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## A Counter-Intuitive Downturn Strategy (1144)

*Anders Dahlvig*

*Group President & CEO*

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When I started as CEO in 1999, we were in the middle of a peak in the economy. This was in the middle of the IT boom, 1999 to 2001. IKEA was doing tremendously well. I think we had a sales growth pace of 15-20 percent at the time. However, one of the things I learned from the mid-'90s when I was sitting further down in the organization as a country manager when we had the downturn, a real downturn—the last time before that we reacted to the economy in a very short-term way. We became very cost-focused short-term. It had a negative impact on the service we gave our customers in the stores because we were reducing staff and investments, etc. to try to maximize the result in the short-term. When we were sitting there in the next upturn in the economy in 2000, I felt it would be good if we were planning ahead because after the sunshine comes the rain. This time we will see the same effect, as always happens. But we had a better preplanning for this. What we set out to do was to think about what happens when the next downturn comes. Could we plan different scenarios depending on how bad it gets? The specifics of what we did was to look at the financial consequences if turnover went down X%, Y%, or other set percent and what our actions should be. What we were betting on was that sales would go down, but it wouldn't be a crisis level; it would be a downturn. And then our proposal was, instead of reacting and cutting costs, to invest. The proposal was that we should increase our investments in new stores compared to what we had done. We should decrease our sales prices even more, instead of pulling them up in order to save some margin. We should invest in our stores to see to it that we have the best service for our customers.

[We also invested in] a number of other types of measures that normally you may do in an upturn in the economy rather than a downturn. We took this to the board and proposed that under these types of circumstances this is what we want to do. If this and this and this happen, this is what we want to do. It gave us an opportunity to have a really good discussion about that in a time when the economy was good and we could confidently discuss this in the boardroom and come to some kind of agreement. And eventually we did. Then, of course, it happened. After the IT boom, we had an IT crash. In 2002-2003 the whole economy in the Western world went down pretty dramatically. And we could embark on our plan. What we did was exactly what I had proposed. We increased our expansion from around 10 stores per year to 20 stores per year, which we have then maintained for at least 10 years, basically. We started reducing our sales prices to our customers, on average 2-3 percent a year—before that we had increased our prices to our customers—increased our opening store hours to give better service to our customers, and a number of other efforts like that. In retrospect this has been a very successful strategy because what it did was help us to increase our distance from the competition in

a way we would otherwise not have, and it put us in a totally different position. The lesson of planning for the downturn is that you are prepared when a downturn occurs and you can set your plans in motion, having the board with you and having had the discussion with your management. You don't lose time. The benefit is you don't react to the circumstances; rather you are proactively managing it in a good way. And the lesson is, if you have offensive strategy in a downturn, like we have, it is an opportunity to distance yourself from your competition.

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## **Creating A Diverse Organization (1132)**

***Anders Dahlvig***

*Group President & CEO  
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When I started at my present job as CEO, the management team of IKEA was made up of all male Swedes. If I go back a few years earlier than that, there was a time already in the '90s even where we had maybe one store manager who was female. And that was it. There was a perceived glass ceiling in the company for women. As I said at the time, it can't be so that all people who are good at home furnishings in this world are male Swedes. There must be; I don't think that is something that we have inherited. There must be a reserve of potential out there somewhere that we are not looking into. One of my first measures when I created the team that I wanted to work with was that I promoted two women to senior positions in my management team. I'm not talking about the communication manager or the HR manager, which are the traditional female roles at this level. They were my CEOs for North America and IKO Sweden, which is the organization responsible for all product development and the whole supply chain. These are really two of the most senior positions in the company. Not only were they shocked that I asked them to take these jobs—that in itself was a surprise—but also the reaction from the organization was [strong]. I would have guessed it would be strong, but it was even stronger than I thought. There was a lot of internal frustration in the organization that many of us males hadn't seen. It was like opening the lid, basically. We followed [these appointments] with a leadership program where we invited 100 to 150 people for three different three-day sessions about something that we called "Leadership and Diversity at IKEA." We wanted to use [this program] as some kind of change driver. It was one thing to promote a couple of women to the management, but then how do you get the whole organization to feel that this was now a new thing for IKEA, something we wanted to drive? We chose not to invite the 100 top managers. Instead we invited a diverse group of people, where we chose from top managers to fairly far down, from all countries, with all mixes of women, ethnicity, and other types of differences that we have into one big group to really reflect a diverse company in these leadership seminars. It was one of the more defining moments that I've been part of. It was incredibly emotional and moved people very deeply to discuss these things openly and bring all those things to surface. It had a profound impact on the organization. In the company today, about 40

percent of our store managers are women. About 50 percent of our deputy country managers are women. We have female country managers in Sweden, the United States, Canada, Germany, Austria, and a number of other countries. We've moved a long way when it comes to the gender issue.

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## **Dare To Be Different (1143)**

### ***Anders Dahlvig***

*Group President & CEO  
Ikea Services*

We started considering going into Russia in terms of retail operations and IKEA stores back in '97 approximately. In 1998 when we were prepared to start that was also the time when Russia went into real crisis—political turmoil, economic turmoil. The ruble was going down the drain.

[There was] a lot of uncertainty, and a lot of international companies that had been thinking of going into Russia abandoned those plans. Some also left Russia. So there was really no investment inflow into Russia. The success story of IKEA is that we try to do things the opposite of what everyone else is doing. We felt this was a wonderful situation if we had the courage to forcefully move into Russia when everyone else was leaving. It's all about doing things differently to gain a real competitive edge. Of course we did a little bit of preplanning in the sense that we were looking at the financial risks. So we said that if we were to invest X billion euros into new stores in Russia, and everything was lost—if that was the worst alternative—confiscated, or whatever, what damage would that do to IKEA? We could then see that, yes, we could have solved that without putting the company at risk. We decided to move into Russia, and it was not easy in the sense that moving into a country in that situation has a lot of problems. There is corruption, bureaucracy, and a lot of things like that—uncertainties about currencies, how you finance anything, and how you get funds to finance anything in an economy like that. On the other hand, it opened up a lot of opportunity of finding good sites for our stores and shopping centers because there were a lot of opportunities where no one else was doing that. And also [there were] some good prices. We managed to acquire a number of land sites in the best locations in and around Moscow, St. Petersburg, and some of the main cities. We made the right decision when we put in a crew of people who were really “crazy” guys who [in that] they would go through walls to accomplish what they needed to do. But you needed to give them specific mandates. These people don't thrive in an organized environment. You can put them in a situation like this, and they will get the results, but you have to allow them to get those results in ways other than the normal conforming ways that we have. Countries like Russia are not easy to operate in for a Western company. But if it would have been easy, everyone else would have been there as well, and we would not have gained the opportunity we now did. So for us, the more difficult it is in some ways, the better. Because if we have the persistence to prevail in

this type of environment, it gives us a huge advantage compared to other companies and competitors.

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## **Promoting A Social & Environmental Agenda (1142)**

*Anders Dahlvig*

*Group President & CEO  
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We had a history of some crises within the social and environmental worlds, if you like. In the 1990's we had been accused of child labor

[violations] at the suppliers in our factories in Pakistan, for example. And we had an environmental crisis in Germany with formaldehyde in our furniture, which had given us quite bad headlines in the media. Our response to that in the mid-1990's was also fairly reactive and defensive, and it showed us that we did not have a comprehensive agenda for CSR within the company. One of my first objectives at IKEA was to build a strong foundation, a strong agenda in terms of environmental and social issues. Retail people were very much in favor of a strong agenda where we put demands on our suppliers, etc. whereas the people at the supply end were fearful that purchase prices would go up. There were a lot of debates and discussions about whether we should be at the forefront of this and be the good example, whether we should be mainstream, or whether we should meet the minimum required by the law. That's the basics of it, so to speak, and the virtues of one over the other. So [there was] a very broad point of view within the company. It was not easy for me to navigate in this landscape and try to find a way where we could agree on how we would like to position the IKEA brand in this world. Well, I had to give this a bit of time. We took a year to discuss this broadly in the organization—from the board, out in retail, out in purchase; how do we see this, and where do we want to see IKEA in the future? —and we proposed some ideas of what this could be. In retrospect it was a good idea to give that time, because this is not a subject like any other subject. It's an emotional subject, and it goes very deep. It's about moral and ethics; it's not just a business issue. After this long internal debate, we managed to come out with a common agreement that, yes, IKEA should be a good example and at the forefront; this would be beneficial for IKEA in terms of the business. The focus areas in the beginning were the areas where we had mostly been criticized. So it was to move strongly in the area of the demands on the supplier base. The other area was forestry. Wood is a big part of our business, and we needed to get control of the origin, where wood was coming from, and how it was used at our suppliers. The third area was [to create] healthy and safe products, which of course is at the core of any business. Looking back at it, I think we have moved in the sense that IKEA today has a very good reputation when it comes to social and environmental issues. It was important 10 years ago, but it's even more important today.

[These issues] have grown enormously in importance in society at large, and therefore we as a company need to be very strong on it. You could call it a moral issue, of course, but if you want to be successful with it in your business environment, you have to have a business connection. People have to see that this makes sense from a pure P&L or financial point of view as well. You can't just drive it with the moral aspect. And it's interesting to see that it actually does help the bottom line, not only in terms of reputation but also in terms that costs can be reduced. At the end of the day, what's good for the environment is very often using fewer raw materials and resources, and fewer resources means lower costs. So I think there is a very good fit between the business case and the environmental agenda.

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## **The Value Of Setting A Long-Term Strategy (1141)**

*Anders Dahlvig*

*Group President & CEO  
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In 1999 when I took over as the CEO of the company, I felt a need for a long-term perspective in the company. We have a very strong vision in IKEA to create a better every day for the many people and a strong business idea. But there was no connection between that and the short-term plans, like the one-year plans, that every company within IKEA put together, like the budgets, etc. So this would be the glue between the long-term vision of the company and the short-term action plans. However, culturally this was a bit of a new ballgame. We are not used to this type of planning. It was a challenge, if you like, for me to persuade the board that this was a good idea. Eventually we came to a conclusion. So getting the board onboard was one challenge. Another challenge was getting the organization to feel that this was necessary, because I had set out a 10-year perspective on this plan. Ten years is a long time, I think. Many people in the organization probably thought this was a little bit too theoretical and long-term to be valid. However, we prevailed. We made a 10-year plan. We called it "10 jobs in 10 years;" that was the buzzword for it. We set out three main objectives: to be the leading home furnishing company in the world, to sustain long-term profitability and to continuously increase our competitive advantages. Then we had 10 sub-strategies regarding our commercial agenda, pricing position, and supply strategies and also in regards to how we wanted to organize ourselves, drive the CSR agenda, and lead people. A number of sub-strategies were linked into the three overall main objectives. We also put some financial goals toward this long-term financial. What should the growth rate be? What should our market share be? How should we position our pricing over this year? It was a mixture of qualitative goals, strategies, and objectives but also some quantitative objectives. Looking back at the experience of it, I have to say this [strategy] was very successful. It not only became the link between the vision and the short-term plans but also it provided a comprehensive total plan for the company. The learning I've taken from this is that in a big organization, like the size we are, you need a quite a lot of time

just to be able to communicate a plan like this so that it actually filters down all the way in the organization and doesn't just stay on a very high level, which I think is otherwise often the case. And then you need time for people not only to get the communication about it but also to understand the content of it and actually do the job. A lot of people thought that 10 years was far too long. We now have 10 years. I've been in this job for 10 years. And the plan has actually prevailed. Sometimes I joke that I'm probably the only CEO who has written only one business plan in 10 years. And I think it has been very successful. The long-term perspective has also been motivating in the sense that it creates a sense of stability and security for organization so that we don't go from left to right or react to things that happen in the environment. There is actually a long-term development and progress of the business.