

exteriors are painted bright blue and yellow, Sweden's national colors. Shoppers view furniture on the main floor in scores of realistic-looking settings arranged throughout the cavernous showrooms.

At IKEA, shopping is a self-service activity; after browsing and writing down the names of desired items, shoppers can pick up their furniture on the lower level. There, they find "flat packs" containing the furniture in kit form; one of the cornerstones of IKEA's low-cost strategy is having customers take their purchases home in their own vehicles and assemble the furniture themselves. The lower level of a typical IKEA store also contains a restaurant, a grocery store called the Swede Shop, a supervised play area for children, and a baby care room.

IKEA's unconventional approach to the furniture business has enabled it to rack up impressive growth in an industry in which overall sales have been flat. Sourcing furniture from a network of more than 1,600 suppliers in 55 countries helps the company maintain its low-cost, high-quality position. During the 1990s, IKEA expanded into Central and Eastern Europe. Because consumers in those regions have relatively little purchasing power, the stores offer a smaller selection of goods; some furniture is designed specifically for the cramped living styles typical in former Soviet bloc countries.

Throughout Europe, IKEA benefits from the perception that Sweden is a source of high-quality products and efficient service. Currently, Germany and the United Kingdom (UK) are IKEA's top two markets. The UK represents IKEA's fastest-growing market in Europe. Although Brits initially viewed the company's less-is-more approach as cold and "too Scandinavian," they were eventually won over. IKEA currently has 18 stores in the UK, and plans call for opening more in this decade. As Allan Young, creative director of London's St. Luke's advertising agency, noted, "IKEA is anticonventional. It does what it shouldn't do. That's the overall theme for all IKEA ads: liberation from tradition."

In 2005, IKEA opened two stores near Tokyo; more stores are on the way as the company expands in Asia. IKEA's first attempt to develop the Japanese market in the mid-1970s resulted in failure. Why? As Tommy Kullberg, former chief executive of IKEA Japan, explained, "In 1974, the Japanese market from a retail point of view was closed. Also, from the Japanese point of view, I do not think they were ready for IKEA, with our way of doing things, with flat packages and asking the consumers to put things together and so on." However, demographic and economic trends are much different today. After years of recession, consumers are seeking alternatives to paying high prices

for quality goods. Also, IKEA's core customer segment—post-baby boomers in their thirties—grew nearly 10 percent between 2000 and 2010. In Japan, IKEA will offer home delivery and an assembly service option.

The coming years will bring big changes at IKEA. In 2013, Peter Agnefjäll became the company's new chief executive. He plans to continue the company's sustainability initiatives, including the possibility of leasing kitchens to consumers. As Steve Howard, chief sustainability officer, said, "We want a smarter consumption, and maybe people are less attached to ownership." However, some observers question IKEA's sustainability bona fides, noting that its low-priced furniture contributes to a "throw it away" mentality when a piece breaks. Howard responds to such criticism by noting that "People have needs to be met—they need wardrobes, sofas, kitchens. The most important thing is to meet those needs in the most sustainable way possible." For example, in France, one factory sources half its wood from recycled IKEA products that are ground up and repurposed as bookshelves, tables, and other new products.

Discussion Questions

- 16-11. Review the characteristics of global and transnational companies in Chapter 1. Based on your reading of the case, would IKEA be described as a global firm or a transnational firm?
- 16-12. At the end of Chapter 11, it was noted that managers of IKEA stores have a great deal of discretion when it comes to setting prices. In terms of the ethnocentric/polycentric/regio-centric/geocentric (EPRG) framework, which management orientation is in evidence at IKEA?
- 16-13. What does it mean to say that, in terms of Porter's generic strategies, IKEA pursues a strategy of "cost focus"?

Sources: Richard Milne, "Against the Grain," *Financial Times* (November 14, 2012), p. 7; Milne, "IKEA Eyes Kitchen Recycling in Green Push," *Financial Times* (October 23, 2012), p. 19; Mei Fong, "IKEA Hits Home in China," *The Wall Street Journal* (March 3, 2006), pp. B1, B4; Richard Tomkins, "How IKEA Has Managed to Treat Us Mean and Keep Us Keen," *Financial Times* (January 14/January 15, 2006), p. 7; Kerry Capell, "IKEA: How the Swedish Retailer Became a Global Cult Brand," *BusinessWeek* (November 14, 2005), pp. 96–106; Theresa Howard, "IKEA Builds on Furnishings Success," *USA Today* (December 29, 2004), p. 3B; Mariko Sanchanta, "IKEA's Second Try at Japan's Flat-Pack Fans," *Financial Times* (March 4, 2004), p. 11; Paula M. Miller, "IKEA with Chinese Characteristics," *The China Business Review* (July–August, 2004), pp. 36–38; Christopher Brown-Humes, "An Empire Built on a Flat Pack," *Financial Times* (November 24, 2003), p. 8.

CASE 16-3 LEGO

The LEGO Company is a \$4 billion global business built out of the humblest of materials: interlocking plastic toy bricks. From its base in Denmark, the family-owned LEGO empire has extended around the world and has at times included theme parks, clothing, and computer-controlled toys. Each year, the company produces about 15 billion molded plastic blocks as well as tiny human figures to populate towns and operate gizmos that spring from the imaginations of young people (see Exhibit 16-12). LEGO products, which are especially popular with boys, are available in more than 130 countries; in the key North American market, the company's overall share of the construction-toy market has been as high as 85 percent.

Kjeld Kirk Kristiansen, the grandson of the company's founder as well as the main shareholder, served as CEO from 1979 until 2004.

Kristiansen says that LEGO products stand for "exuberance, spontaneity, self-expression, concern for others, and innovation." (The company's name comes from the Danish phrase *leg godt*, which means "play well.") Kristiansen also attributes his company's success to the esteem the brand enjoys among parents. "Parents consider LEGO not as just a toy company but as providing products that help learning and developing new skills," he says.

LEGO has always been an innovator. For example, Mybots was a \$70 toy set that included blocks with computer chips embedded to provide lights and sound. A \$200 Mindstorms Robotics Invention System allows users to build computer-controlled creatures. To further leverage the LEGO brand, the company also formed alliances with Walt Disney Company and Lucasfilms, creator of the popular *Star*

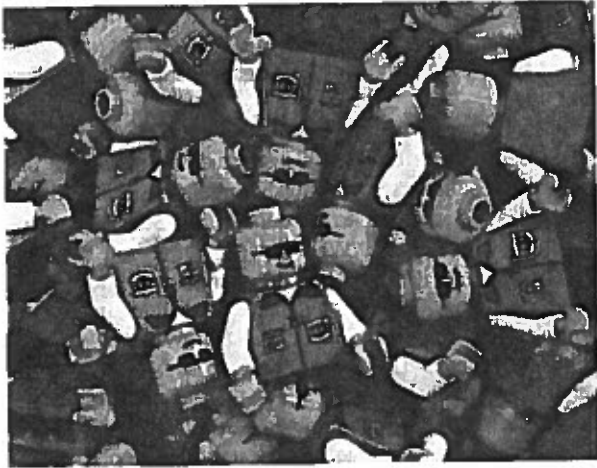


Exhibit 16-12

Source: AP Images.

Wars series. For several years, sales of licensed merchandise relating to the popular *Harry Potter* and *Star Wars* movie franchises sold extremely well.

After a disappointing Christmas 2003 season, LEGO was left with millions of dollars' worth of unsold goods. The difficult retail situation was compounded by the dollar's weakness relative to the Danish krone; LEGO posted a record loss of \$166 million for 2003. The company then unveiled a number of new initiatives aimed at restoring profitability. A new line, Quattro, consisting of large, soft bricks, is targeted directly at the preschool market. Clikits is a line of pastel-colored bricks targeted at young girls who want to create jewelry.

In 2004, after LEGO had posted several years of losses, Jørgen Vig Knudstorp succeeded Kristiansen as LEGO's chief executive. Knudstorp convened a task force consisting of company executives and outside consultants to review the company's operations and business model. The task force discovered that LEGO's sources of competitive advantage—creativity, innovation, and superior quality—were also sources of weakness. The company had become overly complex, with 12,500 stock-keeping units (SKUs), a palette of 100 different block colors, and 11,000 suppliers.

Acknowledging that the company's forays into theme parks, children's clothing, and software games had been the wrong strategy, Knudstorp launched a restructuring initiative known as "Shared Vision." Within a few months, cross-functional teams collaborated to reduce the number of SKUs to 6,500; the number of color options was slashed by 50 percent. Production was outsourced to a Singaporean company with production facilities in Mexico and the Czech Republic, resulting in the elimination of more than 2,000 jobs.

Knudstorp also decided to focus on the company's retail customers, which include Toys 'R' Us, Metro, Karstadt, and Galeria.

After surveying these customers, Knudstorp and his task force learned that the customers do not require express product deliveries. This insight prompted a change to once-weekly deliveries of orders that are placed in advance. The result: improved customer service and lower costs. In the three-year period from 2005 to 2008, on-time deliveries increased by 62 percent to 92 percent. LEGO also logged improvements in other key performance indicators, such as package quality and quantity. In 2008, LEGO was awarded the European Supply Chain Excellence Award in the category "Logistics and Fulfillment."

In terms of competitive advantage, Knudstorp has noted, "A bucket of bricks is the core of the core." Still, he adds, "There's more to being a global successful company than being able to build a plastic brick." Evidence of the company's magic touch can be found in LEGO Friends, a new theme targeting girls that has sold extremely well. Moreover, the company's forays into video games such as *Lego Batman 2*, children's books such as *The Lego Ideas Book*, and TV series on the Cartoon Network have proven to be successful as well. *The Lego Movie*, released in 2014, proved to be a global blockbuster with ticket sales of nearly \$500 million.

Discussion Questions

- 16-14. Jørgen Vig Knudstorp became CEO in 2004. Assess the key strategic decisions he has made, including outsourcing and divesting the theme parks.
- 16-15. LEGO's movie-themed products, keyed to popular film franchises such as *Harry Potter*, *Lord of the Rings*, and *Spider-Man*, include detailed construction plans. Do you think this is the right strategy?
- 16-16. Using Porter's generic strategies framework, assess LEGO in terms of the company's pursuit of competitive advantage.
- 16-17. What risk, if any, is posed by LEGO's movement into multimedia categories such as video games and television?

Sources: Clemens Bomsdorf, "Lego Building Up Its Mexico Plant," *The Wall Street Journal* (June 21–22, 2014), p. B4; Jens Hansgaard, "What It Takes to Build a Lego Hobbit (and Gollum and More)," *The Wall Street Journal* (December 20, 2012), p. D1; Matt Richtel and Jesse McKinley, "Has Lego Sold Out?" *The New York Times* (December 23, 2012), p. SR4; Carlos Cordon, Ralf Seifert, and Edwin Wellian, "Case Study: LEGO," *Financial Times* (November 24, 2010); Kim Hjelmgaard, "Lego, Refocusing on Bricks, Builds an Image," *The Wall Street Journal* (December 24, 2009); David Robertson and Per Hjuler, "Innovating a Turnaround at LEGO," *Harvard Business Review* (September 2009); John Tagliabue, "Taking Their Blocks and Playing Toymaker Elsewhere," *The New York Times* (November 20, 2006), p. A4; Lauren Foster and David Ibson, "Spike the Robot Helps LEGO Rebuild Strategy," *Financial Times* (June 22, 2006), p. 18; Ian Austen, "Building a Legal Case, Block by Block," *The New York Times* (February 2, 2005), p. C6; Joseph Pereira and Christopher J. Chipello, "Battle of the Block Makers," *The Wall Street Journal* (February 4, 2004), pp. B1, B4; Clare MacCarthy, "Deputy Chief Sacked as LEGO Tries to Rebuild," *Financial Times* (January 9, 2004), p. 19; Majken Schultz and Mary Jo Hatch, "The Cycles of Corporate Branding: The Case of the LEGO Company," *California Management Review* 46, no. 1 (Fall 2003), pp. 6–26; Meg Carter, "Building Blocks of Success," *Financial Times* (October 30, 2003), p. 8.