

# Pricing strategy–take an example of ikea

[Business](#)



Class: AS 06-01 Tutor: Stephen Seaworthy Date: 2014-8-25 A discussion on the pricing strategy for foreign corporations in China—taking an Abstract ‘ KEA, as one of the most valuable brands in the world remained far ahead of its competitors because of its particular business management in European and American market. However, it suffered the dilemma in China at the beginning of entering the Chinese market. The key problem is that the market and pricing position re not accurate.

In this paper, I will focus on how KEA conducted the market targeting and how it implemented the pricing adjustment. I make a conclusion that slow expansion, low price with high quality products and adapting to the local purchase and production situation are the successful experience of ‘ KEA.

Catalogue Introduction With the development of economic globalization, more and more global corporations aim to enter into global markets successfully. In these competitions, some firms survive, but some others fail against domestic enterprises.

It is crucial how to adjust he pricing strategy, an important part of UP (product, pricing, place, promotion) strategy, to adapt to the native situation. ‘ KEA, as the largest household furniture supermarket in the world, had suffered a difficult adjustment period. The essay focuses on stating the dilemma that KEA faced to in China and adjustment of pricing strategy. The purpose of the essay is to provide some successful experience about pricing strategy for global corporations via the evaluation of low pricing strategy about KEA products and the cost control measures that KEA has taken.

Evaluation of the dilemma that the product price is hard to adapt to Chinese actual condition. The business pattern of KEA in European and American markets had achieved great success, but it suffered serious dilemma when it was replanted in China. The dilemma was that the target customers was different from European and American area (Brahmins & Martin, 2013). In European area, the low-income people was the target consumers for ' KEA. The average price of KEA was 30%-50% less than its rivals (Lie-Gun, 2010).

But KEA in China was the opposite, an unacceptable image.

There are several reasons that can explain why it is hard to adapt to China situation. Firstly, the gap of exchange rate was relatively high. The KEA official made a commitment to implement the global unified pricing to maintain international market stability. However, the higher exchange rate led to high commodity prices, which stifled the customers' passion directly. Secondly, the scale effect could not be achieved.

In the European and American markets, KEA took a variety of measures, such as large-scale procurement, establishing its own logistic network and flat snacking transportation to cut down the cost and maintained the absolute competitive advantages. Whereas, none of them could achieve in China. Thirdly, the cost advantages that KEA possessed in western countries vanished in China. The high price-competitive furniture in developed countries almost were more expensive than the local products, because the native manufacturers possessed the cheap labor forces and materials .

Linda Xx, a corporation communication manager in ' KEA, said that she could not image how to produce such high-quality furnishes at a such owe cost(Lie-Gun , 2010). 2 The adjustment of pricing strategy for KEA 2.

1 Competitor analysis The furniture industry has developed rapidly in the past 20 years . According to the industry association data, the output value of furniture industry had experienced the rapid growth period of development and then entered into the mature period. Most Chinese consumers preferred to buy affordable products.

The market was still highly fragmented, with no single corporation accounting for a significant share (Lie-Gun, 2010). As for competitors, Queen was the biggest native rival for ' KEA. Queen Group was the largest wooden furniture manufacturer in China .

Let was famous on its high quality and focused on the upper middle-income customers. After KEA entered Chinese market, the percentage of consumers especially foreigners decreased dramatically (Lie-Gun, 2010). The comparative advantage for KEA was the brand image.

Besides, B and OBI was also the key international competitors for ' KEA. The time of entering China market for these three firms were close (1998 for ' KEA, 1999 for B, 1999 for OBI ).

They all provided the high-quality products with reasonable prices . But KEA had an advantage that it took participation in the whole production process. So it was easier to control over the cost and had more flexibility to change

producers. 2. 2 market targeting In order to understand the target market, the company senior management decided to do some market research.

Through the statistics of the amount of private cars in highway road toll stations, they found that the population of middle class people in Beijing and Shanghai exceeded than European countries.

The relative high price decided that the middle class people was the target consumers. So they confirmed that Beijing and Shanghai was the target cities. The major customer group in China was aged 25-35 (the core customer is around 30). So the middle class women who were aged 25-35 were the target consumers. Another target group was young female.

As Pubertal argue “ about 65% of all consumers were women in China.

In particularly, the young female aged 15-27 decided about furniture and home decoration. They were called “ little emperors”, because they were born in one child policy. This customer group people had some similar features, such as, easy to be influenced, very social, and high on foreign consumer brands (Burt et al, 2011). Therefore, these two group were the target consumers. The sales in Beijing and Shanghai shot up year by year, which demonstrated the research project and market position were accurate.

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3 pricing adjustment and implementation As an adjustment to the local market condition, KEA determined to sell the middle- range-price commodities only (Lie-Gun, 2010). Duffy, the president of Kea Asia-Pacific, declared that KEA should make the product more affordable in China to

match their rivals (Lie-Gun We, 2010). However, KEA compared different countries by using a typical KEA basket of products. They found that a Swiss only needed to work for 2 months to buy the basket, while a Chinese people should work for 18 months (Burt et al, 2011).

In order to achieve the lower pricing strategy, KEA took a variety of measures to cut down the cost in Chinese market.

First of all, increasing the amount of procurements in China was the main measure. KEA confirmed more than 370 suppliers. At the same time, it set up seven procurement centers in seven important cities like Examine, Sheehan. Kingdom in China, which made China become the most important material and semi-finished products supplier country. From 2001, the purchase rate in China has been increasing steadily, from 14% in 2001 to in 2004.

Secondly, KEA enlarged the local production proportion in China.

KEA China initially bought products from other KEA countries, for example Poland. But some commentators found that half of products were made in China KEA in the later years (The Wall Street Journal, 2006). Thirdly, in 2006, KEA established a 280 thousand square meters in Malaysia and became maximal logistics center in the Asian-Pacific region. It reduced the transportation cost effectively.

2. 4 The result of the pricing adjustment strategy On the basis of the sharply decreasing cost, the average price had reduced by 46% in KEA Shanghai store, while the sales increased 345%. N 2006, the reduction of near 500

new product reached to 20%. The Swedish company was not publicly listed and did not disclose profitability, but analysts estimated Kike's China operations brought in near \$120 million in turnover yearly (The Wall Street Journal, 2006). KEA not only maintained the low price, but also guaranteed the high-quality through suppliers' intention and examination. Only through strict supply chain management can KEA logged on every product " Design and quality, KEA of Sweden" confidently.

The high-quality ensured the great strategy adjustment result. 3 successful experiences for global corporations Clearing the target marketing is the first important step. When the firm can not clear the market and pricing position, it should not expand the stores quickly, which may lead to more problems and negative influences for the corporation stable development. In this aspect, KEA is a positive example. Before it cleared the market and ensured the strategy, it slowed down its expansion step. High quality is the precondition of low price.

Many corporation especially Chinese companies focus on the price advantage that the lower labor brings in the international market. But some of them concentrate on low price extremely and ignore the quality. This action may bring temporary benefit, but are not beneficial for the long development of firms. They should learn aim of ' KEA: low price with high-quality. Adjusting to adapt the local situation is important. With the KEA conception, this is n example of where the realities of native markets have had the better of the generic strategy and relevant policies (Burt et al, 2011).

KEA increases the amount of purchase and production in China, which helps the company to get used to local pricing level , local production pattern and cut down the cost. When most corporation are hurry to find a fixed formula of successful pattern. We can find that the fixed successful method is changing. Conclusions In this paper, I have analyzed how KEA adjust the pricing strategy via evaluating pricing dilemma, competitors and ensuring target consumers . And I have given an overview of the different measures that KEA used to make the cost under the control.