

## Global Sourcing Development at IKEA – a Case Study

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### Abstract

This study explores the dynamic process of global sourcing development through a case study of the Swedish home furnishing giant IKEA and its supply network concerning the PAX wardrobe system. The paper provides a synthesis of the existing global sourcing literature by dividing this growing body of research into three major themes: globalization processes and stages, motives/drivers, and organizational design and management. Moreover, the paper integrates the global sourcing literature with the established literature on the internationalization process of firms. Comparing the existing research on global sourcing and internationalization, we propose two research questions focused on: (1) the ways in which the IKEA global sourcing and supply chain development process resembles a linear stages process, and (2) the principal drivers of the development of global sourcing within IKEA. Relating the findings of the global sourcing process in the case of IKEA, the paper suggests that the process does not fit the linear and incremental stage processes as suggested in the majority of global sourcing literature, but rather fits the interaction and network process model as suggested in the network school of internationalization.

*Key words: global sourcing, internationalization, IKEA*

### 1. Introduction

Global sourcing is one of the greatest strategic challenges for purchasing and supply managers. Under increasing pressures to reduce costs, companies have shifted, and continue to shift, sourcing from local suppliers to low cost country-based suppliers. The current economic recession shows little evidence of reversing this trend; in fact, it is likely to increase the pressure to source globally. Yet, the global sourcing process is riddled with difficulties and frequently underestimated by firms. Furthermore, the lower prices offered by low-cost country suppliers rarely translate into significantly lower total costs of ownership (Steinle and Schiele 2008).

Despite the popularity of global sourcing across both service and manufacturing industries, research into global sourcing is still playing catch-up and remains poorly conceptualized, for example in comparison with research on buyer-supplier relationships or industrial networks (Quintens, Pauwels, and Matthyssens 2006b). The trend towards global sourcing is likely to fundamentally change the dynamics of buyer-supplier relationships and networks, but little research to date has examined the

implications of this trend. In particular, current models of global sourcing development need a better and wider theoretical grounding, connecting the upstream-focused purchasing and supply chain approach with established theories of internationalization that tend to adopt a downstream perspective. The purpose of this paper is to develop a better understanding of the global sourcing process by integrating these two bodies of knowledge and exploring the global sourcing process at Swedish company IKEA. The analysis of IKEA sheds light on established models of the global sourcing process, especially on the extent to which this process can be described as linear and incremental as predicted by the global sourcing literature.

This paper is structured as follows. The first section reviews the literature on global sourcing, identifying major themes within this body of literature and examining current models of global sourcing development processes. The second section connects the global sourcing literature with the long established internationalization process literature, resulting in the formulation of the focused research questions that guided our empirical in-depth case study of IKEA. The third section describes our research methodology leading to the fourth section which reports on the findings from the IKEA case. The fifth and final section returns to the research questions and discusses the findings from the IKEA case study in the light of existing global sourcing literature and provides concluding remarks and suggestions for further research.

## 2. Literature Review

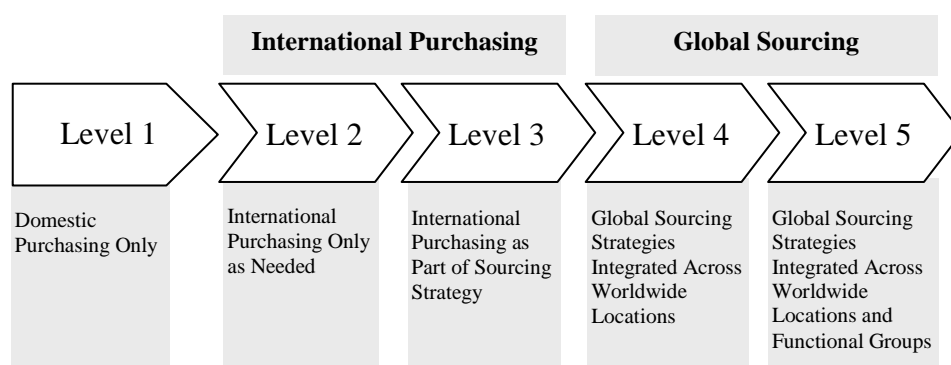
### *Global sourcing*

With growing scholarly and executive attention over the past couple of decades, sourcing and supply chain management have been shown to play a significant role in achieving competitiveness (e.g., Ellram and Carr 1994; Gadde and Håkansson 1994). Although it has not received the level of attention it deserves, global sourcing is an area of growing interest among scholars within the field of purchasing research (Quintens et al. 2006b). In line with Trent and Monczka (2003:607), this study defines global sourcing as the worldwide integration of engineering, operations, logistics, procurement, and even marketing within the upstream portion of a firm's supply chain. Table 1 provides an overview of major studies into global sourcing during the last two decades or so. In addition to the authors and year of publication, the table identifies the research methods applied in each contribution, the regional and/or industrial context, the focus or objectives of the paper, its underpinning theory and key results and contributions. The final column classifies the contributions according to their overall themes. This reveals three streams of research that seem to be of particular scholarly interest within the field of global sourcing.

With early roots in the 1990s, one stream of research has looked into the process leading to global sourcing, often separating this into several identifiable stages (e.g., Giunipero and Monczka 1997; Matthyssens and Faes 1997; Rozemeijer, van Weele, and Weggeman 2003; Trent 2004; Trent and Monczka 2003). The contributions from the Center for Advanced Purchasing & Supply (CAPS) at Arizona State University have been particularly influential (e.g. Monczka and Trent, (e.g., Trent 2004; Trent and Monczka 2005; Trent and Monczka 2002; Trent and Monczka 2003). This work initially resulted in a four-stage global sourcing process model: 1) domestic purchasing only, 2) foreign buying based on need, 3) foreign buying as part of procurement strategy, 4) integration of global procurement strategy (Monczka and Trent 1991). Later this was revised resulting in a new five-stage model (e.g., Trent 2004; Trent and Monczka 2005; Trent and Monczka 2002), which divided the original fourth and final stage into two: 1) global sourcing strategies integrated across worldwide locations, and 2) global sourcing strategies integrated across worldwide locations and functional groups (Figure 1). The premise of both the original and revised models is that firms incrementally develop experience of the international procurement process, and global (rather than international) sourcing requires extensive coordination of requirements and strategies amongst

worldwide business units. Whereas international sourcing implies buying from a foreign supplier on an *ad hoc* basis, global sourcing infers a much more strategically consistent approach (Bozarth, Handfield, and Das 1998). Apart from a relatively simple two phase model developed by Guinipero and Monczka (1990) it is difficult to identify alternative process models. However, in a study of 10 Swedish SMEs, Agndal (2006) suggested that the international purchasing and sourcing process was a result of firms' earlier international experience, of their explorative actions and strategies, and of their partners' actions and strategies. His study showed that SMEs were reluctant to source internationally, and their approach to international purchasing was generally reactive and need-driven or opportunistic, and occasionally spurred on by customers. In the context of SMEs, his results may be used to question the linear and proactive nature of the stages approach to global sourcing.

Figure 1. Five Stages of Sourcing



Source: Trent, R.J and R.M Monczka (2003) Understanding integrated global sourcing, *International Journal of Physical Distribution & Logistics Management*, 33 (7), 607-29.

The second stream of research is focused on the drivers of, or motivations for, global sourcing (e.g., Alguire, Frear, and Metcalf 1994; Bozarth et al. 1998; Cho and Kang 2001; Quintens et al. 2006b). Based on a survey of 115 companies Alguire et al (1994) identified a range of motives for global sourcing including those related to comparative advantage (or cost), and those related to competitive advantage i.e. quality, technology and so on. Furthermore, they suggested global sourcing could be used to circumvent trade barriers and also identified a range of internal motivators, for example, related to a company's strategy to increase its presence in a particular region. Nevertheless, their empirical results demonstrated that the overriding motivator of the companies they sampled was cost; in reality companies appeared to consider global sourcing from a highly operational cost reduction perspective. In an extensive literature review on research directions in international sourcing, Quintens et al (2006b) proposed three major categories of antecedents as drivers (e.g., cost advantages, business development), facilitators (e.g., product type, industry, planning approach) and barriers (e.g., resources, regulations, practices) on various levels, and concluded that there was significant value in future benchmark studies on global sourcing. In a recent paper Steinle and Schiele (2008) analyzed the limits to global sourcing, questioning the cost advantages that companies appear to assume. They argued that cost advantages tend to disappear in total acquisition costs; in fact their study showed that global sourcing does not result in improved competitiveness due to problems of being a preferred customer in a foreign environment.

The third and final stream of research pays particular attention to the organizational design and management of global sourcing, especially global sourcing strategy development (e.g., Alguire et al. 1994; Bozarth et al. 1998; Lewin and Donthu 2005; Quintens, Pauwels, and Matthyssens 2006a). This literature focuses on defining and conceptualizing global sourcing, and uncovering the relationships between purchasing organization and purchasing performance; issues of

standardization, centralization and adaptation feature strongly in this stream of research. Arnold (1999) argued that global sourcing implies a systematic extension of procurement policy worldwide and a strategic orientation of purchasing activities. He derived three ideal organizational types for global sourcing based on a set of case studies: a central purchasing model, a coordination model, and an outsourcing model. In a conceptual paper Handfield and Nichols (2004) identified a range of key issues in building an effective global supply base. Highlighting the importance of trust formation and communication in buyer-supplier relationships, their paper is a rare contribution to the global sourcing literature in highlighting the human and behavioural factors. Focusing on organizational design, Quintens et al (ibid) conceptualized four dimensions of global purchasing strategy: 1) purchasing process configuration; 2) standardization of global purchasing process; 3) standardization of product-related characteristics and 4) standardization of personnel-related characteristics. Thus, they identified a close link between global marketing strategy and global purchasing, and stated that many of the decisions are the same i.e. issues of adaptation, centralization and configuration. Hartman et al (2008) recently elaborated on the same theme, focusing on the degree of centralization and headquarters-orientation. They advocated implementation of control mechanisms, including cross-national purchasing coordination and information sharing.

Table 1 Global Sourcing Studies

Study	Method	Context	Focus	Theory	Key results & contributions	Overall Theme
Giunipero & Monczka (1990)	Analysis of international purchasing in 24 based multi-nationals	Large US firms from 5 industries	Role of organization & management of worldwide network of suppliers for coordination & control of international purchasing	International purchasing	Two phase model of offshore sourcing comprising operational/ transactional stage and planning/managing stage. Issues of structure, authority, organizational approaches & roles of different purchasing groups in international sourcing process	Globalization Process & Stages
Monczka & Trent (1991)	Field research on 26 business units & Delphi study of 85 manufacturers	USA, Japanese & European manufacturers from 28 industries.	Global sourcing means coordination of requirements between worldwide business units.	Builds implicitly on internationalization and globalization literature – empirically driven	4 phase model of process of global sourcing based on building experience in firm of internationalization of procurement process: domestic purchasing only, foreign buying based on need, foreign buying as part of procurement strategy, integration of global procurement strategy.	
Handfield (1994)	Survey of 97 companies 62% from US, 38% non-US	8 industries international & domestic sourcing	Examines characteristics of buying firms, supplier selection criteria & global sourcing issues.	Builds on internationalization/ globalization literature & stages models.	Assessment of US global sourcing practices. Importance of quality, product & process technology in buying firms, role of trust in international supplier selection & total cost of global sourcing.	
Bozarth, Handfield & Das (1998)	Survey of 55 US manufacturers	US manufacturing companies	Inter-relationships between international sourcing decisions, sourcing strategies & supplier performance.	Global strategy & industrial marketing & purchasing literature - specifically Monczka & Trent (1991).	Demonstrates criticality of managing relationships with suppliers in later stages of global purchasing process contributing to procurement strategy & performance enhancement in firms that proactively manage international sourcing.	
Trent and Monczka (2003; 2005)	Site visits and survey of 162 companies	North-American manufacturing companies	Difference between international purchasing and global sourcing. 5-stage model Building on Monczka & Trent's (1991) 4-stage model to develop 5-stage model.	Draws from wider research programme 'Global Sourcing Research Project'. Applies 5-stage sourcing model.	7 outstanding characteristics/best practices: executive commitment, well-defined processes, availability of resources, IT integration, supportive organizational design, structured communication, measuring savings.	
Agndal (2006)	Case studies of 10 SMEs	Swedish SMEs (manufacturers)	SME purchasing market choice & entry process as reactive/proactive & emergent/deliberate	Internationalization theory incl. network model	SMEs reluctant to source internationally, reactive and need-driven/opportunistic process, occasionally external pressure driven (customer influence).	
Alguire et al (1994)	Survey of 115 companies	International	Global sourcing motives	Draws mostly macro economic (comparative advantage) and corporate strategy	Motives include comparative advantage (cost), competitive advantage, quality, technology etc), trade barriers and internal motivators. Empirical results show main motivator is cost.	Motives/Drivers
Cho & Kang (2001)	Survey of 148 companies	US retail apparel companies	Executive perceptions on benefits and challenges among US apparel firms	Draws on and develops hypotheses based on previous studies on global sourcing	Provides evidence on benefits and challenges, and differences across demographic and managerial characteristics. Large volumes of global sourcing increase global sourcing performance in some aspects.	
Kotabe & Murray (2004)	Conceptual	-	Global sourcing strategy: shift from internal focus to external via outsourcing. Outsourcing limitations & negative effects of outsourcing on global scale.	Draws on global strategy studies of 80s-90s & resource based view of firm	Changes in global sourcing strategy over 20 years characterized by stable economic conditions. Sourcing strategy implications of economic turbulence. Companies compelled to take integrated global approach to circumvent impact of local diversity.	
Quintens et al (2006)	Conceptual	-	Reviews published research on purchasing in the period of 1990-2005.	Draws on previous studies on international sourcing and global purchasing.	Synthesizes findings on antecedents, consequences and on the globalization process of purchasing. Concludes that the conceptual foundation of global purchasing is underdeveloped and would benefit from convergence and formalization.	
Steinle and Schiele (2008)	2 in-depth case studies	Oil equipment and medical technology	Limits to global sourcing benefits. Achieving preferred customer status and dependency easier through local cluster than global sourcing.	Draws on RBV and cluster theory	Suppliers are valuable resources. Global sourcing does not always reduce cost & improve competitiveness e.g. high acquisition costs. Cluster-membership of suppliers important limit to global sourcing. Standard material appropriate for global sourcing.	

Arnold (1999)	8 case studies	International OEMs	Degrees of centralization in global sourcing organization	Mainly empirical	Defines global sourcing in terms of systematic extension of procurement policy worldwide & strategic orientation of purchasing activities. 3 ideal organizational types for global sourcing.	Organizational Design & Management
Rozemeijer et al., (2003)	Survey on sample of 152 companies	Large firms quoted at the Amsterdam stock exchange.	Organizational approaches for corporate purchasing	Draws on previous research on corporate purchasing organization	Investigates contingencies to be considered in order to implement corporate purchasing strategies effectively.	
Handfield & Nichols (2004)	conceptual	-	Trust and communication in buyer-supplier relationships needed for global supplier base management.	TCE, relational theory, organizational design, network theory	Identifies key issues in firms' efforts to build effective global supply base with common theme of importance of human factors and interaction.	
Quintens et al (2006)	Survey of 151 companies	Belgian manufacturers and service companies	Conceptualization of global purchasing strategy: degree of centralization/ configuration of purchasing & degree of purchasing standardization	RBV	Identifies close link between global marketing/strategy and global purchasing e.g. adaptation, centralization and configuration debate.	
Hartman et al (2008)	8 case studies of German MNCs	Cross industry	Organizational design implications of global sourcing, seeking to ground global sourcing in wider theory	Contingency theory, information processing & international business strategy	Global companies more headquarter oriented & centralized. Need to implement control mechanisms e.g. cross-national purchasing coordination & information processing capability.	

The review of the global sourcing literature shows that although there has been a growing body of research into global sourcing, it is not yet a very well-developed area. The global sourcing literature is dominated by a few key scholars whose primary focus to date has been North-American manufacturing companies, with a few recent exceptions. Several studies have analyzed the process of global sourcing, yet the four/five stage process model originally conceived by Monczka and Trent (1991) is more or less unchallenged. Compare this situation with the large body of research on (customer market) internationalization, which emerged in the 1970s: this has spurred a range of models of the internationalization process. We therefore turn to this literature in the following section to determine if there is scope for integrating the two bodies of theory.

### *Internationalization Process Literature*

Many of the traditional 'stages' theories of internationalization were developed in the 1970s and were predictive models of behaviour which built on the assumption that firms follow a learning curve in the internationalization process (e.g., Bilkey and Tesar 1977; Johanson and Vahlne 1977; Johanson and Wiedersheim-Paul 1975). The emphasis of these theories was on the forms of international market servicing which developed as a result of growing involvement in foreign markets and the contention that these forms became more structured and formalized as the firm's dependence on foreign markets increased. The steps which companies moved through meant that internationalization was characterized by increasing involvement in international markets through developing commitments to organizational forms which required the input of increased resources at each stage.

The role of information and knowledge in forming commitment to foreign markets was central to these models, which focused on sourcing, integrating and using information about foreign markets and operations, and on the gradual growth in commitment to foreign markets. Learning was therefore seen as a key ingredient in this process. It was suggested that incremental involvement in various forms of organization permitted the most effective control over resources for internationalization. In this way, the development of organizational forms for international markets was not the result of a strategy for optimum allocation of resources to different markets, but "the consequence of a process of incremental adjustments to changing conditions of the firm and its environment" (Johanson and

Vahlne 1977: p26). This implied that the decision to internationalize to a particular country or region did not involve competing commitments and resource allocations, but was viewed in terms of its own problems and opportunities on a case by case basis.

The stages theories have received and continue to receive vociferous challenges (Coviello and Munro 1995; Jones 2001; Knight and Liesch 2002; Reid 1983; Turnbull 1987). These authors concluded that it was not possible to prescribe the use of a particular mode of entry or expansion at specific stages of foreign market involvement. Later research suggested that internationalization is not the outcome of a process of development, but rather a strategic choice based on analysis of the firm's resources and opportunities (Clark, Pugh, and Mallory 1997). Internationalization therefore involves a company adapting its organizational form to the unique character of its business networks. So, supply chain and network characteristics cannot be easily separated from the choice of mode of foreign market entry and must be intertwined with the process of internationalization. Consequently, internationalization involves analysis of the firm's capabilities, resources and opportunities, and adaptation of its organizational form and supply chain relationships.

The network view of internationalization suggests that resources are not the sole domain of the firm, but influence over resources comes from actors which have a stake in the firm's allocation of resources to different activities and markets (Johnsen and Johnsen 1999). Firms within the network may be mutually dependent on each other's resources to operate effectively and therefore have a stake in how each other's resources are controlled, managed and developed. When the internationalization process is viewed as the result of interactions between actors in the network, foreign market development can be seen as an effect of interaction and the cause of changes which affect the internationalizing firm and have repercussions across all the interacting actors in the network (Blankenburg 1995). Internationalization therefore results from interaction between the internationalizing firm's actors and the actors external to the firm. This has an impact on the structure of supply chains and the nature of the relationships within them, changing resource requirements and activities within supply chains which in turn have an impact on future interactions between firms. Thus, a clearer picture of the interrelationships within the supply chain can be gained by analyzing the impacts of a firm's internationalization on its counterparts. The network approach to internationalization is therefore relevant in situations where more complex issues related to international extension and integration of activities are important. The focus is not simply the extension of current markets, but issues related to building or changing positions in complex supply chains which reflect the future positioning goals of the firms involved.

The brief review of the internationalization literature shows many similarities between the dominant stages model of global sourcing (e.g., Trent 2004; Trent and Monczka 2005; Trent and Monczka 2002; Trent and Monczka 2003), including the assumption of incremental learning and commitment. However, within the internationalization literature the stages theories have been much criticized for being overly prescriptive of particular routes to internationalization and ignoring the importance of strategic choices and unexpected opportunities. Moreover, the network model of internationalization suggests that the process needs to be viewed as the result of interactions between network actors and these are likely to be network-wide. Put differently, suppliers may be forced to internationalize because their customers require them to do so or vice versa. The interaction perspective therefore gives rise to the following research questions:

1. *In what ways does the global sourcing and supply network development process of IKEA resemble a linear stages process?*
2. *What are the principal drivers of the development of global sourcing in the case of IKEA?*

### 3. Method

Given our exploratory purpose, this study has been designed as a qualitative case study (Johnston, Leach, and Liu 1999; Yin 1994). In the growing stream of research on sourcing development and supply chain management, quantitative methods seem to be the most common research approach (e.g., Halldorsson and Arlbjörn 2005). However, stressing the unique features of case study research and its focus on the particular rather than the general, several researchers emphasize the need for more case-based research within the field of sourcing and supply chain management (e.g., Ellram 1996). The IKEA case study provides insight into both current and historical events in the development of the global sourcing and supply chain process at IKEA. In case study research, it is critical to collect empirical data that capture a multiplicity of dimensions and perspectives and that also allow the researcher to follow the phenomenon within its real-life context (Yin 1994), and to collect data that allow in-depth interpretations. Data collection of empirical material concerning this case was initiated in 2006 and data analysis has been performed in overlap with continuous data collection throughout 2007 and 2009. The overlapping data collection and data analysis is common practice in the analysis of qualitative data.

Within the overall context of IKEA the unit of analysis was the global sourcing process for the PAX wardrobe system. This implies that the case study focused on a particular supply chain within the overall IKEA supply network context. Accessibility and suitability were two reasons that led us to focus on the PAX supply chain when studying global sourcing development. The PAX supply chain case was made accessible to us through IKEA and it was at an early stage deemed well suited for our research purposes since it represented a case of global sourcing where significant changes in the sourcing setup had been made over a relatively short period of time.

When planning and executing the study reported here, it was essential to search for empirical sources that could support us in depicting critical events in the development of global sourcing in the case of IKEA. A number of different types of empirical sources can be outlined. First and foremost, we have interviewed key informants with central roles in the development of global sourcing at IKEA its supply network concerning the supply chain of the product PAX designed and sold by IKEA (Appendix 1). After gaining access to the empirical setting through a priori selected key informants, additional respondents were selected through snowball sampling, where one respondent helps to locate other relevant respondents (Warren 2002). The snowballing technique proved to be beneficial as it enabled us to identify the relevant contacts connected to the supply chain in question both inside and outside the focal firm IKEA. As a result of snowballing, we have interviewed the current supply management organization of key supply chains of IKEA relevant for our research. This material includes several interviews with current and past key persons, executive managers and line managers in the purchasing organization at IKEA. In all, 23 interviews have been conducted both in Sweden and China with respondents at IKEA and suppliers during 2006-2009.

A typical interview lasted around 60-80 minutes. Interviews were mainly conducted face to face and were semi-structured (e.g., Fontana and Frey 2000). At certain occasions, the research team attended company meetings with a global sourcing agenda during which notes were taken. The interview guideline included questions that aimed at understanding the context and the development of global sourcing and also more specific questions regarding the role of the respondent in the case setting.

In addition to primary data concerning the case of IKEA and the PAX supply chain, we have gained access to archival material provided to us by IKEA. For example, three interviews (two of which were video recordings) conducted for other purposes have been very useful to complement our own empirical data: an interview with Ingvar Kamprad (founder/owner/manager) from 2007, initially used for internal purposes at IKEA but later also spread through sales in the stores; a video-recorded interview with Ragnar Sterte (CPO 1959-1974) and Lars Göran Peterson (former purchasing associate and purchasing manager, and trading office manager 1969-present); and an interview with Anders Dahlvig that had been published in the Academy of Management Executive (Kling and



Goteman 2003). Secondary materials in terms of literature on the IKEA history, especially the documentation on IKEA in a book by Torekull (1999) has also been helpful when preparing the case. This often-cited book is at times referred to (e.g., Edvardsson and Enqvist 2002) as the official history book of IKEA, in which Ingvar Kamprad tells his story of how IKEA has developed. Finally, we have relied on public materials provided by IKEA: vision documents, facts and figures, policy documents and so on.

According to Lincoln and Guba (1985:301-315), the credibility of a case study can be increased by, for example, prolonged engagement, persistent observation, triangulation, referential adequacy materials, peer debriefing and member checks. To the extent possible, such measures have been taken in this study. For example, our explicit aim of reaching multiplicity in empirical sources allowed some degree of triangulation. Our prolonged engagement in the case has allowed us to follow the progress in certain global sourcing development processes. In addition, to ensure descriptive precision in the case, the events and circumstances presented in the case have been validated by two key respondents. Our respondent selection techniques allowed flexibility and access to timely and critical events in processes of global sourcing development relevant for our research purposes.

#### **4. Global Sourcing Development – the case of IKEA**

##### *Background*

Swedish home furnishing giant IKEA, founded by Ingvar Kamprad in the region of Småland in Sweden in 1943, is a remarkable success story. The first IKEA store was opened in Älmhult, Sweden, in 1958. The first store outside Sweden was established in Norway in 1963 and the first store outside Scandinavia was established in Switzerland in 1973. Over a few decades, IKEA has persistently grown its turnover with around 10-15% annually. In 2007, IKEA's annual turnover reached €19.8 billion and the number of IKEA stores worldwide, including those run by franchisees, was 260. At present, IKEA offers a range of around 9,500 products that are all principally the same in the IKEA stores around the world. The business idea that has driven the firm throughout the years has been to offer affordable home furnishings at prices that make it possible for as many people as possible to afford them and to grow through duplication of a global market offering. Affordability through low cost is the core of the company's business idea. For IKEA, growth is a core and explicit objective, as Ingvar Kamprad notes in the seminal text spread in various books and leaflets, as part of *The Furniture Dealer's Testament* (Kamprad 1976: 228-229):

*We know that larger production runs give us new advantages on our home ground, as well as more markets to spread our risks over. This is why it is our duty to expand. [...] We shall offer a wide range of well-designed, functional home furnishing products at prices so low that as many people as possible will be able to afford them.*

Although IKEA is very different now compared to what it was in 1976, its basic operational principles have stayed remarkably stable over time. A key component in the low cost strategy at IKEA has been to own only a small proportion of the means of production. Therefore, the products that are sold in IKEA stores, including signature products like the BILLY bookshelf, the PAX wardrobe, the LACK table and the SULTAN bed are to a very large extent sourced from a global network of suppliers. Well functioning and close relationships with suppliers is an important but sometimes seemingly ignored driver of the success of IKEA. In the early days of the development of IKEA, a decision was made to have an increasing degree of own products in the range. The control of product rights led to increased control of the process of supply and supplier relationships. In 2009, nearly every product in the IKEA range is controlled by IKEA in terms of product rights. In the mid-1990s, IKEA had more than 2,000 suppliers, but in 2009 its supply base had been reduced to less than 1,400 despite increasing sales volumes. The background to the supply base reduction during

recent years is the increasing need to secure and build capacity for continued growth. The more systematic downstream internationalization of IKEA was initiated in the late 1960s and the early 1970s. The initial development of a supplier network outside the Nordic countries and later in Eastern Europe was in fact a reaction to a ban on suppliers to IKEA by the Swedish furniture trade organization. The conflict between IKEA and the Swedish furniture industry derived from the persistent search for cost reductions that IKEA strived for and that industry was not familiar with and not ready to adapt to at the time. In the literature on IKEA, the founder Ingvar Kamprad often brings up a discussion on where IKEA would have been today, if it was not for the problems faced with Swedish suppliers in the early 1960s. The establishment of supplier relationships in Poland and later in other parts of Eastern Europe has enabled IKEA to sustain and to develop their strong position as a low cost alternative in the market for home furnishing.

The establishment of Poland as a sourcing market was a beginning of an expansion of sourcing markets that has continued ever since. In 2008, IKEA sourced furniture from 54 different countries through 30 purchasing offices distributed over strategic locations all over the world. The development of supply chains in low-cost regions outside the immediate sales markets in the mid-1960s, when IKEA sold primarily to the domestic and Nordic market, initially took place in other parts of Eastern Europe (e.g., Czechoslovakia, Rumania and Hungary), and later in more distant locations (e.g., China, Indonesia and Malaysia). Using the knowledge from markets with similar features in terms of, for example, language and culture facilitated expansion of sourcing markets. In 2009, IKEA had around 1400 suppliers. Almost two-thirds of its products (64%) were sourced from European countries; the largest single supply market was China with a 22% share of the supply, and the second largest supply market was Poland with a 16% share (IKEA 2007). Coordination and communication with suppliers was channelled through trading offices situated strategically around the world. Without close collaboration with suppliers, the balancing act between stock costs and avoiding the risk of stock-outs would not be possible.

The global sourcing process at IKEA varies significantly. Seen across the totality of the business areas and product supply chains, a number of distinct characteristics related to its sourcing principles enable it to stay competitive in the interface with its suppliers. A cornerstone of this strategy is the ownership of product rights, allowing IKEA to switch suppliers when necessary. In addition, IKEA seems to concentrate on as few suppliers and as few supply markets as possible. This selectivity means that IKEA is effective in balancing its market choices; concentrating its sourcing activities in certain geographic areas by committing to and investing in some markets, whilst having to decide to forego opportunities in others. A purchasing associate in the IKEA supply management organization notes:

*I remember a few years back, when we were considering new sourcing markets. We were constantly faced with the question – OK, so if we add this market then what market should we leave? It has always been about limited resources and to not only adding things to our operations but also to see how we could “chase our tail”... so to speak. We have always worked under the pressure to only leave or concentration strategy if we really had really good reasons for it.*

#### *The PAX supply chain*

The remaining part of the IKEA case study focuses on the development process of global sourcing of a particular IKEA product, namely the PAX wardrobe system. Two main product groups make up the PAX wardrobe system; the wardrobe frame and a set of sliding doors in various features (Appendix 2). The study focuses particularly on the supply of a component that in many aspects is critical in the sliding doors of PAX, namely the tempered glass that constitutes the filling in several of the features of sliding doors. In the case of PAX, tempered glass represents a significant part of the total cost and tempered glass is also heavy and fragile and therefore requires particular attention

when it comes to supply. One of two major suppliers of PAX wardrobe doors is the Swedish firm Sapa Profiler AB. Sapa Profiler, a subsidiary of the Sapa Group and part of the Orkla Group since 2005, markets several major product lines of aluminium profiles and specializes in aluminium profiles that are extruded and processed into various shapes and sizes. Sapa Profiler has supplied IKEA with PAX sliding door models as for example PAX ÅRDAL AND PAX LYNGBAL since 2004. In addition to the PAX range, Sapa Profiler supplies IKEA with additional products as for example STOLMEN.

In 2003 IKEA approached Sapa Profiler with a development project on sliding doors based on aluminium frames for the PAX wardrobe system. This was the starting point of what later would be described as a success story and the largest single contract in the history of Sapa Profiler. For Sapa Profiler, the three years contract with IKEA meant not only new business, but also new ways of doing business. Until then, Sapa Profiler had its core in extrusion of aluminium components. In the contract with IKEA, Sapa delivered the classic flat cardboard IKEA-packages containing knock-down furniture and assembly manual. The products supplied by Sapa Profiler appeared for the first time in the 2004 issue of the IKEA catalogue.

*Table 2., Global sourcing setup of major component categories associated with the sliding doors for the PAX wardrobe system in 2009*

	Assembly unit for PAX in Sweden	Assembly unit for PAX in Slovakia	Assembly unit for PAX in China
<b>Tempered glass</b>	Sourcing from China with local backup supplier in Sweden	Sourcing from China with local backup supplier in Sweden	Sourcing from China with local backup supplier in China
<b>Sliding profiles</b>	Sourced from Germany		
<b>Packaging materials</b>	Local sourcing	Local sourcing	Local sourcing
<b>Rubber components</b>	Sourced from Sweden		
<b>Steel components</b>	Sourced from Sweden		Sourced from Sweden combined with local source in China
<b>Assembly fittings</b>	Sourced from Slovakia		
<b>Aluminium frames</b>	In-house production and locally sourced processing	In house production and in-house processing	Local sourcing with in-house processing
<b>Bristle seals</b>	Sourced from China		

The sliding doors for the PAX wardrobe system constitutes of aluminium profiles and additional accessories in its turn sourced by Sapa Profiler. Table 2 provides an overview of the status of the supply setup of ten major component categories of accessories that are associated with the sliding doors for the PAX wardrobe system as of 2009. As explained earlier, the most complex sourcing setup in the case of PAX is tempered glass due to its significant part of the total cost of sourced accessories (around one third), and its heaviness and fragility making it very demanding to transport. Moreover, the quality of tempered glass in the product is very visible as it constitutes the front of the wardrobe system that is handled and seen head-on by the consumer. As noted in Table 2, several components are subject to global sourcing. The main reason for sourcing tempered glass in China was the potential to compress costs. The purchasing manager of Sapa Profiler noted:

*The possibilities associated with sourcing glass to a lower cost were of course the major reason to why we turned towards China. IKEA had benchmarked prices around the world concerning for example glass and found that there were big differences in prices over there compared to Europe and they turned to us and said that something needed to be done. They did not at the time have much volumes of glass in China either, so this was a big collaboration between us, IKEA and other stakeholders, for example machine suppliers.*

Notable is also that several of the components of the PAX wardrobe system are sourced globally with the primary or sole source in Europe. Four of the component categories are sourced from Europe also for the production unit in China. There seems to be several varying reasons for continued sourcing in Europe; either patents (sliding profiles) or contracts that are tied to IKEA (fittings) or that the Chinese sourcing market did not for some reason satisfy the sourcing needs (rubber components and steel components). Since the 1980s IKEA has aimed at controlling the development and supply of fittings within its product range and, in the case of the sliding doors for the PAX wardrobe system, fittings are sourced from IKEA Components in Slovakia and China. The fittings sourced from IKEA Components are, however, in their turn also sourced globally with worldwide integration across the entire IKEA range. Other component categories are sourced locally. For example, packaging materials are sourced locally for each production unit. Concerning packaging materials for the sliding doors for the PAX wardrobe system, IKEA Components are again involved in contracting with preferred suppliers of, for example, cardboard.

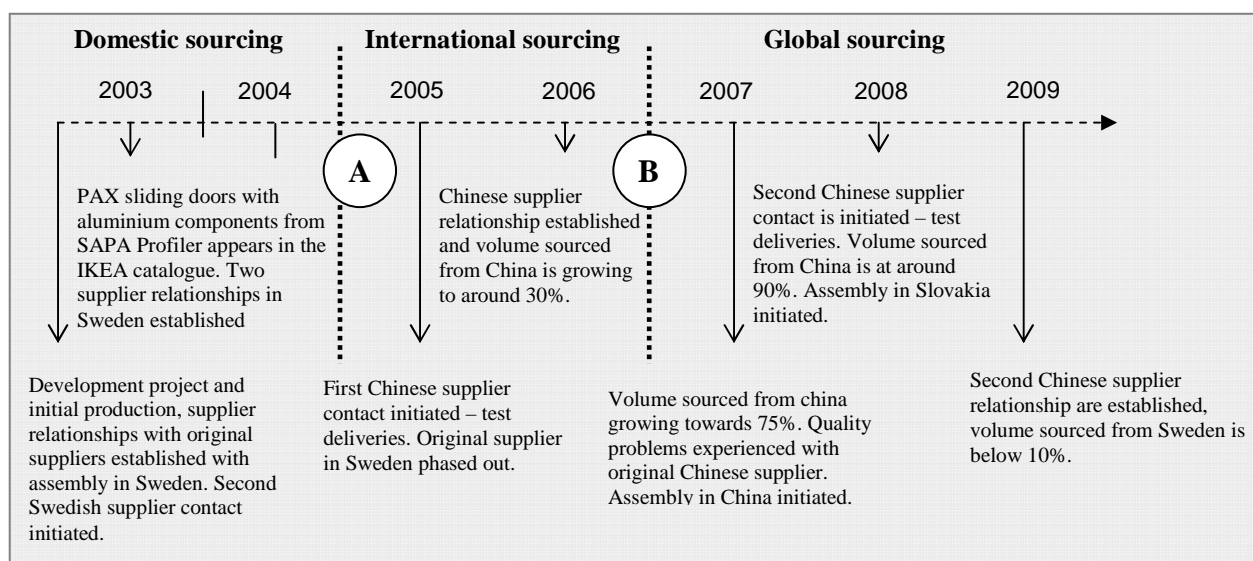
#### *Global sourcing development for tempered glass for the PAX wardrobes*

As noted in Table 2, a significant part of the tempered glass sourced for PAX was in 2009 sourced from China. In 2003, when initial production and supplier relationships were established, the situation was very different. With different foci, Figure 2 and Figure 3 provide a graphical representation of the development of a global supply network of tempered glass over the years 2003–2009. In 2003, tempered glass was sourced from a single supplier in Sweden. Early on, Sapa Profiler experienced the success of the newly launched product, as the forecasts were exceeded with more than 100 per cent for the first few years. This put pressure on Sapa Profiler to secure capacity. The initial Swedish supplier was phased out within two years, mainly due to inability to provide capacity in the necessary degree but also due to lack of willingness to provide tempered glass to a low cost. In 2005, the decision was made to source tempered glass internationally (phase A in Figure 2 and Figure 3). The initiative of Sapa Profiler's sourcing of tempered glass from China was highly influenced by IKEA. A purchasing associate at Sapa Profiler noted:

*The supplier that we started with in China was more or less assigned to us by IKEA. They were part of this and they were supporting us. IKEA had them as supplier had [the Chinese supplier] in the past. They [IKEA] have teams that develop glass suppliers and component suppliers, including specialists that work closely with [our] suppliers. As for now, PAX is the major product that they [the Chinese supplier] deliver to.*

Although there were initial glitches, the sourcing from China by Sapa Profiler was perceived as successful by the management team that Sapa Profiler had set up to handle the IKEA account. The tapping of sourcing market knowledge from IKEA was an important ingredient in the development. Also the sourcing experiences from the Slovakian operations were useful when progressing towards global sourcing of tempered glass. The second Chinese supplier, with which initial contacts for PAX production were taken in 2008, was an already established relationship for another supply chain leading towards the Slovakian assembly unit. As a reaction to market development in Asia in several segments, Sapa Profiler established a production unit in China in 2003 (phase B in Figure 2 and Figure 3). The development of capacity to assemble sliding doors for the PAX wardrobe system in China was not directly associated with the relationship between IKEA and Sapa Profiler, but was still of importance in the consequent development in the case. In 2007, making use of excess capacity at the production unit in China, assembly of sliding doors in China was initiated. In 2008, to secure capacity for the market development of PAX in Europe, assembly was initiated in Slovakia. The Slovakian operations concerning sliding doors for the PAX wardrobe system derived from excess capacity at the Sapa Profiler pressing plant that was acquired in 2005.

*Figure 2. An overview in the global sourcing development of tempered glass for the PAX*



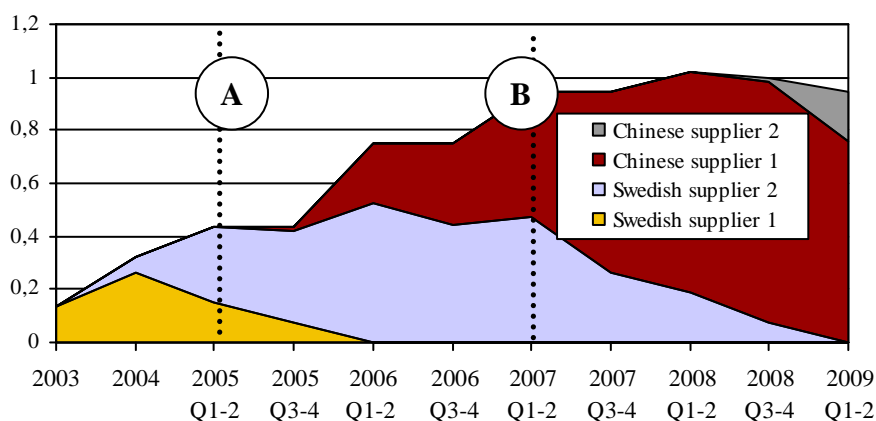
## 5. Analysis and discussion

In the remaining sections of this paper, we return to the research questions that we set out to investigate and highlight some important empirical observations. The first research question concerned the ways in which the global sourcing and supply network development process of IKEA resembled a linear stages process. Through our case description we provide empirical materials showing that the process of sourcing development in the case of IKEA does indeed resemble a linear process. However, three empirical observations corroborate, contrast or complement previous studies. Firstly, the incremental development as noted in previous research (e.g., Trent 2004; Trent and Monczka 2005; Trent and Monczka 2002; Trent and Monczka 2003) can clearly be seen in the case of sourcing development of tempered glass for the PAX wardrobe system. In terms of applicability, it is relevant to point out the threshold where international purchasing becomes global sourcing. In addition to providing a chronology of the key events in the process, Figure 3 provides an overview of how the increasing volumes have been distributed across the four supplier relationships used for sourcing of tempered glass for the sliding doors for the PAX wardrobe system. Figure 3 also illustrates the incremental approach of firms faced with the uncertainties of new market development. The step from international procurement to global sourcing in the case outlined here is identified through the development of more than one assembly unit, leading to a need for world-wide integration of operations, primarily sourcing and warehousing. At this point, one can also note the subsequent decrease in the sourcing of from Sweden over the following years (phase B in Figure 2 and Figure 3). Our empirical investigation shows that the incremental nature of the global sourcing process is partly driven by increased learning, but also that it is linked to the different phases of global sourcing and supply network development.

Secondly, the IKEA case exemplifies a reactive approach to sourcing development thus supporting several previous studies (e.g., Agndal 2004; Alguire et al. 1994; Trent and Monczka 2002; Trent and Monczka 2003), especially the stage where domestic sourcing becomes international sourcing (Trent and Monczka 2003). In the case of IKEA and the PAX supply chain, the need to secure availability and to need to cut costs led SAPA to search for international sources and subsequently develop an infrastructure enabling them to have global sourcing of components associated with the PAX wardrobe system. The patterns of reactivity are manifested both in terms of taking influences from outside as well as producing and leveraging influence on supply network actors. An analogy may be drawn with the process being similar to ‘waves on water’, whereby the supply relationships and global sourcing developments of Sapa Profiler emerge. Just as IKEA’s influence on Sapa Profiler was an important ingredient in the process of supply network development concerning tempered

glass for the PAX wardrobe system, Sapa Profiler's increasing global operations has also led their suppliers, in their turn, to revise and reconsider their supply network. For example, a Swedish supplier (Swedish supplier 2 in Figure 3) was in 2009 looking into the possibilities to source find ways to source tempered glass from China themselves, partly driven by the developments unfolding in the PAX case.

Figure 3. An overview of tempered glass in relative volumes (sourced and distribution across supplier relationships subsequently developed over the years 2003-2009



Denoting that the approach to sourcing development seems to be reactive does not mean that the firms involved are passive. On the contrary, the reactive approach to sourcing development as noted in the case of IKEA could be seen as an observation that supports further investigations into the role of interaction in the supply network development process (Gadde and Håkansson 2001). Therefore, thirdly, and contradicting a lot of the previous studies on global sourcing, is the empirical observation of importance of interaction amongst supply network actors throughout the global sourcing development process. In the case of sourcing development of tempered glass for the PAX wardrobe system, Sapa Profiler leveraged IKEA's knowledge and its established relationships; Sapa could not have managed the sourcing process without the support and actions of IKEA. In previous research, the role of 'external support' has been rated as unimportant as a critical success factor (e.g., Trent and Monczka 2003), but in our research such support seems to be critical. This empirical observation is corroborated both by the supplier side of the PAX supply chain as well as by IKEA. An important addition to this observation is that interaction and its effects on the global sourcing development process are not only observed in the focal relationship, the relationship between IKEA and Sapa Profiler, but also between the supplier network as a whole and IKEA through its category management organization and not least also internally between operating units and functions of Sapa Profiler. The purchasing manager at IKEA noted:

*The volumes and speed of growth in volumes that met in our relationship with IKEA in 2003 and onwards – this was something that we were unfamiliar with from the past. We had knowledge of products and materials. Through their experience and presence in China, IKEA had sourcing market knowledge that we could leverage on. We are in this together – and we have been quite successful. [...] Our relationship with IKEA has led to a need to change the way we approach purchasing and subsequently our purchasing strategy.*

The second research question was to investigate the principal drivers of the development of global sourcing in the case of IKEA. For IKEA, cost reductions were the principal driver towards, initially, international purchasing and, later, global sourcing. The search for lower costs in new sourcing markets create pressure on the supplier network of IKEA to source internationally or even, as in the

case of Sapa Profiler and the PAX wardrobe system, to develop global sourcing through world-wide coordination and integration of sourcing operations. This observation was consistent across the PAX supply network, confirmed by interviews with both IKEA and supplier respondents. An additional important driver identified in the case was access to capacity. In contrast to previous studies (e.g., Trent and Monczka 2003), the development of global sourcing was more about securing capacity than accessing new product and process knowledge. Again, this observation was consistent across the PAX supply chain. Due to the growth challenges faced by many IKEA suppliers, the capacity to undertake such growth becomes an important variable in supplier evaluations. A main reason for Sapa Profiler to preserve relationships with a Swedish supplier was to secure capacity if, or when, problems were met in the Chinese sourcing market. Finally, for Sapa Profiler, the increase of externally sourced goods created strong incentives to put significant strategic efforts into coordination and integration of sourcing operations. In this sense, the development of the PAX wardrobe system created new challenges for the purchasing team at Sapa Profiler – prior to the 2003 when they were introduced to PAX, the need for systematic sourcing of accessories did not exist. However, as the sourcing landscape changed, i.e., when Sapa Profiler needed to seek new sources of supply, the sourcing strategies had to change.

## 6. Conclusions and Suggestions for Further Research

The purpose of this research was to explore the process of global sourcing development through a case study of IKEA and comparing with existing global sourcing models. The paper reviewed and synthesized the existing global sourcing literature and integrated this area of literature with the established literature on the internationalization process of firms. This synthesis led to the identification of two research questions which focused on the ways in which the IKEA global sourcing and supply chain development process resembles a linear stages process, and the principal drivers of the development of global sourcing within IKEA. The IKEA case study, and within it the PAX supply chain as the specific unit of analysis, has contributed to a better understanding of how the global sourcing process may not only resemble a linear and incremental stages-based process, but also a process governed by interaction amongst network actors in which the actions of some network actors travel up through the supply chain or network, instigating other actors to follow suit.

The study has demonstrated the importance of tangential relationships in domestic and international markets in overlapping waves of global sourcing strategy creation. Furthermore, the study has highlighted the role of strategically positioned subsidiaries in coordinating, communicating and fostering collaboration for global sourcing within an international network of suppliers; controlling supplier development and replacement to capitalize on key emerging supply regions.

The study provides evidence of the global sourcing process for IKEA and its suppliers being driven by incremental changes, which is consistent with established internationalization literature (e.g., Bilkey and Tesar 1977; Johanson and Vahlne 1977; Johanson and Wiedersheim-Paul 1975), but also involving overlapping relationships in domestic and international markets (Blankenburg 1995), as strategic sourcing developments roll out across IKEA's globalising sourcing network over time. The process is therefore incremental, as described by the dominant stages models of global sourcing (Trent, 2004; Trent and Monczka 2002, 2003, 2005). However, it also involves overlapping links between network actors in both Sweden and internationally as the global sourcing strategy is built; the impact of the global sourcing strategy of IKEA was influential in moulding the purchasing strategy and sourcing strategies of its suppliers. Thus, the role of the global sourcing strategy of large firms may instigate suppliers to globalize and shape the pattern and form of global sourcing across the supply network. The key elements sustaining the process are coordination, communication and interaction with suppliers via strategic subsidiaries which provide sourcing market knowledge and are strategically positioned across the globe – a key ingredient in the international sourcing development of IKEA are the actions and reactions of their supplier network. Although this interaction process is recognized as an important feature of the internationalization process within the

internationalization literature (ibid), it is not yet incorporated into the global sourcing literature: the dominant stages models of global sourcing (e.g. Trent, ibid; Trent and Monczka, ibid) does not take into account how sourcing decisions may not be a rational choice by independent actors, but a choice instigated by other network actors.

### *Limitations and further research*

The study reported here provides not only new insights on the global supply network development at IKEA, but also new questions. Firstly, and as already noted, several events in the case described here bring up interesting additional questions regarding how IKEA's supplier network and supply markets develop over time, and why. It would be of great interest to further investigate the role of crises and critical events in sourcing development, and how these critical events and their reactions. As so often noted by Ingvar Kamprad (e.g., Torekull 1999), part of the IKEA culture is seeing the outcome of crisis as potentially positive. Such a study could, for example, explore and model the patterns and processes of proactive and reactive sourcing development. Second, an additional area for further research is the role and management of innovation in the supply network, given the increasing degree of international or global sourcing and the general dynamics of an international sourcing context. In the case of tempered glass for the PAX wardrobe, the supply network is a completely different one in 2009 compared to the situation in 2003 – a question for further research could be what implications this dynamic environment has on product and process innovation. Third and final, an interesting area for future research is the relationship between the development of international sourcing market development and the growth of IKEA in terms of new retail markets. Although a majority of studies on internationalization in general and in particular on IKEA studies downstream internationalization, this study concerns upstream internationalization in terms of international sourcing market development. However, studies which combine and searches for relationships between the two processes of internationalization, i.e. upstream and downstream, could potentially contribute and provide new perspectives to the understanding of internationalization processes.

Finally, as this study is based on a single in-depth case study we would recommend that further studies be conducted that seek to investigate the themes of this paper across different contexts and countries and to further explore the importance of network interaction within the global sourcing process.

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#### *Appendix 1., List of interviews*

	Firm/Location	Date	Respondent(s) role	Type of encounter
1	IKEA – Älmhult, Sweden	Oct 2006	Supply chain process manager	Interview
2	Sapa Profiler – Vetlanda, Sweden	June 2007	Manager Logistics	Interview
3	IKEA – Älmhult, Sweden	June 2007	Supply chain process manager	Interview
8	IKEA - Älmhult, Sweden	Aug 2007	Information manager of the supply process organization	Interview
9	IKEA - Älmhult, Sweden	Sept 2007	Supply planning manager	Interview
10	IKEA - Älmhult, Sweden	Sept 2007	Project manager	Interview
4	Sapa Profiler – Vetlanda, Sweden	Oct 2007	Purchasing manager, Logistics Manager and Sales Manager	Interview
5	Sapa Profiler – Vetlanda, Sweden	Oct 2007	Supply planning manager	Interview
6	Sapa Profiler – Shanghai, China	Oct 2007	Supply manager	Interview
11	IKEA Trading - Älmhult, Sweden	Oct 2007	Business support and business development associates	Interview
7	Sapa Profiler Shanghai, China	Nov 2007	Sourcing Manager	Interview
12	IKEA – Älmhult, Sweden	Nov 2007	Strategic purchasing associate	Interview
14	Sapa Profiler – Vetlanda, Sweden	Dec 2007	Purchasing manager	Interview
15	IKEA – Älmhult, Sweden	Jan 2008	Strategic purchasing associate	Interview
16	IKEA – Älmhult, Sweden	Mar 2008	Senior associate of purchasing development and supply management	Interview
17	IKEA Markets – Jönköping, Sweden	Apr 2008	Managing Director, Commercial Operations	Meeting
18	Sapa Profiler – Vetlanda, Sweden	Apr 2008	Purchasing manager	Interview
19	Sapa Profiler – Vetlanda, Sweden	May 2008	Purchasing associate	Interview
20	IKEA – Älmhult, Sweden	Aug 2008	Senior associate of purchasing development and supply management	Interview

21	TPL firm – Shanghai, China	Sept 2008	Route Development Manager	Interview
22	Sapa Profiler - Shanghai, China	Sept 2008	Purchasing team and business development associates	Meeting
23	2 <sup>nd</sup> tier supplier - Shanghai, China	Sept 2008	Vice General Manager and Foreign Trade Department Manager	Meeting
24	2 <sup>nd</sup> tier supplier - Shanghai, China	Sept 2008	Export manager	Interview
25	2 <sup>nd</sup> tier supplier - Shanghai, China	Sept 2008	Foreign Trade Department associates	Meeting
26	3 <sup>rd</sup> tier supplier - Hangzhou, China	Sept 2008	Foreign Trade Department	Meeting
27	IKEA – Älmhult, Sweden	Oct 2008	Senior associate of purchasing development and supply management	Interview
28	IKEA – Älmhult, Sweden	Dec 2008	Former CPO of IKEA	Interview
29	Sapa Profiler – Vetlanda, Sweden	Apr 2009	Purchasing manager SAPA Profiler	Interview

Appendix 2., The PAX wardrobe system and with a pair of PAX ÅRDAL sliding doors (Source: [www.ikea.com](http://www.ikea.com))

