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The Experimental Roots of Revolutionary Vision

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The Experimental Roots of Revolutionary Vision

The story of the IKEA Group, the world's largest furniture retailer, is well known. This highly successful company, based in Älmhult, Sweden, operates 220 stores in 33 countries and has annual sales of €14.8 billion. It has emerged as a global player in one of the most fragmented industries in the world. IKEA has been studied and used as an example by prominent business authors such as Michael Porter, Gary Hamel and Philip Kotler.¹

In general, IKEA's success is attributed to the fact that the company has redefined a number of organizational practices in the furniture business.² Its use of global product sourcing and customer self-service results in low costs. IKEA has a tendency to choose the cheapest suppliers, and customers pick up, transport and assemble most furniture purchases from IKEA themselves. A portion of IKEA's savings from low-cost components and customer self-service is then passed on to customers in the form of low prices. In addition, well-designed furniture and an unusual shopping experience result in consumers' perceiving that they receive superior value for money spent. Although IKEA's products are simple, most of them benefit from high-quality Scandinavian design. IKEA's huge stores provide plenty of amenities as well, such as coffee shops, restaurants and even child-care facilities.

Although much has been written about IKEA, one topic has remained virtually unexplored. How did IKEA's revolutionary strategy come about? While it is important for managers to study the content of successful strategies, it may be even more important to understand the process through which they are created.³ An in-depth examination of the history of IKEA, which was founded in 1943, reveals that many specifics of the company's strategy were not brought about through a process of deliberate formulation followed by implementation. Instead IKEA's founder, Ingvar Kamprad, started with a very general vision. IKEA's specific strategy then emerged as he both proactively developed a viable course of action and reactively adapted to unfolding circumstances.⁴

In the academic literature, this approach is known as *logical incrementalism*.⁵ According to the logical incrementalism perspective, actual strategic management practices have little resemblance to the rational and analytic approach to strategic planning that is frequently advocated. In the real world, the processes used by managers to craft a strategy are often fragmented, evolutionary and largely intuitive.⁶ However, proceeding incrementally (instead of

The history of the successful Swedish furniture retailer IKEA illustrates the role that adaptation and experimentation play in the development of an innovative strategy.

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trying to plan everything out in advance and then trying to implement this plan) is not sufficient. A general sense of direction is also necessary to guide the organization and its employees.

How IKEA's Strategy Was Created

Although they have been continually adapted and improved, the fundamental tenets of IKEA's strategy are not new. Kamprad wrote them down in a company publication titled *Testament of a Furniture Dealer*.⁷ The essence of IKEA's strategy, he wrote, consists of "offering a wide range of well-designed, functional home furnishing products at prices that are so low that as many people as possible will be able to afford them."

Interestingly, the initial decision to sell furniture was an adaptation to the market rather than a more deliberate strategy. In the late 1940s, IKEA was a mail-order company that sold a variety of consumer items such as Christmas cards, seeds, fountain pens, wallets and picture frames. Kamprad introduced the first piece of furniture in his mail-order catalog to imitate a successful competitor. It is only because that initial piece of furniture was a huge success that he decided to focus on furniture and ended up discontinuing all other products a few years later.

Similarly, many of the other major strategic decisions Kamprad made were incremental moves that grew out of experimentation rather than out of a preplanned strategy. For example, IKEA owes much of its success to furniture that customers assemble and to flat packages that can easily be stacked in a warehouse or carried in a car. Indeed, IKEA could never achieve such a low-cost position if customers did not agree to take on some of the tasks usually performed by manufacturers and retailers, such as delivering furniture to their homes and assembling it.

It was Gillis Lundgren, one of IKEA's first employees, who came up with the concept of ready-to-assemble furniture kits in 1953. However, it would be wrong to assume that Lundgren envisioned a new division of labor among customers, manufacturers and retailers the first time he took the legs off a table. At that time, IKEA

was a mail-order company, and insurance companies were complaining that a high percentage of its furniture was damaged while being shipped to customers. Hence, selling unassembled furniture that could be packed and shipped in flat boxes was a way both to reduce the damages that occurred during delivery and to lower shipping costs. It was only when IKEA began opening stores that the potential of customer-assembled furniture and flat packages was fully tapped. It turned out that customers could create value for themselves by taking on the delivery and the assembly of the furniture they bought.

Another key driver of IKEA's low-cost structure is global sourcing of products. IKEA currently works with 1,300 suppliers in 53 countries, but Kamprad made the pioneering decision to source furniture from communist Poland as early as 1961. Since manufacturing costs were 50% lower in Poland than in Sweden, his decision looks brilliant in hindsight. However, that decision, too, was an adaptation to market circumstances rather than an outgrowth of a formal strategic planning process.

In the 1950s, Swedish furniture retailers and manufacturers had an agreement to keep prices high. Because IKEA's strategy consisted of selling furniture at considerably lower prices than its competitors, the Swedish retail cartel gave local furniture manufacturers an ultimatum: Retailers would no longer buy from manufacturers that sold to IKEA. Most manufacturers didn't dare defy the retail cartel and so refused to do business with IKEA. Thus, looking for suppliers outside Sweden was the only way for Kamprad to overcome a boycott that could have led IKEA to bankruptcy. At that time, doing business with communist countries was unusual. However, IKEA's long-term contracts for large volumes at low prices happened to match perfectly the way the Polish furniture export organization, PAGED, worked at the time.⁸

Furniture design is another key element of IKEA's success, and it, too, evolved in response to external pressures. Before requesting local manufacturers to boycott IKEA in the late 1950s, the Swedish retail cartel had asked them not to sell the same furniture to IKEA as to its competitors. The aim of the retail cartel was to make it harder for customers to compare prices. Consequently, IKEA was forced to start designing its own furniture. At that time, "designing furniture" at IKEA essentially consisted of slightly modifying existing models to help suppliers avoid the retail cartel's boycott. In retrospect, however, the decision to perform design in-house was one of the best moves ever made by IKEA. First, Scandinavian design helps differentiate the company's merchandise. As Kamprad recalls, "When we were not allowed to buy the same furniture that others were, we were forced to design our own, and that came to provide us with a style of our own, a design of our own."⁹ Second, IKEA's furniture design style is also instrumental in keeping costs and prices low, in part because it is adapted to automated manufacturing.

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Even IKEA's unique retail environment is in many ways the result of experimentation. Most of what constitutes a typical IKEA store emerged as an aggregation of successful innovations made around the world. For instance, the origin of the company's in-store restaurants can be traced back to the coffee and buns that Kamprad promised to visitors if they came to the opening of the company's first store in Älmhult, Sweden, in 1953. At the time, Kamprad feared that people would be reluctant to travel to Älmhult, a remote Swedish city, and so he used coffee and buns as an incentive.

In many cases, store managers were forced to innovate by events over which they had no control. For instance, when the first large IKEA store opened in Stockholm on June 18, 1965, there were so many customers that the warehouse could not handle them. This shopping frenzy could partly be attributed to the fact that the Swedish government planned to introduce a value-added tax in July 1965. In order to cope with the rush of customers eager to make purchases before the value-added tax took effect, the store manager decided to let customers pick up their purchases from the warehouse. At the time, opening the warehouse to customers was totally unheard of. The result was so successful that all future IKEA warehouses were designed to allow for customer self-service.

Finally, it is worth noting that even the decision to open stores in the first place was the result of experimentation. Until 1953, IKEA was a mail-order business. However, cutthroat competition in the Swedish mail-order industry was driving prices down, and some competitors were skimping on quality to increase their margins. As a result, the image of the entire mail-order industry was being damaged. Together with Sven Göte, an early IKEA employee, Kamprad came up with the concept of a showroom. The idea was to provide customers with an opportunity to see the products before ordering them through the mail.

Lessons for Managers

Several useful insights can be gained from the story of how IKEA's strategy evolved. Specifically, understanding the process of strategy formation at IKEA offers four important lessons about how a revolutionary strategy can be developed using an incremental approach.

1. Start with a clear vision and improve it over time. Most successful strategies are based on a clear vision. Today, Kamprad's vision of "offering a wide range of well-designed, functional home furnishing products at prices that are so low that as many people as possible will be able to afford them" guides the way IKEA furniture is designed, manufactured and sold.

While it is important to have a sense of direction from the outset, an incremental approach may also be used to improve a vision over time. As Kamprad recalls: "My interest at first was purely commercial: selling as much decent furniture as I could as cheaply as possible. Not until the first complaints started coming

in did I realize that it was quality that was lacking."¹⁰ Indeed, it took several years for quality and design to become part of Kamprad's vision. It was only in 1964 that a study published by the Swedish magazine, *Allt i Hemmet*, confirmed that IKEA's furniture was not only cheap but also of good quality and design.

2. Constantly experiment and don't be afraid to make mistakes.

While a clear, overarching vision is necessary, success largely depends on the specifics of the strategy. In the case of IKEA, the vision of offering well-designed furniture at prices much lower than competitors was innovative. However, a small Swedish company would never have become the world's largest furniture retailer if Kamprad and his team had not also come up with new ways of designing, manufacturing and selling furniture.

As we have seen, many of the specifics of IKEA's strategy emerged through a process of trial

and error. Kamprad tested a large number of different approaches on a small scale. If an approach did not work, he refrained from using it again. For instance, more than 90% of the products sold by IKEA are currently sourced from outside suppliers. The rest is supplied by Swedwood, a subsidiary of the IKEA Group that produces wood-based furniture and wooden components.¹¹

The decision not to be more involved in manufacturing was actually made in the 1960s. At that time, IKEA owned a television manufacturer. The cumulative losses of that subsidiary were huge and ended up threatening the very existence of IKEA. As Kamprad commented: "After that, the main principle was created that IKEA was never to buy from IKEA. Others are to produce for us. We are in principle not to own industries; ownership entails extra responsibilities, not just to sell but also to provide backup."¹²

When using a trial-and-error process to craft a strategy, it is crucial to develop a corporate culture that allows people to make mistakes. Otherwise, they will not be willing to experiment. At IKEA, Kamprad himself willingly acknowledges that he constantly makes mistakes. As he wrote in *Testament of a Furniture Dealer*, "Only those who are asleep make no mistakes. Making

Kamprad wrote in *Testament of a Furniture Dealer*, "Only those who are asleep make no mistakes. Making mistakes is the privilege of those who can correct their mistakes and put them right."

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3. Always try to turn problems into opportunities. Importantly, some of IKEA’s most groundbreaking ideas emerged when the company faced difficult challenges. For instance, sourcing furniture from communist Poland at the height of the Cold War was a bold move, but it is highly unlikely that Kamprad would have made such a risky decision if Swedish furniture manufacturers had not boycotted his company.

In the history of IKEA, there are many other examples of problems turned into opportunities. For example, a fire destroyed IKEA’s flagship store in Stockholm on September 5, 1970. The store was rebuilt with the concept of self-service, using all the experience gathered over the previous five years. As a consequence, sales and profitability rapidly increased. In fact, in its early years, IKEA so often had its back to the wall that considering threats as potential opportunities became a key element of the company’s corporate culture. As Kamprad puts it: “In IKEA’s business philosophy, the whole matter should be transcribed as a golden rule: Regard every problem as a possibility. New problems create dizzying chances.”¹⁴

4. Make the most of other people’s ideas. Many people think that coming up with a new concept is a prerequisite for developing a revolutionary strategy. To the contrary, the story of IKEA suggests that it may be more important to recognize and tap existing concepts. For example, as noted earlier, selling ready-to-assemble furniture is a cornerstone of IKEA’s strategy. However, Kamprad did not come up with this idea. It was his employee, Gillis Lundgren, who had the idea of taking the legs off a table and putting them under the tabletop. Actually, the concept was not even pioneered by IKEA. At least one other Swedish company used to sell furniture kits before IKEA introduced them in its mail-order catalog. However, according to Kamprad, managers from the other company failed to recognize the potential of their new concept. As he recalls: “We were not the first with the basic idea. NK in Stockholm already had a series of what was called knockdown furniture. They just didn’t realize what commercial dynamite they were concealing. IKEA was able, thanks to the dialogue I later carried on with innovative designers, to be the first to systematically develop the idea commercially.”¹⁵

The Roots of a Revolutionary Strategy

The IKEA case provides a unique opportunity to shed light on an underexplored topic: How are revolutionary strategies created? While this question is fundamental, there are surprisingly few answers in the academic and managerial literatures. The story of IKEA suggests that even revolutionary strategies such as the one crafted by Kamprad can be traced back to a variety of small

actions and decisions that were often made serendipitously and in response to external circumstances.

This approach is common in entrepreneurial companies. Entrepreneurs are, in essence, individuals with a vision that is not always fully articulated but that serves as an inspiration and guiding idea. However, an experimental and incremental approach to strategy formation can also be useful for established corporations. No matter the age or size of a company, there is a tension in strategy formation between the desire to shape the future and the need to adapt to an unfolding reality. Logical incrementalism is a very useful conceptual tool for reconciling these two conflicting needs. While a clear vision is necessary, it is not possible to predict the precise form or time of all future threats and opportunities. Thus, all companies can benefit from incorporating an experimental and incremental mindset into their strategy formation.

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