

Ikea case



**ASSIGN
BUSTER**

Within a few years, he had established a mail-order business featuring products as diverse as the new ballpoint pens and furniture. It was in furniture, however, that he saw the greatest opportunity. The postwar boom changed the traditional Swedish practice of handing down custom-made furniture through generations. But while consumers were interested in buying reasonably priced quality furniture, their ability to do so was impaired by cartels of Swedish manufacturers and retailers.

Intensification supply contracts and agreements on competitive practice raised barriers to new entrants and disciplined those who failed to follow industry norms, particularly on price. As a result, between 1935 and 1946, furniture prices rose 41% faster than prices of other household goods.

Kampala - an idealist as well as an entrepreneur - decided that this situation represented both a social problem and a business opportunity.

He commented: A disproportionately large part of all resources is used to satisfy a small part of the population.... Too many new and beautifully designed products can be afforded by only a small group of better-off people. Kike's aim is to change this situation. We snail offer a wee range AT none Turnstiles Items AT good eagles Ana Tunnel at prices so low that the majority of people can afford to buy them. We have great ambitions. Exhibit 1 . KEA growth and performance indicators

Finally, the retail cartel members pressured the manufacturers cartel not to sell to 'KEA. Kampala responded by buying from a few independent Swedish furniture makers and by establishing new sources in Poland. To his delight, he found he could charge even lower prices. " It resembles the monsters of

old times," fumed one retailer in a letter to the cartel. " If we cut one of its heads, it soon grows another. " In 1953, Kampala converted a disused factory in ? Elmhurst into a warehouse-showroom, and business boomed. Company sales grew from Skirt million in 1953 to Skirt million in 1955.

By 1961, Kike's turnover was over Skirt million - 80 times larger than the turnover of an average furniture store (see Exhibit 2). Of a total Sir 16. 8 million furniture mail-order business in Sweden, KEA had Skirt million. In 1965, Kampala opened a second outlet in Stockholm. Sensitive to the impact of the automobile on shopping habits, he gave priority to creating ample parking space rather than the traditional focus on downtown location. His new store, built on the outskirts of the city, was the largest in Europe at the time.

Kampala encouraged his employees to experiment, unconstrained by the industry's conventional wisdom. Several of Kike's basic practices were developed in this period: he self-service concept facilitated by the wide distribution of informative catalogs Ana ten use AT explanatory outlets on Loosely merchandise; ten Knock-down SKI allowed stocks of all displayed items to be kept in store warehouses in flat pack boxes; and the development of suburban stores with large parking lots that brought the cash-and-carry concept to furniture retailing.

Each of these practices resulted in economies that reinforced Kike's position as the industry's price leader. Between 1965 and 1973, KEA opened seven new stores in Scandinavia, capturing a 15% share of the Swedish market (see Exhibit 3 for customer data). By 1973, KEA sales were Skiers million.

Although the Swedish furniture market doubled between 1963 and 1970, growth stagnated thereafter, owing to the low population growth rate and the saturated market. Kampala felt KEA had to expand internationally in order to continue growing. Exhibit 2.

KEA and the Swedish furniture industry, 1961 Personnel functions in Swedish furniture stores in 1961 Personnel occupied with KEA Furniture stores Furniture sections of department stores selling 29% Clean 44136 Warehouse 17 11 16 Transportation 5 13 5 Workshop 5 21 8 Productivity of Swedish furniture retailers in 1961 Measure KEA Large stores (a) Average store Annual turnover in 000 Sir/employee 202 114 93 Annual turnover in Sir/sq. M. 1, 453 1 , 076 704 Rent as percentage of annual turnover 0. 6% 3. 0% 3. 4% Annual Stockton 3. 2 2. 9 2. 3 (a) Annual turnover Skirt million or more.