

The Four Cornerstones of a Good Business

Companies should seek to deliver value in a broader sense than merely returning value to shareholders. They have a larger social mission beyond profit. What are the important prerequisites for retail companies to deliver true value? There are four main points.

- 1. A vision with a social ambition combined with a strong value base.** This vision is the very foundation of the business. It defines who you are and how you do things—how you make decisions, what behaviors you exhibit, and what strategies you employ. Building strong values and creating a vision with a social ambition will help you improve not only your profitability but it will also help you gain the respect and trust within society at large.
- 2. A business model wherein the product range and price are the main differentiators between you and the competition.** You achieve this business model through company control of the entire value chain from product development and production to retail outlets.
- 3. Market leadership and a balanced global portfolio of markets that defines the company's short- and long-term growth**

ambitions. To leverage risk and prepare for future growth, you must establish a healthy mix of mature markets and future growth markets.

- 4. Company control by a committed owner.** This will ensure important criteria for success, such as a long-term perspective and a willingness to take risk, as well as establish a company heritage, a purpose, and strong values.

I will discuss these points in the subsequent sections of the book. Although Ikea is the primary business example throughout the book, I do think that the majority of the points I am making apply to the entire retail sector. Some of these concepts—primarily the parts about vision, values, and ownership structure—are even more general and could have some relevance to any business sector. The reader will of course make his or her own judgment about what is of interest.

Detailed Discussions of the Four Cornerstones

You will notice that the four cornerstones are interlinked and dependent on each other. The vision, values, and owner control have a strong influence on the business model and the globalization agenda. They are also important prerequisites for taking the step from being a company that is merely profitable to becoming one that contributes to a better society.

In the first part, I concern myself with explaining the importance of the vision and values in establishing the scope of the business—why vision and values are important; what they could, can, and should be; and how they influence the organization. As well, I will present some thoughts on developing and maintaining a company culture that reflects these values. I take up the often-controversial subject of diversity and why it makes good business sense to build a diverse organization. We'll also take a look at how developing a social and environmental agenda rests on the company's vision and culture as well as on the commitment of managers and employees in carrying it out. Finally, I take the example of one market and

show how a company can engage many different stakeholders in an emerging society and make a difference.

In the second part, we turn to the practical questions of “differentiation through control of the value chain,” elaborating on what companies actually do and how the day-to-day business is conducted. I will offer my advice on how to develop a strong business model and its ingredients, such as the product range, supply chain, and retail stores. This part also covers how to manage the transformation from a small to a big global company and how to build an organization that effectively supports the entire value chain from product development, production, supply, and sales through its own stores.

The third part deals with the geographical scope of the company. I discuss how companies can decide what markets they should be in and the different challenges and business strategies that may be relevant for global companies.

In the fourth part, you’ll learn the merits of different ownership structures to support a successful business and the importance of building for the long term.

Chapter 19, “The Role of the CEO,” falls outside the scope of the four cornerstones of a good business and is a more personal reflection. Finally, I will summarize the main points of the book and give my view on the prospects for developing companies in the direction discussed throughout the book.

Ikea as a Model—Good and Bad

My experience at Ikea and the story of this company will be used to illustrate and exemplify my four cornerstones of successful retailing. Thus the reader will also gain insights into the workings of that company. This is not to imply that all of Ikea’s decisions have been perfect—like any company it has made mistakes—but I believe it’s a good model for the kind of business I wish others would build.

The company Ikea was registered in the small town Älmhult, Sweden, in 1943. The first 67 years of its existence, up until 2010, could be summed up in three distinctive phases.

1. The development of the business model and the values
2. The development of the vision and the retail expansion in Europe
3. The transformation to a big global retailer

During the first phase, covering the 30 years from 1943 to 1972, the company established the business idea, the value base, and the most significant components of the company's concept. In other words, these were the foundations that the company lives by, and upon which the company still rests. Sales reached \$58.2 million (€40 million).

The second phase, from 1973 to 1998, was the period where the vision was formulated (1976) and the importance of a strong corporate culture in an international setting was established. In this period, Ikea underwent an expansion that was predominantly European with regard to stores; with regard to sourcing, it was global. Out of 27 retail markets in 2010, 19 were added in this 25-year period. Three had been opened before that period (Sweden, Denmark, and Norway), and five markets were to be opened later. Sales increased to \$9.5 billion (€6.5 billion) by 1998.

The third phase of Ikea's development began in 1999 and is ongoing. In this period, Ikea more decisively has begun the transformation from a "small" entrepreneurial company to a structured, efficient global giant (for better or for worse). Sales in the 10 years from 1999 to 2009 tripled from \$10 billion (€7 billion) to \$31 billion (€21.5 billion).

The Growth of the Ikea Philosophy

During Ikea's growth over these three phases, its management and founder have gradually evolved the philosophy outlined above as the four cornerstones of good business. These guidelines have been key to the company's success and its expansion from a national to a global brand. Had the company not had these cornerstones in place by 1999, it would have been limited in its ability to grow revenues at the pace it did during the following decade.

Ikea's story in the third phase of its expansion is notable precisely because it was during this same period that some businesses that had been viewed as leaders within their industries came to a resounding crash—notably Enron and WorldCom, although there were a number of smaller instances as well.

In the following chapters, I will demonstrate how these four cornerstones were essential to Ikea's success story and how they have broad applicability within the business community throughout the world.