Due to the intricate financial structure of his company, Kamprad's fortune is an enigma. When the press in Sweden and in the United States speculated that he could be the richest man in the world, with a fortune bigger than that of Bill Gates, IKEA officially denied it, saying that he was not the only owner of the company.

Ingvar has three sons who hold hierarchical positions inside IKEA and it is expected that one of them will be his successor.

In many aspects, Kamprad hasn't changed over the years. The culture that impregnated his childhood is still present inside him. He lives an extremely austere life. When he is not using his early 90's Volvo, he prefers to use public transportation and flies economy class. His passion for saving, which some describe as being close to stinginess, has marked not only his personal life, but his company's life as well. However, he did not hesitate to commit IKEA to social causes related to child labor suppression and protection of kids who are victims of armed conflicts fostered by UNICEF and OMS. Even today, Ingvar feels a lot more comfortable in jeans and slippers than wearing a suit and a tie. And he is not very fond of the press. He maintains an enormous charisma and is admired by many of his employees, who see him as a leader who is "more human than others". At each IKEA's annual meeting, Kamprad shakes the hands of a thousand co-workers who come to salute him.

The man who was born a visionary and made himself says that being around ordinary people and feeling he is one more is part of his job.

A company was born

When Kamprad decided to open his own business funded by his father, he was determined to satisfy all the different needs of the farmers, to whom he sold from pens, to wallets, watches, and even nylon stockings. He delivered the products at their homes using his bike. Very soon he learned that if he bought items in large quantities he could offer more attractive prices and still be able to profit.

The small company started to grow and Kamprad decided to expand to sales through mail order. The articles were then taken to the train station by the milk truck and delivered by rail.

In 1948, a few pieces of furniture were included in the list of offerings. To keep costs down, he used local manufacturers. Customers responded in a positive way and the businessman envisioned the opportunity to transform his business into a large furniture vendor.

In the early 50's, Ingvar made the historical decision to focus solely on domestic furniture and discontinued all other product lines. In the following year, IKEA launched its first furniture catalog that was massively distributed.

The catalog turned to be a symbol of the company and also its main marketing channel. A different company was being born.

Until 1953, IKEA used to sell solely by mail. However, a ferocious price war with his main rival was devouring his profit margins and risking the quality of his products. He had to find a way to differentiate IKEA from the rest of the market. Kamprad decided to give his

customers the opportunity to interact with the products, instead of simply seeing a picture in a catalog. Consonant with this idea, he opened the first exhibition room for IKEA's products in the nearby town of Älmhult so that customers would be able to have a direct contact with the furniture pieces and verify the convenience of the price/quality ratio. It was a key period for the company. Customers started to visit the store in a massive way and the company became a threat to the furniture cartel that ruled the industry in Sweden at that time.

The competition was pressing the vendors to stop providing IKEA with supplies, and they also excluded it from the most important fairs. Nevertheless, Kamprad did not easily surrender and continued to attend the fairs as he could, sometimes anonymously and even hidden on the back seat of a car.

In 1955, the businessman took a transcendental decision: to design and produce his own pieces of furniture. Excluded from the fairs, he sought refuge in his own exhibition centers. He was smarter than his opponents, who unadvisedly pushed IKEA to go out to the world in search of more convenient conditions.

In 1958, Älmhult was again at the center of the attentions as IKEA opened its first local store with 72,118 square foot, this time not to exhibit its product lines, but to be an aggressive sales channel. The amazing repercussion of this — hundreds of people were peacefully waiting for the doors to open after a long and difficult trip through the Smoland woods— exceeded Ingvar's expectations and became a characteristic that would be repeated at every new store opened.

By this year, IKEA had a little more than 100 employees. In 1963, he opened his first store outside Sweden, in Oslo, Norwegian. Two years later he opened the standard IKEA shop in Kungens Kurva, Stockholm, with 493,000 square foot and a circular design inspired on the Guggenheim Museum in New York.

The IKEA Concept

A few years before, the so-called IKEA Concept, an expression created to represent the innovative business model created by Kamprad, had started to decline. This revolutionary vision is based on lessons that Ingvar learned from the farmers during his childhood and youth. At the district of Smoland, the soil is poor and the weather is hostile. People work hard, live austerely, and use their imagination to take advantage of the limited resources they have to the most.

Kamprad's idea to offer very functional and well-designed domestic furniture at prices extremely lower than the competition turned into the implementation of solutions that enabled him to cut costs without compromising quality; This way, the commitment to offer accessible products to the great majority of people, making their lives better, was born.

In 1955 he started to arrange the formula: flat box = reduced freight cost = lower prices. The idea came up when an employee disassembled the legs of a table to be able to put it inside a vehicle and to avoid damaging it during transportation. The new packing system demanded less storage room and reduced both shipping costs and damage costs associated to handling and transportation.

Four years later, he implemented a system that enabled the customer to select a piece of furniture, transport it in his or her car, and assemble it at home. The development of this concept was completed in 1965, when IKEA permanently introduced the auto-service mode. The decision to let people serve themselves had a lot to do with the astonishing success of the giant Stockholm store opened that year.

The IKEA Concept guides the way products are designed, developed, transported, sold, and assembled. These tasks are all accomplished with distinct levels of collaboration

between customer and company.

In many cases, customers are family groups that travel to one of the giant IKEA stores, which are relatively few and distant from each other. Once they get there, they freely and comfortably select the articles of their interest (there are no sales representatives pushing for commission), they transport the items bought in their vehicles, and then easily assemble them at home, contributing to a remarkable measure to reduce costs. The buying experience is complemented with game spots for kids and gastronomy offerings to extend the visit and make it more pleasant. For this reason, nobody got surprised when more than 35,000 visitors went to the newly opened store in Lisbon, Portugal, in 2004. Similar situations happened at each of the stores opened since the early 70's in Europe, North America, and Asia.

By the end of 2004 fiscal year, IKEA places around the world had received more than 400 million visitors, according to company estimates. The phenomenon is mainly assigned to the fact that IKEA's offerings are targeted to a universal public, for it includes all kinds of needs, budgets, and house dimensions.

According to consultant Howard Davidowitz, what differentiates the company is not only the fact that it has "wonderful stores and incredible prices", but also and mainly because it has created a unique segment.

The Kamprad philosophy

The three values that guide IKEA from its very beginning are: cost awareness, customer convenience, and environmental care. The company defines itself as being egalitarian and expresses its detachment from hierarchies. It refers to its employees as "co-workers", and these "collaborators" receive different benefits, framed in a social security network typically Scandinavian.

IKEA managers receive training on company culture. The training course, named "IKEA Way", is always attended by Anders Dahlvig, president of the group, and often by Kamprad himself.

The philosophy that rules the business is registered in a book titled "A Furniture Dealer's Will", released by IKEA's founder in 1976. In this book, Kamprad affirms that before IKEA's burst the furniture industry used to target new designs and ideas towards a small circle of wealthy people.

The values that Ingvar Kamprad has been passing along to his employees—who are family to him—for the last 62 years are the same ones that have ruled his life: self-criticism, humility, simplicity, and perseverance at work. At the same time, he has worked to implement an ownership structure and an organizational model that will preserve the independency of the company in the long run.

IKEA is not listed in the stock market. More than once his founder resisted the pressure of people who wanted him to launch a Public Offer of Shares. His argument to refuse was that the decision-making processes that had enabled the amazing growth of the company could be affected if the company became public.

When there are no stockholders, most part of the profit is reinvested on the company. In 1982, Kamprad transferred the ownership of the company to a foundation without lucrative ends to prevent from a hostile acquisition or a potential family conflict. Some people understood this as a measure to solely pay fewer taxes. Since that, the mother company the Dutch Stichting INGKA Foundation owns INGKA Holding B.V. However, the yellow and blue colors of the Swedish flag continue to frame IKEA's logo.

The group is integrated by tens of companies that manage distinct aspects of the business. Inter IKEA Systems B.V. owns the concept and the brand, and has franchising agreements with all points of sale that belong to the company. The largest franchisee is

IKEA group itself, and the remaining ones are external companies. A few press articles in the United States declared that the Kamprad family still acts as franchiser and receives a percentage over all local businesses in exchange for managerial assistance. Ingvar Kamprad invented a company that enabled him to show a unique vision to the world, different from all that was known. And he was able to bring together in IKEA all that the other companies offer separately: accessible prices, quality, attractive design, and functionality. To do so, he based himself on scale economy, production methods always up to date, and clever design.

His environmental concern took him to determine that his products and their components should be free of hazardous substances and that the wood used to produce his furniture should not come from devastated areas. Besides having a conscious attitude towards the environment, providers have to guarantee appropriate working conditions.

IKEA's founder strongly believes in the social commitment and responsibility of the companies. When he speaks to the "businessman of the future", he emphasizes the importance of transforming problems into opportunities and possibilities. He tells them to keep the office as close to reality as possible, to start with small resources, to love the hard work, and never to forget the place where they come from.

Today, away from the day-to-day management, he keeps being the symbolic leader of the company and the greatest source of reference for its culture, and still gets thrilled when he explains the benefits of managing with simplicity and austerity to his thousand of "co-workers".

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