

Part 3 | Strategy and Opportunity Assessment

Chapter 11

Strategy and Organization in the International Firm

Learning Objectives After studying this chapter, you should be able to:

- 11.1 Describe strategy in international business.
- 11.2 Understand building the global firm.
- 11.3 Describe the integration-responsiveness framework.
- 11.4 Learn to identify strategies based on the integration-responsiveness framework.
- 11.5 Understand organizational structure in international business.
- 11.6 Understand foreign market entry strategies.

IKEA: Global Retailing Success Story

IKEA evolved from a small, Swedish company to become the leading global retailer of specialty furniture. Ingvar Kamprad founded the firm in Sweden in 1943. IKEA originally sold pens, picture frames, jewelry, and nylon stockings—anything Kamprad could sell at a low price. In 1950, IKEA began selling furniture and housewares. In the 1970s, the firm expanded into Europe and North America and began to grow rapidly. Total sales in 2017 exceeded \$40 billion, making IKEA the world's largest furniture retailer. Usually located in major cities, IKEA stores are huge warehouse-style outlets that stock some 12,000 items. They include everything for the home—from sofas to plants to kitchen utensils.

IKEA's philosophy is to offer high-quality, well-designed furnishings at low prices. Its functional, utilitarian, and space-saving pieces have a distinctive Scandinavian style and are knock-down furniture, which the customer assembles at home.

IKEA's corporate offices are located in the Netherlands and Sweden. The firm employs numerous global strategies that enable its success. Product development, purchasing, and warehousing are centered in Sweden. Headquarters designs and develops IKEA's global branding and product line, often collaborating closely with external suppliers. About half of IKEA products are made in Europe. Another one-third are made in Asia, and the rest are mainly made in the United States. Approximately 90 percent of IKEA's product line is identical worldwide. Store managers constantly report market research to headquarters on sales and customer preferences.

IKEA targets moderate-income households with limited living space. The preferred market segment is progressive, well-educated people who care little about status. Targeting a global customer segment allows IKEA to offer standardized products at uniform prices.



Source: Suwan Waenlor/Shutterstock.

This strategy lowers the costs of international operations. IKEA's global strategy seeks scale economies by consolidating worldwide design, purchasing, and manufacturing.

Each IKEA store follows a centrally developed advertising strategy in which the catalog and the catalog app are the most important marketing tools. In 2017, more than 215 million copies of the catalog were printed in 32 languages. It represents the largest circulation of a free publication in the world. The catalog is also available online (www.ikea.com). The catalog is prepared in Sweden to ensure conformity with IKEA's cosmopolitan style. Each product has a unique proper name. IKEA uses Scandinavian rivers or cities for sofas (Henriksberg, Falkenberg), women's names for fabric (Linne, Mimmi, Adel), and men's names for wall units (Billy, Niklas, Ivar).

IKEA employees ("coworkers") worldwide are widely acknowledged as a key contributor to the firm's success. Corporate culture is informal, and the firm uses a flat organizational structure. There are few titles, no executive parking spaces, and no corporate dining rooms. Managers fly economy class and stay in inexpensive

hotels. Most initiatives are developed at headquarters in Sweden and communicated to all stores worldwide. This speeds decision making and ensures that the IKEA culture is easily globalized. Management in each store is required to speak either English or Swedish to ensure efficient communications with headquarters.

IKEA organizes an anti-bureaucratic week each year in which managers wear sales clerks' uniforms and do everything from operating cash registers to driving forklifts. The system keeps managers in touch with all IKEA operations and close to suppliers, customers, and sales staff. The firm's culture emphasizes consensus-based decision making. This lets managers share their knowledge and skills with coworkers and helps employees and suppliers feel they are important members of a global organization. The strong appeal of global culture supports IKEA's continued growth.

In 2017, IKEA managed approximately 390 stores, 20 franchises, 194,000 employees, 47 distribution centers, and 1,002 suppliers in 49 countries. IKEA chooses its markets strategically. The firm suspended investment in Russia because of burdensome government

intervention. It has established several stores in key cities in China. Management is expanding to India but must deal with substantial government red tape. Elsewhere, IKEA faces much complexity in adapting to national markets regarding employment, operations, supplier relationships, government regulations, and customer preferences. Among other challenges, IKEA must figure out how to:

- Incorporate customer feedback and design preferences from diverse markets into decision making at headquarters.
- Reward employees and motivate suppliers despite varying business customs and expectations from country to country.
- Achieve the real benefits of international operations—efficiency on a global scale and learning—while remaining responsive to local needs.
- Keep designs standardized across markets yet be responsive to local preferences and trends.
- Delegate adequate autonomy to local store managers while retaining central control.

IKEA fared well during the recent global recession. Its value-oriented furniture and housewares appealed to customers during tough economic times.

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Questions

- 11-1.** What strategies and other approaches does IKEA follow that have allowed the firm to become the world's leading furniture retailer?
- 11-2.** Describe IKEA's organizational culture. How does it contribute to the firm's success?
- 11-3.** What strategic challenges does IKEA face going forward?

SOURCES: "IKEA's Russian Saga," *Business Eastern Europe*, January 17, 2011, p. 2; IKEA, *IKEA Group FY2017 Yearly Summary*, www.ikea.com; "IKEA: How the Swedish Retailer Became a Global Cult Brand," *Business Week*, November 14, 2005, www.businessweek.com; Michael Jarrett and Quy Nguyen Huy, "IKEA's Success Can't Be Attributed to One Charismatic Leader," *Harvard Business Review*, February 2, 2018, www.hbr.org; Beth Kowitz, "It's IKEA's World," *Fortune*, March 15, 2015, pp. 166–175; M. Lloyd, "IKEA Sees Opportunity During Hard Times," *Wall Street Journal*, February 18, 2009, p. B1; Carol Matlack, Sam Chambers, and Anna Molin, "Ikea Tries Breaking Out of the Big Box," *Bloomberg Businessweek*, January 15, 2018, pp. 20–21; IKEA corporate website at www.IKEA-group.IKEA.com; IKEA company profile at www.hoovers.com; Anol Sharma, "IKEA Wary of Entering India," *Wall Street Journal*, January 24, 2012, p. B4.

As the IKEA opening case shows, multinational managers strive to coordinate sourcing, manufacturing, marketing, and other value-adding activities on a worldwide basis. They often adopt organization-wide standards and common processes. They also frequently seek to develop products that appeal to the broadest base of customers worldwide. Organizing the firm on a global scale is challenging. It requires skillfully configuring activities across diverse settings, integrating and coordinating these activities, and implementing common processes to ensure that the activities are performed optimally. In addition, the firm must simultaneously respond to the specific needs and conditions that characterize the individual locations where it does business. In this chapter, we discuss the role of strategy and organization, and the various company attributes that support them, in building the successful international firm. We also discuss company foreign market entry strategies. Entry strategies range from global sourcing, exporting, and licensing to joint ventures and foreign direct investment. Let's begin by examining the role of strategy in international business.