

International marketing strategy assignment



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Know how to attract new customers. Be able to sell good quality products at a low price. Adapt the experience in the retailing to a new market.

Understand the reasons that make Ingvar Kamprad reluctant to enter a new market: 8 Bibliography. Appendix 1: Brazil maps¹⁰ Appendix 2: Diary¹¹

Number of words: 3, 324 A Brief Introduction to the essay: With 237 stores around the world and a turnover of € 17. 6 billion, the Swedish company Ikea is the world leader in home furnishings[Ikea's Fact and Figures 2006, from Ikea's website at <http://franchisor.ikea.om/>] thanks to a DIY concept that enables them to sell well designed good quality products at low prices. The Ikea Group plans to further their international expansion into the South American Market. Brazil is the largest country in South America and fifth largest country in the world after Russian, Canada, China and USA. It apparently represents the most attractive country to target. The following analysis aims to highlight threats and opportunities regarding to the Brazilian market, as well as providing solutions and recommendations for a successful implantation in this area.

Macro-environment of Ikea in Brazil: Politic and legal environment: Even if the political stability in South America isn't as secure as countries from the European Union for example, the situation remains quite steady as the former president Luiz Inacio Lula da Silva won a second term in a landslide victory at the end of October 2006. Silva who used to show strong leftist rhetoric before acceding to power in 2002, is more seen by observers as a centrist with a conservative economic policy in his first term[" Brazil's president wins landslide victory", Associated Press, 29th of October 2006].

As he is considered more moderate than other South American leftist leaders like Venezuela's Hugo Chavez and Bolivia's Evo Morales, his re-election is more than welcome for big companies willing to enter the Brazilian market such as Ikea. Thus, the country doesn't seem to present a big political risk, as the president promised to boost growth to reach the ranks of developed nations. In fact, the credit insurance company Durocroire specialised in international transactions assesses a risk of two based on a seven levels scale, giving the country a relative poor political risk[[<http://www.durocroire.com.br>, information from the 02/11/2006]The government is also quite active for helping its population to have better standards of living. A number of programs such as the " Programa Carta de Credito Individual e Associativa", " Habitar Brasil-BID (HBB)", or the " Programa de Subsidio a Habitacao de Interesse Social (PSH)" help people to acquire proper homes, by providing grants and credits to people who are the most in the need. It thus helps them to leave their ghettos. Such programs can be seen as an opportunity, because, when moving into new houses, people are more likely to be willing to acquire furniture as well.

Other social programs are profitable for the population and for Ikea as well. For example, the " Credito Solidario", helping poor people to send their children to school leads to an increase in the number of educated people who can be seen as the target of Ikea. For instance, they can read the ads, understand Ikea's buying process, and build their own furniture with written explanations for instructions[[http://www.brasil.org/index.php?option=com_content&view=663&layout=edit&Itemid=116]Furthermore, the government is willing to make the country more liberal.

In this intent, Brazil is a part of the Common Market of the South, Mercosur which has founded Common External Tariffs (CET) for Argentina, Brazil, Paraguay and Uruguay, concerning a growing number of products. In the geographic area of Mercosur, the tariffs are also eliminated, and factors of production (labour or capital for example) can move freely. These CET apply for equipment goods at rates included between 0% and 14% [<http://www.septimanie-export.com/fr/fiches-pays/bresil/acces-au-marche>] numbers given for the tariffs applied on the CIF [[Cost Insurance Freight]rice of goods).

This is a big opportunity for Ikea, because reduced tariffs would reduce prices on their imports to Brazil if they set up one or more outlets there. There doesn't seem to have a special law limiting the size for big stores, which quite goes in the right way for Ikea. Economical environment: With emerging markets grabbing investors' attention, many are turning their focus towards South American markets. Strong exports, high commodity prices and increased investments have been contributing factors to growth within many of the Latin American markets [[Ann-Marie Fleming, 19th of Jan 2007, seekingalpha.com, stock market opinions and analysis website] The total Gross Domestic Product (GDP) of Brazil for the third quarter of 2006 was about Real 542 billion (\$ 253. 5 billion), which represents an increase of 6. 55% compared to the previous quarter [[SDDS, from the International Monetary Fund, January 2007] If taken on a per capita basis, Brazil is ranked in 68th position out of 181 countries with revenue of \$ 8, 561 a year, providing the population an average purchasing power [[International Monetary Fund, World Economic Outlook Database for the year 2005, September 2006]]/p>

Thus, the economy seems more than appropriate to the entrance of Ikea, especially since the global imports in the country have experienced a growth of 16.27% during the third quarter of 2006, reaching Real 72 billion (\$ 33.7 billion), which could be profitable for the importation of furniture. Brazil has indeed well recovered from the 1999's crisis [[SDDS, from the International Monetary Fund, January 2007] But the growth of the economy of Brazil, compared from one year to another shows numbers quite smaller, as it grew approximately from 2.3% in 2005 and 4.9% in 2004 [[<http://www.state.gov/r/pa/ei/bgn/35640.htm#econ>]/p>

Regarding more specifically the furniture market, numbers show that in the previous years, Brazilian imports decreased from \$ 111 million in 2000 to \$ 96 in 2001 (-3%), which doesn't seem quite attractive for Ikea, considering its global strategy of having one only supplier for each product. The imports of furniture are dominated by the United States with 39%, followed by Germany with 36% and Italy with 10% [[ABIMOVEL, Brazilian Association of Furniture Manufacturer, numbers from the case study] The market of furniture in Brazil can be broken down in three main segments: residential (60%), office (25%) and institutional organisations (15%).

Analysis show that this last segment is on the growth and imports should increase considerably for the next 3 or 4 years, mainly imports from the United States. That could be interesting if Ikea would favour the institutional segment, and if they would have suppliers based in the United States. The market is also restrained by high interest rates (18.3% per year in 2001) which prevent people from demanding bank loans, and thus maintain their purchasing power at lower levels than if they could borrow money easier. It <https://assignbuster.com/international-marketing-strategy-assignment/>

then has a bad impact on house purchasing and in series, lowers the buying of house furnishings too.

An economical risk regarding the imports of furniture is brought with Brazilian high government debt remaining at 51% of the GDP, in spite of a relative decline in 2004. This debt could lead to the hardening of import taxes and other product taxes or even currency depreciation which could be dreadful for Ikea and its low costs strategy based on high volume sales. A possible solution to target a market which represented approximately \$ 3. 6 billion in 2000 could be to use one of the 13, 500 Brazilian furniture manufacturers.

The problem there is that most of these firms are small, family owned companies not necessarily adapted for mass production at an international scale. The advantages to have recourse in local production are that: The average wage for November 2006 is of Real 1 139. 8: \$ 533. 2; The production of particleboard which is used for 80% by the furniture industry has increased from 13% a year from 1990 to 1998, reaching 1. 3 million m³. Social environment: Brazil constitutes at first sight an incredible opportunity. On one hand, it represents a growing population of 186 million people.

On the other hand, it is also a market which can be compared to European ones: the population is mainly Roman Catholic (74%), most of the population speaks Portuguese, 86% of the Brazilian adults are literate and the workforce is of 90. 4 million people with only 8. 4% unemployed[[Information from the USA government, <http://www.state.gov/r/pa/ei/bgn/35640.htm#econ>, 2005]However, like most of the developing countries, polarization is a

significant issue in the Brazilian society. There are huge income gaps between the rich people and the poor people.

The 10% richest people earn 50% of the totally income and the 10% poorest people only get less than 1%. Social statues then classify the society hierarchy, and people try to improve their rank by having famous cars or with the taste of decorating in house, especially in the middle class. This could indeed be a good point, but the credit option is extremely limited among most consumers in Brazil, 18% of households have credit cards, and most of them wouldn't beyond the point that they can pay back the full balance within a month[[Brazil's Consumer Credit Culture, 18th of Jul 2005 gtnews. com]/p>

According to a report from The San Francisco Chronicle (California) newspaper on March 22, 2006, more and more low and middle level of people moving to new building, it is a significant signal that low and middle class people improve their living standard. On an other hand, furniture demand could increase in the near future, and certain groups will look for eye-catching furniture at acceptable prices. This is exactly what Ikea is looking for! Technological environment: The road network stretches on 1. 5 millions kilometres but only 10% is asphalted, which can cause disorders for the furniture's delivery.

Moreover, proximity to mass transit and public transportation is essential as a lot of low-income consumers do not own any car. The growth of PC's ownership PCs as well as the Internet expenditure could be profitable to Ikea for online selling. The state has placed an order for 1 million of \$ 100

computers for 2007 to equip schools[[" Le Bresil: premier grand client du PC a 100 dollars", <http://www.silicon.fr>, 12th of March 2007]and the computers ownership is growing in the country. Environmental factors:

Brazil shelters dense forests in northern regions including Amazon Basin that can be use for wooden furniture: half of the country is covered by forests.

The government is also involved in protecting this forest, but lots of measures aren't very effective. Market strategy entries: Ikea has already a pre-set strategy worldwide: it has franchises all over the world that sells its products and use contract manufacturing to supply the outlets with furniture. The products designed by Ikea, and produced by its partners are sold all over the world; it's thus a big company, largely experienced in international business.

The firm's objectives in targeting Brazil are to enter a huge potential market and then increase its global market share as well as its revenue. In this new market that seems appealing enough to try and get to set a business in, but in a country that seems to be full of threats for a company that doesn't have any experience with the local culture, it seems more than recommended to find a local partner first. Studies show indeed that successful companies in Brazil, like C, are the ones which managed to adapt to the local environment with specific policies.

In this intend, two strategies are likely to give the best results, because they involve local actors providing a fewer risk, and because they take into account the current organisation of Ikea: joint venture agreements and franchising. On a second hand, the strategy consisting in implanting Ikea's

wholly owned outlets or even purchasing other companies to set up their business in Brazil could be a solution, if we consider that the Brazilian market has a high potential for high income and success.

Wholly owned stores: Having wholly owned stores to enter the Brazilian market is the most risky solution that can be conceivable, but it is still relevant to the actual case as the political risk in the country is low, the potential market in term of number of potential customers is high, and Ikea has enough resources to invest into new outlets. This strategy could be seen as similar to franchising, which is the main approach used by Ikea all other the world.

Wholly owned stores could therefore be a possible solution for Ikea, which would either have to employ local managers or buy an existing local store to make sure that the new entity would answer the special needs of the market. Being able to understand the culture is an important factor to succeed in Brazil indeed, as the case study shows. Ikea should then be very careful when entering the market to make sure they respect the local culture and answer to the specific local needs of both the customers and the employees.

Having a local owned store would be a long shot strategy to make high profit in the long run as well as being able to access to the distribution channels quickly and then select new suppliers among the huge number of local furniture manufacturer. The opportunities could thus profit to the brand worldwide, in finding a cheap manufacturers supplying good quality products. But this strategy also has a major drawback, as it would use big

resources and could be unprofitable if the sales remain low. Ikea would then struggle to exit the market quickly and wouldn't be able to prevent huge losses.

This strategy could then only be used if Ikea is sure that the market is big enough. Joint venture: A joint venture is an entry strategy for a single target country in which the partners share ownership of a newly created business entity [Keegan & Green, 2005, pp. 299] joint venture seems to be an adapted strategy as Ikea already used this type of strategy during the past. In Japan for example, it set up a joint venture agreement with a local department store to test the market in 1976. History shows that the company then withdrew from the market due to stagnant sales.

It then came back to Japan recently in 2006 thanks to a distribution partnership with the Mitsubishi Corporation [Wikipedia, 2007] Ikea could use a similar strategy by setting up a partnership with a medium sized local actor specialised in retailing with experience in the furniture industry to benefit from its experience without risking to face to see this actor becoming a competitor when he would have learn enough from the big company. A joint venture strategy could be seen as an opportunistic strategy to see if the market is ready. The benefits of a joint venture are as follow:

Ikea would attain the knowledge of the Brazilian market through its local partner. It enables to reduce the time for Ikea to understand the local furniture market. If the market is really interesting, Ikea can then enter more and set up new stores in the country, in the high population density areas. Ikea also shares the risks with the local partner and thus reduce risk and

uncertainty. By using joint venture, the financial risk and possible government interference are reduced. It could be then profitable to use local suppliers for some products, reducing costs due to importation taxes.

However by using joint venture, there is possible conflict against the company goals and objectives, and it is difficult to exit the venture in both successful or failure events[Wa[Warren J. Keegan & Mark C. Green, 2005, Global Marketing, 4th Edition, Prentice Hall, page 299] the partnership would take a wrong turn, concerning the relations with Ikea or if the local company wouldn't follow Ikea's recommendations, the multinational firm would struggle to adapt its model to the new market. Possible conflicts could also come from the fact that the local actor could copy Ikea's strategy and give an end to the partnership.

That is why it is very important in that case to be careful when choosing a partner and make sure that he would understand Ikea's goals and adhere to them. Strategy recommended: franchising " Franchising is a special form of licensing where the franchiser makes a total marketing programme available to the franchisee. It will have to pay a fee and supply capital, personnel, personal involvement and local market knowledge"[Je[Jeannet & Hennessy, 2004, pp. 296]l current 237 Ikea stores all over the world operate under a franchise from Ikea Systems B. V. Ikea's Facts and Figures], and franchising seems to be the most adapted entry method to enter the new market for the following reasons: Uncertainty & Risk: Though economy is booming in Brazil now, with high national debts, high interest rate, and huge income gap between rich and poor people, there is still uncertainty risk to enter the Brazilian market. Franchising can reduce risks with limited resource input in <https://assignbuster.com/international-marketing-strategy-assignment/>

an uncertain market because it uses the resources and the knowledge of the local franchisee. Speed: Speed is one of key issue for Ikea to be success to enter Brazil.

Because of the important number of local competitors in the Brazilian market, the less time Ikea give them to reply, the high opportunities to be successful. Franchising is then an answer to this speed requirement as it provides the opportunity to grow quickly and open rapidly several numbers of stores if the market tends to be very profitable. Organization Objective: According to the information from the case study, franchising method used by the firm enables it to emphasis on centralized control and standardization of the product mix. And the objective of Ikea is to provide low price furniture with a fashion style.

So the franchising method enables Ikea to build up lower costs in producing all over the world and then making economies of scale, to achieve the organization objective. Organization Experience: Ikea has a high level in international retailing with franchising methods in 22 countries. Compared with the level of experience in other methods, franchising is the most powerful and attractive methods to entry Brazil market for Ikea, because they master it very well! However, every coin has two sides, and the most appropriate entry method, franchising, also has a few drawbacks[Cf[Cf.

Jean-Pierce Jeannet & H. David Hennessy, (2004), Global Marketing Strategies, 6th Edition, Houghton Mifflin, page 296.]re competitors in the long run: there are huge number of manufactures and wide rich resource in Brazil. It could be easy to set up new stores for local actors to compete with

Ikea after learning from it. According to the case study, as business people in Brazil prefer their own way of running the business, the centralized management approach has limits in Brazil and there could be conflicts appearing in long term.

Ikea should be very careful with that, as it could be considered as a success factor. Success factors in Brazil The Brazilian market for furniture retailing involves specific success factors which slightly differ from the ones that Ikea already has to master to compete in other countries. Three different factors can be identified through the case: Know how to attract new customers, with an emphasis on being able to communicate well among the prospects; Be able to sell good quality products at a decent price;

Have a strong experience in the retail industry with a focus on three aspects: the customers, the suppliers and the employees. Know how to attract new customers The challenge here is to adapt the communication mix to the local population. The fact that Ikea has a famous brand name all over the world is already an advantage as the company has been chosen as the eighth best brand in 2006 according to a survey from brandchannel[http://www.brandchannel.com/start1.asp?fa_id=352, 2006]>

The print run for the 2006 Ikea's catalog edition was 160 million[Ke[Kerry Capell, " How the Swedish retailer became a global cult brand", Business Week, 14/11/2005]en more than the Bible, which shows well the company's know how in communication, since this fact helps to bring more than 1. 1 million customer in the stores everyday. But this is not enough for the Brazilian market, Ikea has to be able to show its interest for the local culture

and adapt its communication to this particular environment. Be able to sell good quality products at a low price

Ikea has already a deep knowledge in this area, because of efficient marketing and design departments which are successful to use different suppliers and know how to realise economies of scale without lowering the quality. Be able to sell good quality products at a low price is the most important success factor to enter the Brazilian market. This key success factor involves skills of Ikea to manage Just In Time (JIT) production, and a large production useful for economies of scale, as well as to use consumers as “ pro-sumers”.

But these skills have to be adapted for the Brazilian market as the notion of “ pro-sumers” will certainly have to be explained to the new customers. JIT is also a big advantage for Ikea because it enables the brand to suppress unnecessary stock costs. Adapt the experience in the retailing to a new market This last part, which takes into account the two former success factors, has to do with managing the people, the processes and the flows in order to serve best the customers. In other words, Ikea would have to adapt itself to the new culture.

For example, Ikea would have to have local managers who understand both Ikea’s and the local culture, and who can introduce the first to the latter. Adapt the experience to the new market has also to do with being able to locate well the store, adapted to the way of life and the possibilities of the Brazilians: for example, the population isn’t well equipped with personal vehicles, housing furniture may have to answer specific requirements, the

way of selling may differ from what Ikea has previously experienced in other countries or the import taxes as well as a nationalism could lead the company to use local suppliers a lot.

Understand the reasons that make Ingvar Kamprad reluctant to enter a new market: According to the case study, Ingvar Kamprad is feeling quite reluctant to a further expansion of Ikea. This can be analyzed by different reasons: The main one, pointed out by the case study, is that when an organisation becomes too big, it becomes too hard to manage. Indeed, one person, as a human being, can't take the responsibility for handling thousands of issues caused by hundreds of stores. The main manager of the whole organisation, Ingvar Kamprad, would then have to delegate more power in order to be confronted to a restricted number of issues.

Other reasons could also cause this scepticism, as we have seen earlier in the case study: language barriers that could result in conflicts of communication[<http://www.hartford-hwp.com/archives/42/149.html>]r cultural issues that would oppose dissimilar management styles[Zara[Zara's problems, according to the case study]uge competition due to well implanted local producers. All of these issues can though lead to a failure of the new attempt, and handicap the whole company and thousands of employees. Bibliography

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Green, 2005, Global Marketing, 4th Edition, Prentice Hall, page 299

Wikipedia, 2007 Appendix 1: Brazil maps Population Density in 2000

Appendix 2: Diary P= 03151611 M= 06110827 Date: 26 Jan 2007 Time: 15:

30 Duration: 45 minutes Issues discussed: 1. Cleared doubts on each question. 2. Checked general Brazilian info online. 3. Make appointment for the next meeting. 4. Divided the workload. M is responsible for presenting information about Brazil. P is responsible for picking out the info from the Case study. Date: 1 February 2007 Time: 14: 30 Duration: 30mins Issues discussed: 1. Review the written part of the report 2.

Did more research on Brazilian furniture market. 3. Decided the entry methods and work together on Question 2 & 3 Date: 8 Feb 2007 Time: 16: 30 Duration: 1hour We meet at H04, the computer room to switch and discuss opinions on Question 2 &3. We put the written parts together and work together on Question 4. We did not finish it, but we decide both to work on it and put them together later. Date: 15 Feb 2007 Time: 16: 30 Duration: 1hour We put the part of question 4 together, and review the whole report. We checked some issues and reconstructed some parts. Date: 22 Feb2007 Time: 16: 30 Duration: 2hours Making the report together