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IKEA’s Story of Scale

Building the IKEA franchise system
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“It won’t fit!”

Ingvar was getting impatient. Today was the photoshoot for the 1956 catalogue. It should start in just over an hour, but they were still packing the car. Arriving late might delay things by a week or more.

“The backseat wasn’t made for furniture,” said Gillis. He held a three-legged table with a top like a wooden leaf. No matter how he manipulated it, one of the legs caught the door.

Selling furniture was profitable, but it brought its share of headaches. To start with, furniture is big. Too big, anyway, for the back seat of a Volvo. Large, awkward products also cost a lot to ship and store—quite a challenge for a mail-order company.

And there were other costs. Furniture is a big investment, and people like to touch and try before they buy. So Ingvar opened a showroom on the site of his grandfather’s general store in Älmhult. Another big expense!
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Despite all that, he was determined to keep prices low. Many customers were his neighbours in rural Småland, Sweden’s poorest region. The local economy had grown a lot since the war, and people had more money ever before. But they expected value.

Now they might lose his deposit with the photographer. Luckily Gillis had an idea. “Let’s just unscrew the legs,” he said.

“Good idea!” thought Ingvar.

How it all started
IKEA’s first 30 years was the true entrepreneurial phase. Together with Ingvar, more and more people joined to develop what became the IKEA business idea: “To offer a wide range of well-designed, functional home furnishings products at prices so low that as many people as possible will be able to afford them.”

Those early days were marked by lots of trial and error. And lucky coincidences! Ingvar’s mail-order business was moderately successful before Gillis suggested using flat packs. Then flat-packs made it easier to store, ship and sell big furniture—which helped IKEA to grow. Later other tests, challenges, problems and mistakes would lead to the decisions that made IKEA what it is today.

It actually started with matches. Each day Ingvar Kamprad roamed rural Småland in search of customers. Even today it’s a stony and rugged landscape—a difficult place to farm. Yet people there somehow made a living.
These were the days of the Great Depression. Even in good times, Swedes thought of Smålanders as thrifty. Maybe even stingy. It didn’t matter if the salesperson was a five-year-old boy, they would only buy matches if they could get a good price. The margins were just a few öre (pennies) for each box, and most customers could only afford just one at a time. “How can I sell these a bit cheaper?” Ingvar wondered.

His grandfather had the answer: a bulk supplier in Stockholm. “The more boxes you order, the less you pay for each box,” he said. He was right. Soon the now seven-year-old borrowed his mother’s bicycle and went in search of new customers. During the 20’s and 30’s, farmers all over Småland bought their matches from Ingvar.

Instead of pocketing the margin, Ingvar reduced his prices. As a result he sold even more—a lesson he never forgot.

The business continued to grow during his teenage years. Over time Ingvar sold everything from Christmas cards and magazines to pens and watches. But it wasn’t a ‘real’ company. Then, on his 17th birthday, he registered IKEA with his father’s help. The name combined his initials with the first letters of his farm and village: Ingvar Kamprad Elmtaryd Agunnaryd.

**Why furniture?**

As the war came to an end, Ingvar saw a business opportunity. Sweden’s population was growing quickly, and the Swedish government built new homes to accommodate the growing families. They also set up a loan programme.

In those days IKEA sold a loose collection of direct import products by mail. There were just two requirements. First, products had to be sufficient quality. Småland customers would accept no less. Second, there had to be a bulk discount. It was a successful model, but it was easily copied. Ingvar wondered: “What can IKEA offer that others can’t?”

Småland had lots of small furniture manufacturers. They offered high-quality products, but they were too expensive for most people in the area. As a result families handed down furniture from one generation to the next—until it fell apart. There weren’t enough heirlooms to go around.

As a Smålander himself, Ingvar knew the value of a sturdy easy chair, comfortable bed and a family-sized kitchen table. Why were they so expensive? “If I can make them more affordable”, he thought, “people’s lives will get better.”
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At first, selling furniture was an experiment. Ingvar convinced local furniture makers to drop their prices by ordering big quantities of easy-to-make products. He advertised the range “for the people of the countryside”.

Years later, in 1976, Ingvar refined this idea into the IKEA vision: “to create a better everyday life for the many people.”

From mail order to cash & carry

After the photoshoot, Ingvar and Gillis designed new furniture that could be sold unassembled. Rather than a finished product, customers would buy furniture kits in a small box or flat pack.

Customers liked it. The business continued to grow as Ingvar and his team introduced more flat-pack products. Not only did they sell better; they were also easier to move. That meant customers could take them home right away by car or on the train. No postage necessary!

With this in mind, Ingvar decided to build a full-fledged store. Customers could choose what they wanted from a showroom, then a team of pickers would collect their purchases in an adjacent warehouse. Or they could arrange delivery.
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The original IKEA showroom had been a popular landmark, but the new store attracted people from all over Sweden. The Swedish train company even offered a 50% discount for tickets to Älmhult.

To improve sales, Ingvar and his team experimented with new ways to store, display and communicate the range. They introduced new services and even added a small bistro by the exit. “If people come all this way to visit the store,” thought Ingvar, “then we should make it a place the whole family can enjoy.”

Disruption comes at a price

Ingvar’s thriving business got a lot of attention – but not just from customers. Other furniture retailers couldn’t understand how he made a profit. Eventually they escalated their concerns to the Swedish Association of Furniture Retailers.

They blacklisted him—or anyone else who dared to work with IKEA. One by one, Ingvar’s suppliers dropped out. Some said they couldn’t keep up with the orders. Others said his competitors offered better prices.
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Finally he got a straightforward note from John Söderström, who supplied the KAREN sofa:

“It seems there is a secret blockade of your firm,” it read. “I have been forbidden by a certain party from continuing to sell the above-mentioned sofa to you or else I will be barred from buying sofa frames.”

Ingvar was dejected, but he had to find new suppliers. First he looked to Denmark, but manufacturers there supplied his Swedish competitors. So they were unable—or unwilling—to help.

That’s when Ingvar met Witold Trampczynski, then the Polish minister of trade. Poland had suffered terribly during and after the war, but in 1961 the economy had finally started to recover. “One-third of Poland is forest,” he told Ingvar, “and we are really good at making wood products, especially wooden furniture.”

So Ingvar placed an $8,000 order for wooden chairs. More would soon follow.

Building partnerships
The new supply setup came with its own set of challenges. Keeping prices low was easy; most Polish manufacturers produced at half the price of their Swedish counterparts. Quality and design were a

Gillis Lundgren, the first IKEA designer, who went on to design the BILLY bookcase (and lot’s more of course)
IMAGE CREDIT: © INTER IKEA SYSTEMS B.V.
different story. Under communism, Polish manufacturers prioritised quantity over quality. And their designs didn’t appeal to Scandinavian consumers.

To solve the problem, Ingvar and Gillis decided to work more closely with Polish suppliers. Now a designer, Gillis partnered with local engineer Marian Grabinski. Together, they set minimum requirements for new products and made sure factories had the know-how and equipment to fulfil them.

In the process Gillis and his team learned more about manufacturing. With high volumes, small design decisions can have a big price tag. A factory might have to completely re-tool just to raise a table top 5mm or add a slight recline to an easy chair. “That sounds expensive,” thought Gillis. So IKEA designers soon optimised their designs to accommodate existing processes and equipment as much as possible.

The new partnerships also enabled even bigger volumes—an essential step for future growth.

**Up in smoke?**

Despite the furniture blockade, IKEA Älmhult continued to grow, and a second store soon opened in Oslo. Then, after nearly ten years of continuous growth, Ingvar opened a new flagship in the Swedish capital.

Stockholm had a small IKEA showroom for years, but the new store would be completely
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different. Inspired by the Guggenheim Museum in New York, IKEA Kungens Kurva is a cylinder-shaped building with a long path through each department. Attached is a warehouse loaded with signature flat packs.

The store was an immediate success. In 1965, first-year turnover was 70 million Swedish krona—equivalent to about 70 million euros today. That was more than double the projections. But the warehouse couldn’t cope.

To lighten the load, store manager Hans Ax began selling accessories and small furniture in the showroom. Customers could grab what they wanted, pay at the cash register, and take their purchases home. That helped.

Hans wanted to expand the concept, but Ingvar wasn’t sure. How could the Showroom accommodate all those boxes? Frustrated, Hans decided to leave IKEA. But he’d stick around until Ingvar could find a replacement.

His plans soon changed.
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On September 5, 1970, fire engulfed the store. Luckily no one was hurt, and most of the stock was still sellable. But the Showroom was a mess. “We should open the warehouse to the public,” Hans told Ingvar. “If we provide carts, people can grab the flat packs themselves. That way we can keep selling while we rebuild the Showroom.” Ingvar agreed.

Customers didn’t mind at all. “Maybe Hans was right,” thought Ingvar. “If customers can help themselves, we won’t need to hire more warehouse staff. And maybe we can even drop prices a bit.” So when the Showroom re-opened several months later, the self-serve concept stuck.

While the flat-pack made cash and carry furniture possible, the Self-serve warehouse made the idea scalable. Together these innovations drove ever-larger volumes and—in turn—lower prices.
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International expansion

By 1973 IKEA had stores in Norway, Sweden and Denmark. Now was the time to move beyond Scandinavia. Ingvar and his team were up for a challenge. The move to Switzerland would be a test. Sure, the IKEA Concept worked well in Scandinavia. But would it work elsewhere?

IKEA soon bought a 7,000 square metre location in the Zurich suburbs. Stocked with the latest Scandinavian designs, it targeted younger people who preferred stainless steel and plastic over competitors’ dark woods and heavy fabric. While other retailers might create a “local” range for new markets, Ingvar simply brought the existing IKEA range with him. That meant higher volumes and even lower prices.

While Kungens Kurva was adapted for self-service, IKEA Spreitenbach was designed with a self-serve warehouse from the beginning. Like the people of Stockholm, the Swiss liked it too. Sales were again way above expectations.

So the concept worked, but further expansion meant lots of investment. Many advisors said “put IKEA on the stock market.” Ingvar wasn’t convinced.
“We want to grow at our own pace. And not only with new things, but also to develop what we already have,” he thought. “Shareholders might push us to move too fast, and they’ll expect payouts when we need to invest and save for the future.”

From experience he knew partnerships were a great way to expand. After a long search, he decided that a franchise system would be the best choice for IKEA. It would allow for international expansion, while protecting the underlying concept and stimulating the entrepreneurial spirit.

In 1982 Inter IKEA Systems was established as the IKEA franchisor. Based in the Netherlands, it operated just one store in Delft—a so-called “pilot store” where they could test and try new ideas. Otherwise it was completely independent from IKEA retail.

Ingvar’s team also set up a Dutch foundation to take ownership of the existing stores and product development. Called the Ingka Group, it became the very first IKEA franchisee.

Still true to the IKEA vision

Ingvar Kamprad passed away in 2018, but his legacy continues. Last year (FY19) IKEA stores had more than 1 billion visits and total turnover of 41.3 billion euros. As the business grew, so did the team. What started with one five-year-old boy is today a global business with 220,000 co-workers, 12 franchisees and more than 400 stores on four continents.

This IKEA vision remains the foundation for the IKEA business, and it’s the reason many people choose to work under the IKEA brand. Today it’s expressed in a new strategy to create a positive impact on people, society and the planet.

IKEA stores are now well on their way to phasing out single-use plastics. And the IKEA range includes new, exciting products made from waste materials like rice-straw and harvested ocean plastic. 10% of the IKEA range is made from recycled materials, and more than 60% is made from renewables. And in 2020 IKEA finally reversed a difficult trend. Although the business continued to grow, the IKEA climate footprint decreased.
IKEA also continues partnerships to improve the IKEA range, stores and people’s lives at home. These partnerships come in various forms, from research and design to understanding how best to offer more circular and sustainable solutions to customers. IKEA works with its partners to tackle global challenges such as climate change, unsustainable consumption and inequalities. For example, working with WWF 91% of the wood used for IKEA products is now from more sustainable sources.

IKEA also partners with social entrepreneurs who work with people who are vulnerable and marginalised on a local, national and international level. Through IKEA Social Entrepreneurship, IKEA is committed to sharing its knowledge and experience with social entrepreneurs who are ready to scale their business, but also to learn from them. This way, IKEA can continue to have a positive impact on people and society and social enterprises can have a bigger impact on people’s livelihood opportunities.

The IKEA business continues to grow. During the coming years there are plans to bring IKEA to more people and places and even a new continent (South America). However, lessons from those first 30 years continue to shape the IKEA people know today.

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