

The use of predatory tactics to prevent competitor entry: a case study of ikea

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Chapter 1

1. 0 Introduction

In this chapter, the researcher will present the background reasons why this research subject was chosen. Besides, the research questions and purpose of the dissertation are declared. Finally, the delimitation of my empirical study is clarified in order to narrow the research scope.

1. 1 Background

The IKEA Concept is based on offering 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. Rather than selling expensive home furnishings that only a few can buy, the IKEA Concept makes it possible to serve the many by providing low-priced products that contribute to helping more people live a better life at home. The IKEA Concept guides the way IKEA products are designed, manufactured, transported, sold and assembled. All of these factors contribute to transforming the IKEA Concept into a reality. In the booklet “ the future is filled with opportunities”, Ingvar Kamprad, the founder of IKEA, says that:” IKEA does not just want to win your brain. IKEA also wants to win your heart.” No matter whom you are, formal education or informal education, a worker or a manager, you can find IKEA is a place which is full of opportunities. “ It is up to you” is a common expression in IKEA. (Salzer, 1994)

IKEA starts the furniture business in the 1940s. From a small company become to a world famous transnational corporation, the development speed of IKEA is very fast. According to the “ IKEA at a glance- financial year 2009”,

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the IKEA trademark represents the leading home furnishings brand in the world with more than 300 stores in more than 35 countries, more than 15,000 co-workers and 46 production units. They sold totalled 21.5 billion Euros at 2009. (http://www.ikea.com/ms/en_US/about_ikea/pdf/FF09_GB.pdf, 2011-1-20). How does IKEA develop quickly and keep strong competition in the furniture industry? That makes the researcher have strong interesting view about IKEA. With China join the WTO, more and more foreign companies entered China market. IKEA entered the China market in 1998. Recently the biggest IKEA store in Asia opened in Shenyang. But there are only 12 stores in China now. Compared with other foreign furniture companies, the development speed of IKEA is seems too slow in China. On the other hand, China is already become to the biggest purchasing country which is about 20%. But the sales per region are only 5% in Asia and Australia. What is the problem IKEA have in China? What should IKEA change in China? The researcher will use theory of competitive advantage to find the reason why IKEA can get the success. The researcher tried to have an interview with the manager of IKEA store to know the situation and the future plan of IKEA. Unfortunately, they did not have time. The researcher tried to connect with the manager of IKEA. Luckily, the logics manager Hans Karlsson gave the researcher a chance to have the interview. So the meeting was held at 2011-2-28. The manager introduced the logics process of IKEA and answered some questions prepared. But the manager could not give the researcher some data. The researcher browsed the website of IKEA, and read many books, journeys, even newspaper report to find the data, the introduction of IKEA model, and the opinions of foreign and Chinese scholar about IKEA. The

research of this dissertation contains the history of IKEA in Sweden, the IKEA concept, international expansion periods. Then the researcher find out what IKEA should change in the future to adapt the China market better and remain competitive.

1. 2 Research questions

In this thesis, I am going to examine the following issues:

1. What are the characteristics used to investigate how firm like Ikea uses an incentive to use “ predatory tactics” to preclude the entry of potential competitors in business economic in china
2. What potential opportunities and the competitive advantage do furniture firm like Ikea have on the Chinese Market?

1. 3 Purpose

The purpose of this thesis is to explore how firm like Ikea have an incentive to use “ predatory tactics” to preclude the entry of potential competitors in business economic in china.

In order to accomplish this objective, it is necessary to also look into three important issues which are directly related to the subject of export to China, namely, Chinese businesscultureand export entry modes and the competitive advantages firms has over new comers.

Chapter 2

2. 0 Literature Review

2. 1 Basic Concepts in business Economics

This dissertation involves researching some relevant academic literature, journals with current media, and then aims to examine the benefit of firm to have a predatory tactics to preclude the entry of potential competitors through the application and implementation of business economics.

Economic analysis of business strategy, most definitions of economics focus on three issues: consumer wants, resources and choice. According to Lipczynski and Wilson (2004) stated that economic activity exists because of the existence of human wants or demand. These wants are made up, first, of 'biological' wants, which refer to the demand for food, clothing and shelter: in effect, the goods necessary for our survival. Second, people display 'cultural' wants. These refer to our particular taste for goods and service, which is determined by our social and ethnic backgrounds.

Ireland et al (2009, P. 43) mentioned that economical issues refer to the nature and direction of the economy in which a firm competes or may compete. Because nations are interconnected as a result of global economy, firms must scan, monitor, forecast and assess the health of economies outside their host nation. Market in which a company competes, explains that companies must pay close attention to major trends and consumer spending patterns for its products, the competitors, and competition who threaten its, also suppliers on which it depends. On larger scale, if the business plan is not successful and the firm sustains losses. Economic issues are intertwined closely with the realities of the external environments.

According to Porter, it is important for a company to identify its strengths and weaknesses from a strategic viewpoint. Strategy can either be viewed as assembling protection against its competitive forces, or look for positions in the industry where the forces are weak. Knowledge about its competitive forces will lead the company to enter areas where it should deal with competition and where to avoid it. Rumelt supports Porter's ideas and states that a company's position is composed of the products it supplies to its customers, as well as the chosen market segment and to what extent it lacks competition or not. Once a company has received a good position, it is defensible. This means that enough value is returned to warrant its continued maintenance, and also that the position would be so costly to capture that the competitors are restrained from doing so. It also means that a position tend to be self-sufficient providing that the underlying factors remains stable.

Recently, marketers have begun to examine firms' reactions to competitors' signals regarding future actions often, researchers focus on actions or signals that represent significant departures from competitive norms, for example, deep price cuts or large increases in advertising. Such actions may be termed aggressive if they are motivated by the desire to force rivals to react by taking actions that significantly impair the rivals' performance or competitive viability. When these actions lead to a reduction in competition and undermine consumer welfare, they may be considered predatory. As Sullivan (1977, p. 111) observes, in contrast to the aggressive competitor, the predator seeks not to win the field by greater efficiency, better services, or lower prices reflective of cost savings or modest profits. The predatory

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firm tries to inhibit others in ways independent of the predator's own ability to perform effectively in the market. Its [conduct] is calculated to impose losses on other firms. Predatory tactics is the best known form of predatory behaviour. It involves lowering prices to an unreasonably low (usually below-cost) or unprofitable level in a market in an effort to weaken, eliminate, or block the entry of a rival. While capturing the attention of law and economics scholars and the concern of policy makers, predation and predatory tactics has only recently begun to be addressed by economist in businessenvironment. In most general terms predatory pricing and tactics is defined in economic terms as a price reduction that is profitable only because of added market strength the predators/ firms gains from removing, disciplining or change the competitive position of rival or potential competitors.

Alvin K. Klevorick (1993) explained that a predatory tactics is a price or system that is profit maximizing only because of its exclusionary or other anticompetitive effect. The anticompetitive systems of predatory tactics or pricing are higher prices or reduced.

2. 2 Econometrics

Thomas (1997) stated that econometrics is the application of mathematical statistics to economic data to lend appropriate support to the models constructed by mathematical economics and to gain numerical estimates and predations. More succinctly, the main task of econometrics ' is to put empirical flesh and blood on the theoretical structure'

Johnston (1984) mentioned that economic theory reduces or predict various relationships between variables, e. g. spring easily to mind-a demand curve, a production function, a consumption function. Econometrics involves the coming together of mathematical economics, economic statistics and statistical inference. Mathematical economics express the theories and ideas of economics in mathematical forms. However these mathematical forms are qualitative rather than quantitative, this means that they do not involve numbers. Thomas (1997) discussed that the economic statistics involves the collection and preparation economic data and their expression in readily understandable form. Econometrics takes the equations of mathematical economics and by confronting them with economic data that seeks to use the formulas of statistical inference to give these equations quantitative form. In recent years theorists in marketing, economics, and strategic planning have begun to examine competitive strategies - actions directed toward influencing the behaviour of rival firms and encompassing competitive moves and countermoves between firms (cf. Porter 1980; Weitz 1985).

G. S. Maddala (2004) also quoted that econometrics means “ measurement in economics.” This is too broad a definition to be of any use because most economics is concerned with measurement. We measure our gross national product, employment, moneysupply, export, imports, and price indexes.

Econometrics is the application of statistical and mathematical methods to the analysis of economic data, with a purpose giving empirical content to economic theories and verifying them or refuting them. In

this respect econometrics is distinguished from mathematical economics,

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which consists of the application of mathematics only and the theories derived need not necessarily have an empirical content. The behavioural equation: $q = a + b p + u$. Where q is quantity demand and p is the price. Here p and q are the observed variables and u is a disturbance term. A specification of the probability distribution of u which says that $E(u/p) = 0$ and that the values of u for the different observations are independent and normally distributed with mean zero and variance. With these specifications one proceeds to test empirically the law of demand or the hypothesis that $B < 0$. One can also use the estimated demand function for prediction and policy purpose in a business economical sector.

2.3 The Aims and Methodology of Econometrics

G. S. Maddala (2004) mentioned the following aims of econometric within the business environment. 1. Formulation of econometrics models, that is, formulation of economic model in an empirically testable form. Usually, there are several ways of formulating the econometric model from an economic model because firm has to choose the functional form, the specification of stochastic structure of the variables, and so on. This part constitutes the specification aspect of the econometric work.

2. Estimation and testing of these models with observed data. This part constitutes the inference aspect of the econometrics work. And also firm uses these models for prediction tactics on competitor's entry and policy purpose.

Diagram: The Aims and Methodology of Econometrics for predatory tactics in firm

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Source: G. S. Maddala (2004)

2. 4 Predatory tactics and pricing

The idea that a firm with market power might try to discourage a competitor by manipulating its expectations was introduced into modern literature of industrial organisation by Milgrom and Roberts (1982), which focus was on the problem associated with the limit of pricing. This idea was also adapted by Kreps and Wilson (1982) to explain the episodes of predatory pricing. By responding aggressively to entry, a predatory may be able to convince that entrant, or other potential entrants, that entry into its markets is unprofitable.

Milgrom and Roberts (1982) discussed that if a firm in an industry with rapid product change might cut prices sharply in answer to new entry in order to discourage the new entrant from continuing an active product development programme. Whether the entry attributes its lack of profitability to its high costs, to weak market demand to overcapacity in the industry or to aggressive behaviour by its competitor, it will properly reduce its estimate of its future profit. If its capital has other good uses, this might lead it to withdraw from industry. If not, it may nevertheless be dissuaded from making new investments in and developing new products for the industry. At the same time other firms may be deterred from entering the industry. If any of these things happens, the predator benefits. Notice that, according to theory, predatory activities do not have to drive the competitor from the market to be successful. And, in contrast with McGee's theory, if they do succeed in driving a competitor out, new entry will not follow inevitably when the monopolist raises its price to enjoy the fruits of its actions: potential

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entrants may no longer expect to profit directly from its price-cutting in the contested market in order for predatory pricing to be profitable.

2. 5 Philosophy of Competition in Economics

According to Porter (1980), the goal of a strategist and economist is to find a position in the industry where the company can protect itself against the surrounding forces, or might be able to influence them in a positive direction. If a company has knowledge about these surrounding sources of competitive pressure, it will provide the groundwork to decide where to position the company in its industry. Competition in economics is a term that explains the notion of individuals and firms trying to gain greater share of a market to sell or buy goods and services. The aims of competition (anti-trust) laws is to make sure that consumers pays the lowest effective price along with the best quality of the goods and services. This, according to current economic theories, can be gained only through effective competition. Competition not only reduces particular prices of specific goods and services – it also tends to have a deflationary effect by reducing the general price level.

Hartley et al (2009, P. 15) mentioned that in highly competitive markets, keeping an eye on competitors and trying to understand their likely next moves can be crucial. Every business has external peers that perform similar functions within their professional discipline. These peers are considered competitors and they are rival producers of goods or services. Competitors contribute to the overall industry by their ability to deliver goods and services of high calibre at competitive prices.

Nellis & Parker (2006) concluded that an important factor in business economics is determining the behaviour in the nature of the competitive environment in which the firm operates, as all managers are aware, decision-making within the firm is to large extent influenced by the fact that firm needs to operate successfully in the market place in order to survive. Economists break this spectrum down into four discrete models of market structure, namely:

Perfectly competitive markets

Monopolistically competitive markets

Oligopolistic competition

Monopoly

Chapter 3

3. 0 Macro-environmental forces

There are many distinct variables of the macro environment that can affect international marketing decisions and operations. The researcher have chosen to limit the study to economic forces, political/legal forces and socio-cultural forces, because, not only these three variables are most commonly referred to when market analyses being conducted, but also, as Albaum (et al. 1998, p. 63) states, “ these are the major dimensions affecting behaviour and, as such, are sufficient to provide the necessary environmental framework for discussions of international marketing mix variables”.

3. 1 Economic forces

Albaum (et al. 1998) thinks that the economic dimensions of the world

market environment are very important, because they influence the <https://assignbuster.com/the-use-of-predatory-tactics-to-prevent-competitor-entry-a-case-study-of-ikea/>

international marketer by the impact they have on market potential and market actualisation.

According to Albaum (et al. 1998), population characteristics are a major dimension, illustrating a country's total population and degree of urbanization. Income and wealth of the people are relevant too, as an important determinant of purchasing power. In addition, distribution of income and affluence of some population segment in a society are also very interesting. Because, even in a country or region with a low average income, there may still be a particular group of people with a high income and desire to buy expensive products.

The extent of economic development of a market is another key economic force (Albaum et al. 1998), because it affects the lines of business, the ways by which business can be carried out, the infrastructure and all types of institutions in a country. Foreign markets can be at different stages of economic development, with different characteristics at each stage. There are several approaches to categorizing countries.

In Cateora's (1993) book, the most common method is mentioned, i. e. as developed or developing. Developed countries are, for example, Sweden, United Kingdom and United States, while examples of developing countries are China, Malaysia and Uruguay.

Another categorization, referred to Washington Post (1986, p. H1), is based on economic variables ranging from those relating to general country

variables to those relating directly to a market's ability to purchase.

Countries are grouped as follows:

Industrialized: e. g. Sweden, United States, United Kingdom

Middle-income developing: e. g. South Korea, Brazil, Mexico

Major oil exporters: e. g. Iran, Saudi Arabia

Less developed: e. g. China, India

Moreover, the World Bank (1996) has also classified countries according to GNP (gross national product) per capita:

Upper-income economies: e. g. Sweden, United States, Japan

Upper middle-income economies: e. g. Mexico, Malaysia, Greece

Lower middle-income economies: e. g. Turkey, Philippines

Low-income economies: e. g. China, Vietnam, India

Low-income economies are those countries with GNP per capita of no more than \$725, while upper-income economies' GNP per capita is \$8, 956 and greater (World Bank 1996).

These classifications have similarities and show a common result, that is, China belongs to the group of developing countries with low-income economies. However, an international marketer should not use them as the only basis to determine whether or not to enter a foreign market and how to market, as Albaum (et al. 1998, p. 66) says, " Any classification scheme

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assumes certain homogeneity among markets in the same category, which often is not correct". It is because every country has some particular groups of people who have a higher or lower income than the average level and these population segments may therefore have a different purchasing power and desire from others. As a result, it is not possible to assess if a given country is a potential market for a given product solely through those above-mentioned classifications. This theory can also be applied to the case of China, not the least when Guangdong province being discussed, where income and purchasing power differ a lot among inhabitants and from the other regions of China. ia, Uruguay, etc. teristcis, t, the infrastructre

3. 1. 1 Political/legal forces

The international export marketing decisions by business firms are affected by the political and legal systems in both the home and the target country. As a macro-environmental force, government affects international trading by impeding or promoting import/export transactions conducted by private business firms (Albaum et al. 1998). Many of the government-derived impediments to international trade are in the form of restrictions and controls. Such controls directly affect both types and amounts of products that can be imported or exported. One way in which countries regulate their external trading relationships is by requiring that licenses be obtained before goods are imported or exported. For instance, in China, import licences are required for a wide range of products, including timber, woods, furniture's, etc (Murray 1994). Customs duty is another form of import regulation.

The government also plays a role in promoting international trading. For a company to succeed in international marketing, its managers must be able to make the right decisions consistently, which requires adequate and timely marketing information (Albaum et al. 1998). National governments are major sources of basic information on which international marketing decisions are based. Most of information is made available to companies through published reports or documents. In the context of Ikea export to China, the Consulate General of Sweden in Guangzhou, as a Swedish governmental organisation, is of great interest.

To fully appreciate the obstacles and opportunities in successfully doing business with China and staying competitive before business judgements are made, it is of great importance to have a basic understanding and knowledge of the political and legal environment of China and the Chinese regulations regarding foreign trade.

3. 1. 2 Social-cultural forces

All international marketing activities and strategies need to take account of the social-cultural environmental variables, which affect the behaviour of customers, export managers, marketing intermediaries and all other players who participate in the international marketing process (Albaum et al. 1998). The social-cultural forces can be, for example, customs, taboos, language, religion, values and attitudes, etc. Consumers differ among countries. It is of great importance that export managers are aware of cultural differences between countries when conducting export marketing. Culture provides norms for behaviour of buyers, consumers and sellers, and these norms

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control behaviour in ways that are not always well understood (Albaum et al. 1998, p. 73). Therefore, the success in international marketing depends to a great extent on the understanding of the culture of the target country. A successful international salesman would be expected to behave in a way similar to his overseas counterpart. Ignoring cultural differences may lead to marketing blunders and failure to obtain competitive advantages. Thus, it is a crucial task for an international marketer to learn about his target market's culture. For example, when choosing brand names, packages, colours of products, or designing advertisements for a target foreign market, the international marketer needs to consider first if his decisions will fit into this target country's cultural norms. Cultural context is also an important issue for understanding differences between people's reactions to communicate and their behaviour.

3. 1. 3 Chinese business culture

In accordance with the above theories, it is necessary for Swedish/Ikea exporters to learn about the Chinese business culture in order to be successful in marketing and the competition in China. There is an old Chinese proverb, "Enter village, follow customs". The Chinese civilization has a long history and evidence shows that the way to get things done in China is to do it in the Chinese way. Chinese business culture is the key to the Chinese way of doing business and their style of negotiating (Fang 1998, p. 71). In this chapter, the research aim to provide a framework and overview to help Ikea get a better understanding of Chinese people's business culture.

3. 2 Market definition and segmentation

An important issue related to market selection is market definition, which is also a crucial and complex component of export marketing strategy (Albaum et al. 1998). The purpose of market definition is to provide an important outline for analysis and decision-making, to specify target customers and their needs, and to recognise important competitors. When defining a market, it is important to think about customer needs first and then to identify which products would meet those needs. For example, for the Ikea, it will be of great interest to understand the uses of furniture in China in order to decide which ranges of their products will fit in the general frame of the Chinese furniture market.

It is also important not to define a market too broadly (Albaum et al. 1998). For instance, it is not particularly helpful for Ikea to identify the Chinese market just as the “ furniture market”. It will be more manageable for Ikea marketing managers to further refine their market definition into more detailed segments. Although the researcher used “ the Chinese furniture market” throughout the paper, the phrase is mostly used for a practical purpose of simplification,. Besides, after finishing the analysis in this dissertation, the researcher should also be able to help Ikea to identify the Chinese market in a more specific scope. Market segmentation is about breaking down the market for a particular product into segments of customers which differs in terms of their response to marketing strategies.

Chapter 4

4.0 Framework for Economic Analysis of Dominant Firm (Ikea) Conduct

Economic and legal assessment of welfare consequence of strategies that firms use to preserve or enhance market share is difficult for at least the following reasons. First, these business practices and strategies are generally part and parcel of competitive interactions in the marketplace. Thus, price-cutting, introduction of new products, promotional campaigns, etc., all constitute reasonable responses by incumbents to increased actual or potential competition, Porter (1980).

Second, many practices, while not fully consistent with firm behaviour in the idealized textbook model of perfect competition, can, nevertheless, often be explained on efficiency grounds. Thus, for example, technological tie-ins” sidak (1983), which entail bundling of various complementary components of a system, or even refusals to deal with a rival firm, may be justified on the ground that they enable the firm to earn a reasonable rate on its investment in R&D or in the creation of new information. Third, some of these practices, while potentially harmful to consumers, do not harm present or future competition. That is, they do not elevate entry barriers, induce exit of an existing rival, or deter socially desirable entrants from coming into the market. For example, a tie-in designed to facilitate pricediscrimination can lower consumers’ welfare but need not be harmful to competition as it might when it is imposed by a monopolist unthreatened by potential entrants. At the same time, exit-inducing and entry-detering behaviour can improve welfare if it keeps the market from becoming overcrowded. Fourth, many of these practices that are scrutinized for their effects on competition and

welfare are sufficiently unusual to be unfamiliar to jurors, judges, or economists. Consequently, a reasonably reliable assessment of their effects is difficult. Williamson (1985) Economic analysis of firm conduct proceeds on the plausible assumption that a firm's decision makers are motivated in the choice of their actions by the goal of long-run profit maximization and that they have reasonable estimates of how their actions affect their firm's profitability of their rivals.

4.1 Predatory Product Innovation

Following the two conditions that are necessary for predatory tactics to be effective, namely that the predator must be capable of driving the rival out of the market, and that it must be able to enjoy a higher level of profitability once that has been achieved. The first condition may be substantially easier to achieve through new product innovation than through a price reduction. Consider the simplest case examined by Ordover and Willig (1981). Suppose that the predator and the rival are producing identical product at marginal costs of c per unit and are competing in prices. Suppose further that the predator introduces a new product which it can produce at constant marginal cost of $C+D$ per unit and which consumer value some amount, $e > d$, more than the old product. The equilibrium when the two firms remain active in the market is for the predator to price the new product at a little less than $C+E$. In that case it earns profits while the rival makes no sales. If the rival has even small fixed costs, it will then choose to exit a market must incur to resume production, predator will then be able to raise its price. Notice that so long as the rival remains viable (so that the price cannot exceed $C+E$), the innovation increases welfare. Yet, if the innovator can raise the price to

the monopoly level, there may well be a welfare loss even though the quality of the product has been increased. Schwartz (1985) has demonstrated, however, that the Ordover-Willing characterization of anticompetitive, exit-inducing innovations is unsatisfactory. He shows in a simple model of pre-innovation duopoly that there exist socially valuable innovations which are profitable only due to the monopolist profits forthcoming from the induced exit of competing duopolist.

4. 1. 1 Predatory Vertical Restraints

Ordover, Sykes and Willig (1985) argued that a firm which has a dominant market position may have an incentive to extend that dominance by integrating forward into its downstream market. This, of course, does not occur if the other firm has an uncontested monopoly position upstream and faces identical downstream buyers. In that case, the firm is able to appropriate all the potential gains to monopoly power by means of a “perfect price squeeze.” If either of the “ifs” fails to hold, however, it may be possible for firm to extend its monopoly power. The possibility for anticompetitive conduct arises when such leveraging requires that the dominant firm induces the exit of an efficient (or even more efficient) downstream supplier. Suppose, for example, that there are two groups of final consumers. One group has a higher willingness to pay for either the good produced by upstream firm alone, or for the system consisting of one unit of good produced by the upstream firm and one unit of good produced by the downstream firm. In such situations the profit-maximizing pricing scheme may involve a low price for the upstream good which is then

purchased only by the low valuation consumers and a relatively high price for the bundled system which is purchased only by low valuation consumers. In the presence of competing downstream firms, however this price discrimination scheme cannot be effectively carried out since the high valuation users will be able to put together low-priced goods from the upstream firm with low-priced goods from rival downstream manufacturers. A variety of strategies may enable the upstream firm to extend its market power in these circumstances.

4. 2 The five competitive forces that determine industry profitability

“ The first fundamental determinant of a firm’s profitability is industry attractiveness. In any industry, whether it is domestic or international or produces a product or a service, the rules of competition are embodied in five competitive forces: the entry of new competitors, the threat of substitutes, the bargaining power of buyers, the bargaining power of suppliers, and the rivalry among the existing competitors.”(Porter, 2008) The collective strength of these five competitive forces determines industry.

Profitability

Graph: The five forces that shape industry competition

Source: <http://site/greenlightgocoaching/news>

4. 2. 1 Bargaining power of suppliers

The bargaining power of suppliers is also described as the market of inputs.

The suppliers influence the profitability and product competitiveness by

increasing the price of inputs elements and reducing the unit quality value.

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The bargaining power of suppliers is depend on the inputs elements. When the inputs elements is big part of total cost, the inputs elements is very important in the product process or influence the quality of buyer product, the suppliers have strong bargaining power. (Porter, 2008)

4. 2. 2 Bargaining power of customers

The bargaining power of customers is also described as the market of outputs: the ability of customers put the firm under pressure, which also affects the customer's sensitivity to price changes. The customers influence the profitability by asking for low price, good quality and service. (Porter, 2008)

4. 2. 3. Threat of new entrants

When the balance of supply and demand is imbalance, the new entrants will be attracted by high returns of the profitable market. New entrants not only bring newtechnologyand resource, but also reduce the profitability of all companies in this industry. (Porter, 2008)

4. 2. 4. Threat of substitute products

Because the products could substitute, two companies which are in same industry or in different industries may compete with each other. Firstly, the profitability could be reduced by the substitute products. Secondly, because of the substitute products, companies have to improve the quality, reduce the cost and price, or make product more features. (Porter, 2008)

4. 2. 5. Competitive rivalries within an industry

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For most industries, the intensity of competitive rivalry is the major determinant of the competitiveness of the industry. Competitive rivalry is likely to be based on dimensions such as price, quality, and innovation. Technological advances protect companies from competition. This applies to products and services. Companies that are successful with introducing new technology are able to charge higher prices and achieve higher profits, until competitors imitate them (Porter, 2008)

4. 3 Generic competitive strategies

“ Though a firm can have a myriad of strengths and weaknesses compared with its competitors, there are two basic types of competitive advantage a firm can possess: low cost or differentiation. “(Porter, 1985) The two basic types of competitive advantage influence the five competitive forces that determine industry profitability. “ The two basic types of competitive advantage combined with the scope of activities for which a firm seeks to achieve them lead to three generic strategies for achieving above-average performance in an industry: costleadership, differentiation, and focus. The focus strategy has two variants, cost focus and differentiation focus. “(Porter, 1985)

Graph: Three generic competitive strategies

Source:(Porter, 1985)

Each of the generic strategies involves different route and target to competitive advantage, “ The cost leadership and differentiation strategies seek competitive advantage in a broad range of industry segments, while

focus strategies aim at cost advantage (cost focus) or differentiation (differentiation focus) in a narrow segment.” (Porter, 1985)

Chapter 5

Methodology

5. 0 Theoretical basis

The intention of this section is to present the theoretical basis for my research methods.

5. 1 Hermeneutic and positivistic

The hermeneutic approach focuses on obtaining a deeper understanding and seeking the meaning of action, while the positivistic approach concentrates on drawing general and universally applicable conclusions (Hollis 1992). The hermeneutic scientist illustrates people’s actions from the inside of the research; thus the researcher becomes part of the study. As a result, such research reflects subjectivity to some extent. The hermeneutic researchers use subjective interpretation to gain deeper understanding. Research based on positivistic science can be regarded as logical, analytical and objective, since the researcher has an external relationship with the research object and attempts to explain the causes behind actions from an external perspective. The positivistic approach employs observation as the means of testing hypotheses against reality. (Hollis 1992)

This research and analysis were based to a great extent on own interpretation of the empirical data found. On the other hand, the researcher also tried to observe and analyse the reality as objective as possible from an

outsider's view. In this sense, the approach is characterised as being both hermeneutic and positivistic.

5. 1. 2 Inductive and deductive

According to Perry (1998), there are two major approaches to theory development; inductive theory building and deductive theory testing. The differences between these two approaches can be viewed in terms of scientific paradigms. Inductive approach represents the hermeneutic paradigm. Inductive reasoning is a process of generalisation and involves applying specific information to a general situation or future events. The deductive approach represents the positivistic paradigm.

The search for theories took place mostly after the contact with the respondents and after the empirical research. In other words, the interpretation of the respondents' words and viewpoints guided the theory study. In this sense, this research process had an inductive character.

Perry (1998) also declares that, at interviews some deduction based on prior theory are used, although inductive theory building is more prominent. Interviews usually start with induction, while analysing the records from the interviews will normally become deductive. It is because that, the researcher has some prior theoretical issues in their mind which were obtained from the earlier literature studies and which is inevitably discussed in the data analysis as the theory testing (Perry 1998)..

5. 1. 3 Qualitative and quantitative

A research can be a qualitative approach or a quantitative one, or both. Guba & Lincoln (1994) examines the differences between them. The concept of quality is vital to the nature of things. On the other hand, quantity is elementally an amount of something. Quality is related to what, how, when and where. Quality research thus refers to the meanings, concepts, definitions, characteristics, metaphors, symbols, and descriptions of things. In contrast, quantitative research refers to counts and measures of things. Therefore, in a quantitative research, the questions usually start with how many or how much. (Guba & Lincoln 1994)

As in Bryman (1995), the emphasis in qualitative research tends to be on individual's interpretations of their environments and of their own and other's behaviour. While the emphasis on interpretation is much less obvious in a quantitative research, in which researchers normally set the parameters of what is interesting and important to them, rather than to the research subject. Quantitative studies tend to give little attention to the context. According to Seymour (1992), in a qualitative market research, the researcher begins with the empirical findings and then draws conclusions. In this sense, it seems that the respondents' stories will represent the reality and show a holistic picture of the situation. But the choices of respondents are often few and sometimes only at random. Therefore the risk to generalize the situation from the insufficient data will be high. A better method is to use a qualitative approach in the first interview to get the inspiration to carry out additional more comprehensive research. With a combination of the qualitative and quantitative methods, the disadvantages of the latter can also be avoided. Seymour (1992) thinks that, the researcher

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can use qualitative research as pilot studies and develop hypotheses which can be examined with the help of quantitative data. Quantitative data will give the answers to “ how much, how often”, but not “ why”, which qualitative ones can solve. The researcher used Seymour’s suggestion and applied a qualitative approach supplemented by quantitative data in the research. Primary methods of collecting qualitative data are interviews, focus groups and case study; while in a quantitative research, the way of collecting data can be survey or experiment (Bryman 1995).

Interviews

Interviews are the main form of qualitative research. An interviewer spends time in one-by-one interviews finding out the respondents’ particular circumstances and their individual opinions (Bryman 1995). Most of interviews take place in person, which has an extra benefit that the researcher visits the respondent’s place of work and gains a sense of the culture of the organisation. However, for cross-national studies, telephone interviews or even on-line interviews may be more appropriate. (Bryman 1995)

According to Bryman (1995), interviews can be divided into structured and unstructured. Structured interviews are a set of specific and precisely formulated questions which are asked to a respondent by the interviewer. Whereas, in an unstructured interview, the researcher interviews in a very informal way, allowing respondents great freedom in what they say. There may not even be a pre-formulated series of questions.

Problem of interpretation

According to Bryman (1995), the qualitative researcher's empirical focus is largely determined by an emphasis in the individual researcher's eyes. This brings up a question of how it is possible to know whether this has been done correctly, how others can know that the qualitative researcher really has interpreted the reality through the eyes of his respondents. It is not possible that the researcher has substituted his own understanding.

Objectivity

As in Bryman (1995), objectivity means that an observation can be simulated, that is, observed by more than one person under a variety of different conditions. If one is the only researcher who can demonstrate a particular effect, it is not objective. Bryman (1995) means, if several other persons note the same effect under different conditions, then that effect is objective.

5. 1. 4 Objectives of research

The final objectives of research are to formulate questions and to find answers to those questions. According to Dane (1990), it is impossible to ask all questions and nobody can either find all of the answers to even a single question. Therefore, understanding the research goals can help the researcher to work out which questions to ask and which answers to look for. Dane (1990) points out five objectives of research:

Exploration

Exploratory research is an attempt to determine whether or not a phenomenon exists. Exploratory questions tend to be rather general, but this doesn't necessarily mean they are not informative. Good exploratory research has also heuristic value.

Description

Descriptive research entails attempting to define or measure a particular phenomenon, usually by trying to deduce the strength or intensity of behaviour or the relationship between two behaviours. One of the purposes of descriptive research is to generalise, to relate the findings gathered from the research situation to other situations.

Prediction

Predictive research engages any study in which the purpose is to use one variable to predict another variable. Such research may be done in order to avoid using one of the variables, because it is too expensive or time-consuming.

Explanation

The purpose of explanatory research is to determine whether or not one or more independent variables can cause one or more dependent variables. Explanatory research generally involves comparing the various groups created through the manipulation of the independent variable.

Action

Action research involves research conducted to solve a social problem. It can entail any of the above mentioned goals, but adds to such goals a requirement of finding a solution, of doing something. Action research is a vital scientific aspect because it makes people able to test applications of other research results.

Since the purpose of this dissertation is to explore how firm like Ikea have an incentive to use “ predatory tactics” to preclude the entry of potential competitors in business economic in china, the research had an exploratory objective. When presenting the Chinese market, the research objective was description. In the market analysis, a predictive approach was also employed.

5. 2 Practical approaches

Experience-based

First and foremost, the research was experience-based. The pre-knowledge of the dissertation subject came from the previous work experience, which has facilitated the empirical research to a great extent. The pre-knowledge was a fundamental basis for the researcher to carry out the research plan. Another advantage of having this pre-knowledge is that the researcher was able to figure out which questions to ask and which answers should be looked for during the interviews. The researcher avoided an amount of unnecessary work which could probably have been done by a person who doesn't have any knowledge or experience in this field. In addition, some secondary data used was already a part of the knowledge before the start of

this dissertation work. What the researcher did was only updating the data. Without the pre-knowledge and if the researcher haven't interview the Chinese, it would be impossible for the researcher to collect some amount of information in a limited time and without travelling to China. Or, if the researcher didn't have any pre-knowledge, the researcher has to spend a lot of time in sorting out the material. However, having pre-knowledge doesn't mean that the researcher didn't conduct any research for the dissertation. In order to update the data the researcher already had and to find new information, other approaches was used.

Interviews

As mentioned in the earlier section, my research was a qualitative approach, supplemented by quantitative data. Interviews were the principal approach to collecting primary data. The researcher interviewed totally ten persons, three Swedish and seven Chinese. They all work or worked in the furniture industry and trade.

All interviews were conducted via telephone. Because the researcher already knew those 3 Swedish respondents from earlier work, the researcher could get in touch with them relatively easily and talk rather freely to them. In this sense, didn't consider that there was any big disadvantage of using telephone interviews. Both the researcher and the respondent knew who we were talking to, although we didn't see each other's face. The researcher had planned to interview two more furniture company, but unfortunately they were not available until the middle of February. However, the researcher doesn't think that this reduction had any obvious negative effect

on the research results, as the emphasis was on the Chinese side. As to the interviews with the Chinese side, unfortunately the researcher didn't have any possibility to travel to China, due to the expensive costs and time consuming. Therefore telephone interviews were the only option. Among those seven Chinese respondents, there were three the researcher didn't meet before. But the researcher has to admit that they were relatively cooperative, in general, Chinese are more cautious about telephone interviews than Swedes, especially when the interviewer and the respondent have never met before. Due to the 7 hours' time difference between Sweden and China, the researcher often had to get up very early in the morning or wait till after midnight to call those Chinese respondents. There was only one reduction among the Chinese respondents, which wouldn't make any big difference to the work. However, it would have been positive for the research if the researcher could have had the possibility to travel to China and visit those respondents in person. Before the interviews, the researcher always prepared a set of questions, which can be found in the appendices. The principal method of conducting an interview was to start with some leading questions and then let the respondent tell their stories and opinions. In many instances, the respondent's views were not entirely their own, because they always mentioned some colleagues' or competitors' cases. This was very helpful for the researcher to obtain a holistic understanding and overview of both micro and macro phenomena in the field. According to Bryman's theory, the researcher employed unstructured interviews, which tended to be informal and gave the respondents high freedom in what they say.

Collecting secondary data

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Literatures and newspapers, journals, textbooks were the main methods to collect secondary data about Ikea and China. Literatures for theory study were borrowed from the University's library. Internet and on-line databases were also important secondary sources of information.

Chapter 6

Analysis

6.0 Results- ChineseMarket Focus of IKEA

Map of China(Source: The World Factbook 2003, CIA)

In this chapter, the intention is to try and answer the research question of the dissertation by presenting the empirical research about the Chinese furniture market.

6.1 China's Furniture import

According to the World Wide Fund for Nature, China has become one of the largest importers of furniture, with imports of industrial logs estimated to reach 100 millions cubic meters by 2012, accounting for half of the total annual demand in the country (China Daily, 2003). The huge gap between China's furniture supply and growing demand has caused China to turn increasingly to other countries to meet its needs. Meanwhile, China's entry into World Trade Organization (WTO) has also facilitated its trade with the world.

6. 2 ANALYSIS

6. 2 Macro-environmental forces

Knowledge of macro-environmental forces about a given country is very important when doing business with that foreign market. A good understanding of the Chinese macro environment and, in this case, also Guangdong's is surely very helpful for the Swedish company exporters who do and will consider entering the Chinese market, because macro-environmental forces affect an international marketer's operations and these variables also provide a necessary framework for deciding international marketing mix. For Swedes, China may be a quite mysterious country, there are many differences between China and Sweden, in economic development level, politics, legal systems, society and culture and so forth. The Swedish exporters/IKEA should be aware of these factors when considering doing business with China.

6. 2. 1 Economic forces

Although today's China is well-known for its high speed of development and fast-growing economy, China is a less developed country with averagely low income levels and low GNP per capita. Therefore, it is not unusual that some Swedes assume that Chinese are too poor to afford the goods they intend to import. China is a developing country and Sweden is a developed one. However, the researcher would like to agree with Albaum (et al. 1998). It won't be correct or rational to draw a conclusion that China is not a potential market for importing goods only on the basis that China is classified as a developing country with low-income economies while Swedish company IKEA belongs to the group of developed countries having upper-income

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economies. With her 1.3 billion inhabitants, 32 provinces and municipalities (www.gov.cn 2011), China is far too vast and complex to be generalised. That is a land full of contrasts. Income and purchasing power differ a lot among people, provinces and cities.

6. 2. 2 Political/legal forces

Once, a Swedish business man who was considering doing business with China asked the researcher a question “ Is there any law at all in China?” On another occasion, the researcher was asked by a Swedish manufacturer (not among the interview respondents) who neither had been to China nor done any business with Chinese, “ Is corruption in China open?” the researcher didn’t think that such kind of question is much often brought up by Swedes. Even so, through these questions the researcher realized something, that is, there are Swedes or Swedish business people who have very little knowledge of China; there are Swedes who are still doubtful about the Chinese political and legal system. Political and legal environment have important impact on a country’s business climate, which is also true when it comes to China. The Chinese political system has made that the Chinese government plays an even more direct role in the economy than it does in most Western countries (Ambler & Witzel 2000), which might be an important reason why some Swedish marketers hesitate about doing business with China. However, it is worth noticing that the government of China has implemented many legal and commercial changes since economic reform which started in 1978, in order to maximise China’s economic interests and promote international trade and also give the company involved a competitive advantage over its

rivals (Ambler & Witzel 2000). An example of this in the case of business is that China has reduced duty tariff on import to nearly zero (China Daily 2011).

6. 2. 3 Social-cultural forces

The biggest obstacles to building business relationships with Chinese for Swedish/IKEA probably are in the social-cultural dimensions, for instance, religion, language, values and attitudes, customs. The differences in these variables between Sweden and China will bring difficulty to the communication between Swedish and Chinese business partners.

Successful communication is beyond doubt a crucial factor for a victorious marketing operation in China. As a result, it is essentially necessary for Swedish to understand Chinese social-cultural norms in order to appreciate Chinese people's ways of thinking, negotiation styles, buying behaviour, and attitudes to Swedish company IKEA to a better extent. Most important is to be prepared for the Chinese social-cultural factors without neglecting them. Keeping this in mind, at the initial stage of market entry and competition from the new comer

6. 3 Opportunities for Swedish Company IKEA in China

Having discussed the Chinese macro-environmental forces and Chinese business culture, it's time to investigate the opportunities for Swedish company IKEA and to examine whether China is a potential market for IKEA, more accurately, whether Guangdong province is, because the delimitations of this dissertation have already narrowed down the research scope in the geographical dimension, although the researcher has also conducted a

research of terms of business policy in China. It is vital for company's to conduct a market selection when formulating their international marketing strategy and competitive strategy. Good products, even when appropriately priced, do not guarantee success anywhere in the world. From my point of view, the reason is very simple; what is offered is not what is needed.

Therefore, it is of the essence that a country exporting should find out if there is a fit between the needs of the Chinese market and the company's ability to meet up those needs and remain competitive, in other words, to examine whether the company has the right product, the right price and perhaps other things that Chinese and other buyers want.

Chapter 7

7. 0 FINAL DISCUSSION

7. 1 Conclusion

With its huge population and numerous development potentials, China is seen as a market opportunity by many countries and many industries, including Swedish company IKEA whose motivation has always been to obtain new markets and expand their business and remain competitive in the business environment. With this background, the researcher chose to explore more opportunities for Swedish company IKEA on the Chinese market and to have a competitive edge.

7. 1. 1 Macro environment

When examining business opportunities in a target country or when intending to enter a new foreign market, an international marketer shall not

neglect the influence the given country's economic, political, legal, cultural variables will have on his marketing decisions and operations. This is same vital for the Swedish company IKEA considering doing business with China. Good knowledge and understanding of the Chinese economic, political, legal and cultural forces are not only necessary but also a competitive advantage for those who are interested in and want to be successful on the Chinese market.

7. 1. 2 Direct export entry

Both indirect and direct export entry modes have strengths and drawbacks. However, when taking the Chinese market's characteristics and business culture into consideration, direct export entry mode will be more appropriate than indirect export. Because direct export to China can bring IKEA more chances of keeping the competitors and also build a network which is beneficial to the market development in the long run.

7. 2 Suggestions for further research

Given the complexity and diversity of the industry itself, there are many other interesting areas the researcher has not been able to research. The researcher has only focused on the area of the Chinese market. Since Swedish industry is commonly recognised to possess excellent technology of goods processing, it would be very interesting to look into possibilities of leveraging know-how to China and to explore opportunities for industrial co-operations between Swedish and Chinese companies. Many Chinese companies would warmly welcome Swedish or other experts from other country to teach them how to become more efficient and effective in

utilisation and processing of goods like wood, furniture etc. Furthermore, due to the huge size of China, the researcher had to limit the micro research scope. Although Guangdong has been proved to be the right area to focus on, there are other regions which could also become the future export destinations of company's, for instance, Shanghai. It will be of great value to Swedish and any other country exporters if a similar research can be done in Shanghai.

7. 3 Conclusion about own methods

7. 3. 1 Trustworthiness

The researcher has endeavoured to achieve as much trustworthiness as possible in this dissertation. The researcher had a cautious attitude to the information from the interview respondents answered, which doesn't mean that the researcher didn't believe what they said. But the researcher preferred to use the information gathered from the research for more than one person, because such information tends to be more accurate and valid. For that reason, the researcher also consciously tried to collect data from more than one source and then to verify them. Furthermore, when selecting interview respondents, the researcher attempted to choose those persons who really knew about IKEA business, who had rich experience in this branch, who had a capacity to give me trustworthy information.

7. 3. 2 Source criticism

This thesis contains a number of information, some of which have been collected from Chinese sources and IKEA. It has often been very difficult to obtain accurate data from the Chinese side, because, among others, the <https://assignbuster.com/the-use-of-predatory-tactics-to-prevent-competitor-entry-a-case-study-of-ikea/>

Chinese attitude towards information is more cautious than in most other countries. Material which would be publicly distributed elsewhere might be highly confidential in China. In addition, statistically speaking, official statistics and publications in China still have a tendency to emphasize the positive and play down the negative.

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