

Global warmingexample



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Figure 1: Growth trend of KEA between 2001 and 2013 Source: Statistics 2014. Other features of Kike's business current up to 2013, are given below: Terms Overview of Kike's business (Till 2013) Total sales EURO 28.5 billion Stores 298 in 26 countries Products About 9,500 in the range Co-workers More than 139,000 Production Approximately 2/3 of production within Europe Web visits Over 1 billion Catalogues 187 million printed in 22 languages Store visits 690 million more than 1 billion Suppliers 1,084 home furnishing suppliers in 53 countries KEA began its operations in China in 1998.

It maintained the low price in China and at the same time its innovation was effective through adaptation of the furniture that it began to sell. China has high population. Per household number of people was more than in the West and at the same time the space available at home of the Chinese was less than the West. So, KEA modified the size and design of its furniture. Thus it proved to be people-oriented in its approach to business in China. The aim of this management report is to analyse Kike's current business in China and to suggest modifications in its strategic marketing plan. . Macro

Environment in China In analyzing the macro environment, this report uses the PESTLE framework and the Porter's Five Forces framework. Of the five factors from the PESTLE, the critical issues for China as an overseas market are three: political, economic and socio-cultural factors. 2. 1 Political Factors Economic liberalizing began in China in 1978. Since then China has been considered one of the fastest growing economies of the world. Compared to the past, its current economy is remarkably speedy. It does not have any entry barriers for foreign investors.

Rather it has special economic zones and preferential trade treaties for foreign investors. Furniture market in China is ever growing, but there is no subsidy in foreign investment entry in China. China has been a member of WTO since 1 January 1995 and of GATE since 23 April 1986. Its association with WTO and GATE stimulates the foreign investors in the country. Among these positive notes, there is also a negative point, that the rules of business in China are relatively backward and out of order which result in the cut-throat competition and low credibility for many businesses.

As a result foreign investors have scopes to innovate in their business practices while inside China. The implication of political scenario is that business by foreign firms in China is favorable. Taking the favorable conditions in China, KEA has been operating since 1998. 2. 2 Economic Factors The macro economy of China affects the individuals in China, as well the businesses inside China. China is a big market given the number of people.

The economic development means that consumers have more disposable income, which is related to purchasing power. In 2008, MIFF (International Monetary Fund) assessed that the APP (purchasing power parity) of Chinese economy has surpassed that of the USA. In 2013, the GAP of China was 9. 33 trillion USD and that of USA was 16. 72 trillion dollars. In 2014 the APP (purchase power parity) of the ten leading countries are shown below. The list shows that China ranks second. This implies that Chinese consumers are gradually achieving greater purchasing power.

Ranking Country GAP (purchasing power parity) (Billion \$) United States 1 5,290 2 China 11,440 3 India 4,515 4 Japan 4,497 5 Germany 3,139 6 Russia 2,414 7 Brazil 2,324 8 United Kingdom 2,290 9 France 2,246 10 Italy 1,871 Source: Index Mounds On 9 October 2014, MIFF again declared that “China overtook US as the world’s largest economy in purchasing power” (Sharer, 2014). According to HIKED Research (2014), there are 438.93 million households in China. If it is assumed that people buy a furniture worth 1,000 Chinese Yuan every 10 year, then every year 44 million household will buy furniture.

This would be equal to 44 billion Chinese Yuan, or 4.55 billion GAP, or 7.15 billion USED a year. This calculation is sufficient to explain the direct impact of economic factor on Chinese furniture industry and on any foreign investor in China. For the foreign investors, the key to gaining maximum benefit definitely lies in capturing the market share. There is also an informal or hyper market of furniture in China. There are over 8000 enterprises that work in this hypermarket. Trade revenues in Chinese furniture market between October 20013 and October 2014 are shown below.

Figure 2: Trade Revenues in Chinese Furniture Market 2.3 Socio-cultural Socio-cultural factor is a major issue in global marketing. It has many sub-issues that need to be considered. In the context of global market culture is defined as the sum total of learned benefits, values and customs that serve to direct customer behavior in a particular country. There are several ways in which various components of culture influence consumer’s behavior. Any firm that conducts business in a foreign culture needs to understand the implication of such consumer behaviors and design its strategy accordingly.

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Jeanne and Hennessey (2002) show a process as to how cultural forces within a nation/country influences the consumer decision process. It is explained in the following diagram. Cultural forces such as religion, history, family, language, education and arts generate cultural messages among the consumers. Such messages are manifest in symbols, morals, knowledge and rules of behavior. In turn these perpetually embedded messages result in consumer's selection of products and services, proportioning of their wants and ultimate decision making in their buy-behaviors.

Source: Jeanne and Hennessey, 2002 Similarly, Hefted (2001) identified six dimensions along which the cultural differences between countries can be identified. As shown in the following diagram, China varies widely and significantly in five of the six dimensions with Sweden. It may be tempting to show such differences between these two countries and draw implications in expected marketing strategy. Indeed such should not be the case, nice ' KEA, although a Swedish firm has significant experience in global market.

The difference however shows the orientation of people's culture in China, which is at variance with many other nations of the world. Figure 3: Cultural differences between Sweden and China on Hypotheses Scale Source: The Hefted Centre (<http://egger-hefted.com/dimensions>. HTML) A more precise and pragmatic approach to identify the marketing strategic implications should lie in identifying the already acquired success by KEA in China. There are media reports that " KEA took China by storm", as opposed to a UK firm - Home Depot.

A review of the differences between these two cases can show the salient cultural aspects which contributed to Kike's success. In the last fifteen to twenty years home ownership has gone up to 70 per cent in China from naught. This fact must be realized, as is noted by Basin (2012), quoting KEA CEO Mikhail Olsson. As the CEO noted, Chinese people need role models who would teach them how to decorate home. It is something that China is missing. People in China is eager to learn from a role model. Both teachers and role models are required in home decor and furnishing in China.

KEA has realized this issue, and one of the reasons that it has identified this hard fact about Chinese people is because of sustained tenure of CEO - who has been in the helm of the affairs in China since 2009 and of course he is in KEA for 30 years. It is critically important to identify this cultural shortfall among a nation of 1.3 billion (or, people in China, 70 per cent of whom acquired home in less than two decades. Hypotheses cultural model Just provides the tip of the iceberg about cultural differences compared to the permeating vision and observation of Kike's CEO.

In conformity to the this realization, which can be termed as a cultural vacuum of owning homes and furnishing homes, KEA has already set the taste for Western-style rooms in Chinese homes. Kike's showrooms show model bedrooms, dining rooms, and family rooms. KEA has been showing the Chinese how to furnish them. In addition KEA has identified that the Western style rooms, decor, and the furniture that they sell in China are loved by young generation. Olsson concludes from this that "companies that invest in educating the market can expect to reap handsome rewards", which of course is true.

As opposed to Kike's success in China, Home Depot failed to realize the fact that Chinese people do not like to do-it-yourself (DID). DID is a Western culture which is in contrast to Chinese or even Oriental culture. It is the role model and caring staff members of KEA that brought it success. Another point that must be noted in Chinese culture is that it is sufficient for an analyst to understand the cultural differences between West and East and then to predict marketing strategies.

It should be noted with caution as CEO Mikhail Olsson noted that China is the largest nation in the world, made up of 1. Billion people - and there culture is just not one - it is not unified. It has many sub-cultures and the presence of cultures within a culture makes it extremely difficult for retailers to operate - particularly on a national basis within China. Daniel (2013) identifies eight type of Chinese sub-cultures. These are named as "Famine, Adios, Suffusing, Dam, Auto, Summate, Alcoholic, and Zinging".

It is beyond the scope of this report to state what they are, but it should suffice to note, as Olsson identified, that for a successful retailing in China, the complexity of retailing should be appreciated and only then a successful marketing strategy can be made. China's retail is incredibly complicated. 3. Micro Environment in KEA The micro environment within the industry in which KEA is operating can be analysed by using Porter's five forces diamond as shown in the following diagram. Figure 4: Porter's Five Forces 3.

Bargaining power of suppliers KEA has about 300 Chinese suppliers. They constitute 22 per cent of its total suppliers (Fanning, 2013). However this figure does not guarantee that KEA has a very good relation with its Chinese suppliers. In 2013, KEA had a bad year with its suppliers in China. Dozens of

Chinese original equipment manufacturers stopped producing furniture for KEA because of low contract price (Enabling, 2013). In August 2013, KEA opened a wholly owned manufacturing facility in Anton of Jungian province (Thomson, 2013).

However because of the contract prices, suppliers look for better prices and throughput 2013 and 2014 contract price has dominated the KEA supplier relations. 3. 2 Bargaining power of buyers It is true that China has many furniture makers and sellers, and so the customers has a choice as to who to buy from. Kike's main customer segment constitute those aged twine 30 to 40, who are educated and who has high disposable income. There are not too many other business that sells the same kind of furniture that KEA sells. To make Kike's position even stronger KEA has always followed a low price strategy.

Thus as long as KEA would continue its low pricing strategy along with a specific consumer group as its target market, customer's bargaining power is unlikely to have any negative impact on Kike's business in China. 3. 3

Threats of new entrants It has been noted before that there is no entry barrier in China's furniture market, even for foreign investors. However the competitive intensity high. However given Kike's position in China market, which KEA built over many years, it is unlikely that new entrants can actually pose a threat to ' KEA. 3. 4 Threats of substitutes Kike's furniture is made of wood.

The usual substitute of wood furniture is of plastic and wrought. But they are not very close substitute to the actual need, and therefore the threat of

substitute is low or even negligible. Kike's current market position in arching is that of a role model who teach the Chinese how to use furniture. It is a new role that fills in a vacuum among the Chinese. If KEA can hold on to this role, there is hardly a threat of substitute for Kike's furniture market. 3.

Rivalry within the industry In Porter's five forces framework, the central diamond that reefer's to competitive rivalry, is the sum total of the other four diamonds.

From the review of the other four forces, it can be seen that very negligible amount of competitive force can work against Kike's interests in China. The continuous high revenue that KEA is earning to date, supports this analysis.

4. Marketing Objectives In this section the strategic marketing objectives are developed by drawing on the analysis of in the previous section. Three important conclusions can be drawn from the previous discussion:

Conclusion 1: Chinese consumers are increasingly gaining more purchase power. As a result it will support Kike's expansion in the current market.

Conclusion 2: There is a cultural vacuum among Chinese as to how to use furniture at all. Virtually hardly any people owned a home twenty years ago. Currently about 70% of Chinese own a home but according to Kike's CEO, using furniture is now a traditional culture among Chinese. They are only learning to use furniture in recent years. Therefore it is vital that KEA fills in this gap by being a role del in China, showing them how to use furniture.

Conclusion 3: Kike's competitive position in China market is very strong, which means that its rivals I. E. Queen Group (Chinese), B&Q (British) and OBI (German), are no where near where it is now. It is logically deduced that if KEA can continue to be a role mode as stated before, it should continue to

earn increasing revenues. However, it needs to pay attention to the strained relations with its Chinese suppliers. Basing on the above three conclusions, the following strategic objectives are proposed: Objective 1: To expand its business to more cities. Currently it has 16 stores in China Monomania, 2014). Kike's current strategic plan is to add three to four stores every year.

Accordingly, to expand its business it should add 25 stores by 2020, raising the total stores to 41 . Objective 2: To continue to remain a role model to Chinese consumers for furniture use. Objective 3: To improve its supplier relations Objective 4: To improve its brand image In support of the above three strategic marketing objectives the relevant corporate and business level strategies are stated. 5. Corporate Strategy In general Kike's corporate strategy in China has come to be known as cost adhering.

It is important to understand that corporate strategy is a set of strategies decided at the highest level of the corporation and it does not significantly change between markets (or regions). KEA has become successful by mixed styles (of furniture) with low cost, the output of which is low price. It has achieved the strategic capability to offer its products at low price by using an extensive network of suppliers in low cost countries including China itself. Another reason that it can offer furniture at low cost is because customers who would buy from KEA would have to assemble them by themselves.

This may be inconvenient for the customers, but they prefer low cost over this inconvenience. However to remain successful in such cost leadership, the following are imperative for KEA in China. These will ensure that all three objectives stated above are taken care of: Its corporate strategy must

support the expansion of show rooms in Chinese market. Already it is reputed for establishing show rooms that uses KEA furniture into themes. Customers need to experience the furniture in an environment as in the themed show rooms.

This is the learning point at which KEA propagates the western culture into oriental culture in a manner so that their furniture are accepted. Over a period of time Kike's themed show-room examples becomes adapted to Chinese culture. Secondly, it needs to ensure sustainable relations with supplier on the basis of prices that it offers to them. One of its corporate strategies of KEA is to sign long term contracts with them. However KEA must be competitive in its prices with the suppliers. 6. Business Strategies At business level Kike's strategies must reflect its marketing mix strategies.

Products not only should continue to be low cost, but they must also be adapted to socio- cultural requirements. Kike's business strategies at the beginning of its expansion was somewhat standardized strategies in which its expansion into neighboring countries were standardized. This brought them success since culturally European countries are similar. It adopted the same type of business strategies when it entered into China first. However over the years it realized the importance of adaptation to small size rooms of Chinese accommodation, the preference of round shaped furniture as opposed to rectangular dining tables in the West.

They are also currently selling shorter beds of the size of 190 SMS as against 200 SMS. Marketing immunization is a central issue in any marketing strategy, particularly for an European company in China. KEA uses catalog as

its media communication to the customers. It is often argued that Chinese mass media are owned by its government, in other words Chinese mass media are relatively restricted. However this may not have a direct impact on a global business, if it is not serving any political coterie.

Therefore it is recommended that KEA uses mass media for its marketing communication. Pricing will remain always an issue in any market. As shown in the following perceptual map - customers will always assess Kike's position in the market in terms of their affordability to buy the product. It is important that KEA continues to price its products cautiously. Brand image.

7. Business Model There are several ways Kike's business model has been described in literature. Some has termed its business model to be a 'Family Engagement Model', which has been symbolized in the following diagram.

It is said that: KEA Family = part loyalty, part shopper marketing, and 100% engagement (whatever it means). Figure 6: Kike's 'Family Engagement Model' Source: [http://www. Broomstick's. Com/kea-family-s-engagement-model](http://www.Broomstick's.Com/kea-family-s-engagement-model) Others including KEA CEO Olsson has identified KEA in a role model, while yet the theoretical business model (by Steward and Piggins, 2010) needs the business model to be described in its nine components: customer segments, value proposition, customer relationships, revenue streams, key resources, key activities, key partnerships, and cost structures.

Figure 7: Business Model Canvas by Steward and Piggins (2010) Source: Drawn from descriptions Steward and Piggins (2010) By and large, Kike's business model has given careful considerations to all these elements over the years. However, to support the expansion plan (as proposed in the

objectives), KEA needs to carry out continuous STEP (segmentation, targeting and positioning). For KEA the main value proposition comes with what is done to the product, and therefore, KEA must continue to be low priced in the market.

In addition to using only the cataloging for marketing communication, it can use mass media, and at the same time within next 10 years KEA can integrate e-business for its furniture market. Figure 8: Kike's Business Model from Marketing Perspective (2014 to 2020) Application of the Marketing Tactics Public Relations: KEA has been continuing to obtain favorable publicity by maintaining good relations with the customers. Public relations, by definition, is a marketing communication mix element. It enables an organization to build up good corporate image and to head off unfavorable rumors.

KEA has been careful in handling its products. Sometimes they withdraw products from the sale. KEA needs to maintain its tempo of public relations in all possible fields of Chinese social and national life, to support its ongoing expansion. CARS: In recent years there is a rising demand for global organizations to perform extended CARS. KEA has been a part of any global programmer under world bodies, particularly under United Nations. In 2005, KEA joined to what is known as EUNICE-KEA Project to combat child labor. In subsequent years it went to other countries under United Nations banners.

KEA is also known to cooperate with World Wide Fund For Nature (WFM) on forest projects in China. KEA should continue to show the same resolve as it has done in past in conserving the forests in China. 8. Concluding

Observations KEA has been in China for a long time now. Since its presence in China it has been on an expansion programmer, and therefore a global marketing plan to expand its operations in China is already in existence, although however such a global strategic plan is not available from Kike's own source.

This paper has been prepared based on the available information in the open sources and limited number of peer reviewed journals. The salient points of the proposed expansion plan can be highlighted as follows. Chinese consumers are increasingly gaining more purchase power. This makes Kike's business favorable in China. Furthermore KEA has been able to fill in the gap of taking the role of a furniture model in China. This has given them the unique opportunity to create a brand position among the Chinese. It is from here, through adaptation that KEA should continue to expand.