**Review of Topic 9**

A. Self-Check Questions

1. Although facility location is a planning decision, it has implication for decisions in the

organising and controlling sub-functions. Explain.

2. Outline the factors that should be considered in locating a nuclear generating plant. List

these factors in order of priority to show each’s importance to the decision.

3. Contrast the location problems of a manufacturing firm and a supermarket, showing the

relevant considerations they share and those that differ.

4. Suppose for economic reasons you wish to locate your manufacturing facility in a small

community that currently seems to be unfavourable disposed toward your industry. What

strategies might you employ before making your decision?

5. What aspects of different subcultures should be considered in locational analysis?

6. If you expand your existing company by opening a new division in a foreign country,

should the new division be staffed by local personnel or by personnel imported from the

parent organisation? Explain.

7. Discuss the relationships among job satisfaction, personal value systems, facility location

and productivity.

B. Case Study

**IKEA furnishes the world**

In 50 years, Ingvar Kamprad has built Ikea into the world’s leading furniture retailer. It operates 150 stores in 29 countries. The average size is 17,250 sq.m. Each, when fully stocked, carries 10,000 separate lines. Allowing for colour and size variations, inventory can exceed 80,000 items. With 100 million copies, the catalogues is among the world’s biggest print runs.

Kamprad’s breakthrough was to encourage suppliers to use line production for flat-packed furniture coupled with self-service in huge stores. When the first IKEA store opened in Imhult in 1958, furnishing a flat could cost five times a new graduate’s annual salary. From IKEA nowadays, the same furniture and fittings would cost less than half a year’s pay.

International operations started with stores in Norway and Denmark (1963). IKEA’s largest current market is Germany (from 1974), followed by the United Kingdom (1987) and the United States (1985).

Although 10 per cent of items come from the Swedwood subsidiary, IKEA has around 1700 closely monitored suppliers in 53 countries. Sweden (17%), China (9%), Poland (9%), Germany (7%), and Italy (7%) are the most important.

Expansion continues. In 2000, IKEA opened 25,000 sq. m. stores in San Francisco, Beijing, Shanghai and Moscow. Thirty-five thousand Muscovites turned up at the Moscow opening to hear Kamprad, who had chosen the city ‘on a hunch’ greet them in elementary Russian. The aim is to double worldwide sales in five years, with up to 70 new stores. In the United Kingdom, plans are to spend almost £800 million over 10 years to expand from 10 to 30 outlets. Glasgow will be followed by Cardiff, Sheffield and Southampton in 2003. There will be a new £40 million distribution centre in Peterborough.

Despite the popularity of the brand, development often meets opposition. United States applications met resistance from local retailers. Now local authorities are concerned with congestion and the environment. Yet they welcome the stores for their several hundred jobs and up to £1 million of local sales taxes. Furthermore, as ‘magnet’ stores, they enhance the prestige of shipping developments and contribute to urban renewal. In the United States, agents find potential sites and conduct the statutory environmental impact reports. In the San Francisco area, they found three 8-hectare sites close to major traffic flows, each capable of holding 25,000 sq.m. building with 1500 parking spaces. Further, they identified a 180,000 sq.m. warehouse to serve the west coast. Meanwhile, Chicago rejected, on traffic grounds, an application for a site near a busy intersection. In Boston, IKEA has searched for 15 years for the right combination of space and location. Boston is attractive for its numbers of college graduates aged 20 to 50.

Questions:

1. List and rank the factors in IKEA’s location strategy. Explain your ranking.

2. How does IKEA offer a wide range of products at low prices? What are the implications

of scale for retain service?

3. What risks and uncertainties are faced by IKEA in globalising its particular business?

(Source: John Naylor (2004), *Management*, 2nd edition, p. 517)