

# Ikea china marketing analysis



**ASSIGN  
BUSTER**

The furniture industry in China is booming while currently, the furniture industry in China is characterized by small workshops which mean the lack of competitive local brands so it is optimal opportunity to win market share from rivals. Furthermore, there is no branch of KEA in some big cities in the second tier, namely Tannin, Human, Asian etc. Which have significant consumption capacity. Besides, the products range of KEA in China is limited without offering products with Chinese characteristics and unfortunately, ready-to-assemble products are not that much acceptable for Chinese customers.

Taking into all the factors into consideration, it is certainly that the internationalization of KEA in China is at initial stage. The necessity of expansion in China cannot be overemphasized so KEA is aiming at opening 9 stores more in china until 2016 by meaner of wholly-owned subsidiaries and launching new products with Chinese elements, in the meantime, improving the assembling system through DID guiding video. Introduction As a global furniture retailer, KEA increases its sales revenue, extends the market share through the implementation of internationalization.

Actually, Kike's process of internationalization can be divided into three stages: an initial exploration stage of internationalization; a stage of rigid replication and the current stage of flexible replication (Monsoons& Foss, 2011). Owing to differences in cultural and economic, KEA adopts the flexible replication mode during the expansion in Chinese market, which squires KEA to maintain the KEA Idea Concept (referring to the guiding principles, which are the unique points that differentiate KEA from its competitors).

Meanwhile, the other features (e. G. Product range, store format) are allowed to be adjusted according to Chinese customers' preference (Monsoons & Foss, 2011). During the past 15 years, KEA has outstanding achievement in Chinese furniture market. With the development of KEA China, KEA transfers its entry mode from the joint venture into the wholly-owned subsidiary. A joint venture is a partnership between two or more parties (Hellholes, 2010).

Compared with joint venture, the wholly-owned subsidiary allows KEA to have more control over its operation in Chinese market, which contributes to better allocating resources, making best use of the advantages and bypassing the disadvantages. The objectives of this report consist of two aspects. Firstly, on the basis of the analyses of development solution in KEA's mainland China, it is shown as a huge market with immense potential for KEA. Specifically, owing to living standard enhancement and real estate development in China, the demand for the purchase of furniture turns apparently strong.

However, the expansion of KEA is relatively slow since it entered into China. Only 11 KEA stores were established, which located mainly on eastern coastal areas. Accordingly, it is beneficial for KEA to take expansion in China (Handshake, 2012). Secondly, China has developed to be the biggest purchasing country of KEA owing to the availability of cheap labor and rich natural resources (KEA group, 2012). In the meantime, sound operation system and distribution network have been established during the past 15 years. All in all, it offers a foundation for KEA expansion, which ensures the feasibility of this proposal. 3.

Internationalization Internationalization can be regarded as a process of discovering and getting involved in the international markets for enterprises with comparative cost advantages. In fact, there are several kinds of internationalization models, among them, the Pascal Model, which is the most famous but also the most criticized stage model, describes four stages of internationalization: No exports; Exports via agent; Sales subsidiary and wholly owned subsidiaries. Furthermore, this model not only focuses on marketing knowledge, commitment and change aspects, but also stresses psychic distance (Monsoon & Value, 1977).

In this case, with 55 years' development, KEA has become from a small, unknown and family-owned home furniture company to a global, stylish and fashionable furniture retailer in the world with 338 stores in 40 countries. Specifically, Kike's international expansion can be divided into three main stages. The first one is exploration internationalization (1963? end of sass), and in this stage, KEA started its internationalization via establishing the second store in the neighboring Norwegian market five years later after the original store which was opened in Sweden in 1958 as a result of saturation of Swedish market.

Then KEA entered the Danish market in 1969. However, these two entries are based on the Pascal model in a gradual process. Four years later, KEA decided to enter into Swiss market, which was maybe the most conservative furniture market throughout the Europe. If KEA could survive and dominate the furniture market share there, it could win the success in other foreign market as well (Salter, 1994), like Germany, Canada and Singapore. During the expansion of ' KEA, there were two major failures, one was the rather

painful and expensive entry of Japanese market at the end of sass and the other as the US entry in 1985.

As the first country in Asia that KEA entered, Japan shares different culture, lifestyle and behavior with Europe or North America. The unplanned entrance of Japanese market made KEA face the failure. In 1986, KEA weltered tenet snoop out AT Japan Decease K A products In small I " KEA corners" inside big malls was sold at high prices which offended against the KEA concept. In terms of the US entry failure, it was mainly because of the unwillingness of KEA to increase the sizes of beds and kitchen cabinets as it was aiming for offering a single, global range with standardization.

During this period (sass and early sass), a stage characterized by self-examining reflections throughout the expansion, KEA adopted the indiscriminate exploitation expansion model and the managers kept thinking whether the business drive their culture, or should the culture drive business. Finally, they realized that it is necessary to adjust its products to the local market within the confines of the KEA concept, while KEA should stick to one product range by focusing on high volumes (Slaking & Jensen, 2006).

As far as the reasons for internationalization are concerned, internationalization of KEA plays an important role in broadening the area for sales, extending the market share and promoting the brand popularity (Hellholes, 2007). In the meantime, it can propel many of Kike's top managers to positions of responsibility and bring KEA into many new market places; especially the Swedish furniture market is very saturated. Foreign

Market Segmentation and Targeting David Jobber defined the market segmentation as the identification of individuals or organizations with similar characteristics (2009).

Based on the statistics from KEA official report, KEA divides its own foreign market onto four regions: Europe, Asia/Australia, North America and Russia. At this level, Europe as the birth land of KEA contains the majority part of sales all over the world, which is followed by the North America. This means that the Europe and North America markets can be treated as the mature markets for KEA relatively, and may have less attractiveness for international expansion. Russia may be distinguished from other regions but compared with Asia/Australia it has less probability in market prospecting.

Asia/Australia, within the current foreign market, seems like the market with the weakest power till now. But it's the second purchasing market of the world; the potential developing opportunities should not be ignored. To be more specific on the particular countries in the Asia/Australia region, Japan, China and Australia are the three major markets. KEA launched its business into Japan first time early in sass, but failed and withdraw in 1986 due to the insufficient supply network (Acceleration and Oceanographer, 2008).

The second round happened in 2006, but the economic situation and the demographic structure of Japan had changed and the greater challenge from competitors has reduced the attractiveness of Japan market. A recent report about KEA in Australia indicated that Australia has the most expensive KEA products in the entire world (Kidnap, 2012). This is not good news for the customers in Australia exactly, as well as, for the KEA International

expansion In Australia. 10 De nests, aspect AT entry another new country in Asia/Australia region, so far, the best expansion area seems to be China.

Although there are various differences in economic and cultural environment, as a foreign furniture retailer, KEA really has got its success in Chinese market. In the following years, KEA plans to keep expansion in the mainland of China based on the attractiveness of Chinese market and competitive advantages KEA China has developed. With the development of real estate in China, purchasing for home furniture is in great demand, which definitely meaner an opportunity for Kike's further expansion.

Furthermore, Chinese people's living standard is getting better and better. Accordingly, the products and design plans offered by KEA can satisfy the expectation of Chinese consumers in terms of creating comfortable home environment. Moreover, cheap labors and raw material of China are available to ' KEA, making up Chinese market's attractiveness. As the KEA statistics shown, China Nanking NO. 1 as purchasing country, becomes the most important country for KEA in terms of purchasing. (KEA group, 2012) Since KEA has entered into Chinese market, KEA China has kept collecting information of Chinese market and laid the foundation for further expansion. Up to now, KEA China has opened its stores near the main transportation lines. Additionally, trading service offices are located in three coastal cities: Gaining, Shanghai and Shannon. (GHZ & Chou, 2010) Furthermore, a high quality distribution system was established, contributing to its inbound and outbound of materials, products and so on.

All of these actually consist of the basis for future expansion in China. Apart from these positive aspects, negative ones about KEA in Chinese market also give KEA decision makers some implications. As shown in the network map of KEA China, stores, distribution centers or consolidation points are mainly located in the eastern coastal areas, which mean that there is broader development space in inland cities for ' KEA. Environmental Analysis 5. 1 Strengths Talking about the strengths of ' KEA, there are three key factors contributing to the success of this global company.

Firstly, KEA is aiming to create a better everyday life or individuals so the customer satisfaction is remaining obstinately high which is of significant help to KEA to be in an invincible position in the escalating market competition. KEA is regarded as an ideal choice for entertainment at leisure time for family since it not only offers delicious food for customers but also supplies children products. It is worth mentioning that the one-way layout AT Turnstile In K encourages customers to go directly to the section where the products needed are displayed in different showrooms.

This kind of shopping experience is quite different from the traditional furnishing retail stores. Secondly, products can be regarded as the advantage of ' KEA. As it is mentioned before, its products are environmental friendly with unique and fashionable design. To speak without exaggeration, products of KEA are characterized by multifunctional designs with high quality but lower prices. Last but not least, priority is always given to the cost in terms of the selection of stores location, warehouses and suppliers. KEA adopts the direct delivery process.



In other words, instead of transporting the goods to the distribution center, products are delivered to the stores from suppliers directly. Besides, the sourcing of KEA is unique and warehouses are highly used as KEA reduces inventory cost by setting the regional warehouse which is close to the store. What's more, KEA attaches great importance to the use of technology. This can be best illustrated with the example of OGLE chair as it is not only reduce the use of raw materials but also can be recycled or reclaimed. . 2

**Weakness** During the past 15 years, KEA China has achieved a good performance. Generally speaking, consumers hold a positive attitude towards Kike's standardization strategy (Sacristans & Anderson, 2006). However, Chinese culture is totally different from Nordic culture, which plays a crucial role in Chinese customers' purchasing behavior (IL, 2007). The standardized items provided by KEA could not meet the needs of Chinese customers. Specifically, chopsticks are not available in KEA China stores initially.

Meanwhile, gardening tools are not popular in Chinese market. In terms of services, KEA has introduced its do-it-yourself (DID) concept and self- service concept to Chinese market, and both of these two concepts are alien to Chinese customers. In China, customers are service-demanding because the labor cost is low (Sacristans & Anderson, 2006). Chinese consumers are used to being guided by salesmen when do shopping. As a result, it is unfamiliar for Chinese customers to pick up the products in the warehouse by themselves.

Similarly, China does not have a DID culture, so few customers have common tools at home. However, KEA save costs by meaner of carrying on

the DID concept. Furthermore, KEA does not provide home delivery services for free, which is different from other local furniture companies in China. Actually, the delivery fee or even the installation fee is already included in the purchasing price (Burt, Johansson & Outlander, 2011). Therefore, it is easy to lead to customers' dissatisfaction when KEA requires extra fees for delivery and installation, even though the fees are generally low.

**Opportunities** When it comes to opportunities, China has its own unique and special culture and environment, which KEA can probably use its strengths to take advantage of the opportunities and finally transfer them into strengths. First of all, Chinese government has launched the policy to encourage foreign companies to cooperate with Chinese local companies (IL, 2007). Therefore, KEA can choose Joint venture to minimize financial risk and be able to deal with distant market (Evans, 2000).

And it will be easy for KEA to access to Chinese customers' information and meet their needs (IL, 2007). Moreover, with the rapid social and economic development in China, people's living standard and income are increasingly getting better, thus, accordingly, people are willing to spend more money on furnishing and decorating their houses, which provides a huge and potential market to ' KEA. On the other hand, compared to other European countries, the labor force in China is quite low, so that, KEA can save costs and gain more competitive advantages (L', 2007).

At last, as it has been mentioned before, the market of the second-tier cities in china is not in a saturation state, so this can be regarded as a new market for KEA to expand its business.

the business or project. KEA has operated its business in China for more than 10 years. Different from other western retailers like Home Depot, Best Buy, Barbie that have packed up and left China, it can adapt to the Chinese market environment better and has accumulated a lot of experience.

However, there are still two main challenges from outside of the company which have obverse impact on the KEA expansion and performance in China. The first threat refers to the political factors. The import policies and relevant legal provisions of China may hit KEA when it imports materials and products from overseas with heavy taxes stress. For example, KEA faces strict quotas and has difficulties in importing food to its Swedish restaurant (Miller, 2006).

Even though such duty stress may increase its product prices and against to its low price strategy, the real biggest dilemma comes from its competitors and suppliers actually. Counterfeit is a headache problem faced by the KEA in China. The design of Kike's products is unique and fashionable, which makes many furniture companies copy the products even the store display. Such fake activities destroy the market competition regulation. As it's known, China has become the biggest purchasing market of KEA for its raw materials, such as glass, timber, hardware and plastics (Miller, 2006).

But today the local supply strategy which is designed to reduce cost of products has risen up another problem. Several former Chinese contract manufactures of KEA has develop Its own Turnstile canals, tenet serve ten scalar range AT product to ten scalar target market but at a lower price than ' KEA. The first store, Come Family Supermarket, opened in Modulating at 16

September in 2012. They have advantages on local knowledge and may cater to Chinese customers' taste better than KEA (What China Time, 2012).

This should be considered as the most serious threat in the nearly future, because such local own brand furniture retailers may have more profound influence on the furniture industry of China than those copycats of KEA products. International Marketing Objectives According to the STOW analysis, the rapid development of Chinese economy and the increasing disposable income of Chinese people make China become a great attractive market for internationalization. Although new threats coming from local suppliers and competitors may influence the market performance of KEA in China, it can be seen as a new opportunity as well.

Connected with the unique shopping experience strength within KEA stores and the vision of the company which is creating a better everyday life to the many people, it's the right time for KEA to enter into a faster growing and expansion stage in China. As it's known that KEA has operated its furniture store business mainly at the eastern part of China, the market expansion in the coming years will intend to increase the brand public awareness and intensity the brand value of ' KEA, especially in central and western big cities. To be more specific, the market objectives for the coming three years have three concrete norms.

Firstly, KEA should open three stores per year till 2016. As the great number of visitors is a key attractive factor for the new store location, Human, the biggest capital city in the central China, which is going have 10 million people will be nee of the three store locations in 2014. Another two new

stores would be in Gaining and Beijing (the second store in Beijing). For the next two years, the main capital cities in central and western China, such as Chengde, Xi'an, will be the most probable new store locations. Secondly, the price of product in China should be reduced.

It can be identified as a support force to the first objective due to the differences of the income levels between east and west of China. KEA will decline its product price at 2% to 3% per year to attract more customers in the second-tier cities. Finally, keeping sales revenue grow up at more than 20% per year is the third objective. It takes the guarantee of the development and growth for KEA in China. In order to achieve the market expansion goal at the level of China market, a marketing plan for the coming three years will be developed.

Foreign Market Entry Strategy ' KEA, as a global Turnstile retailer, selects Deterrent Torrent market entry modes Tort different target countries, on the basics of diverse political, economic factors. Foreign market entry mode is illustrated as " an institutional arrangement that makes possible the entry of a company's products, technology, human skills, management, or other resources into a foreign country'. (Root, 1987. 5) When KEA entered into the mainland in 1998, the Chinese furniture market was not fully open to foreign companies (Wee & Zoo, 2007).

According to the principle of equality and mutual benefit, foreign companies are encouraged to cooperate with Chinese enterprises by Chinese government. KEA registered in Chinese furniture market as Beijing Northern Sweden Limited Company (Wee & Zoo, 2007). As a foreign furniture retailer;

the form of Joint venture helps KEA collect a wealth of information about the Chinese market, especially consumer preferences, which contributes to the reposition of KEA in China. In addition, KEA selected Joint venture as the entry mode which indeed reduced market and political risks in the Chinese market.

Generally, Joint venture, this entry form helps KEA to understand Chinese consumers' needs and develop competitive advantage in a short time. Furthermore, China has become the biggest purchasing country for 'KEA, which means most of the material is sourced locally. This is beneficial to costs and prices. The trading network has been established, constituting three trading service offices, two distribution centers and seven consolidation points, which lays a foundation for further expansion in China (GHZ & Chou, 2010).

During the past 15 years, KEA China has developed relatively slowly in order to be familiar with the Chinese market. During the same period, KEA China transferred its entry mode from Joint venture to the form of wholly-owned subsidiaries. Currently, KEA plans to conduct its expansion plan. As it was said by an executive of 'KEA, coastal cities and developed inland cities would be appropriate cities for further expansion (Wee & Zoo, 2007).

As a wholly-owned company, KEA can take advantage of its own strengths, reducing the negative effects caused by its shortcomings. In particular, KEA gains more profits from sourcing locally and the good quality distribution network. Product/ Service Mix Preparation 8. 1 Product—Chinese Beauty As it is mentioned before, the increasing purchasing power of Chinese residents

have become a force to be reckoned with in the internationalization of 'KEA. China is a country with a long history and profound cultural background.

Not only the lifestyle but also the eating habits are different from the western countries, for instance, ordering is part of western people's life while Chinese seldom has space and spare time on it. What is more, westerners tend to furnish up their houses by themselves out It is not popular in china. In order to satisfy customer's demand and increase sales, it is necessary to launch new products with Chinese elements. This can be regarded as adaptation from the perspective of internationalization as KEA will produce unique products in China market only.

This new line of products is entitled "Chinese Beauty". Talking about the implementation of this new project, KEA should establish a functional area dealing with the design, manufacture and sales, feedback which consists of design group, manufacturing, sales department and research group. Although KEA mainly finishes the design of products at the headquarter in Sweden, the first and most important thing of this project is introducing local designers who are familiar with Chinese culture. The second step is closely related to the style of the design.

It is crucially important to make a balance between Chinese style and the original KEA style. As the design style of KEA is characterized by clean-cut and easy breezy, small space as well as functional, the designers should create Chinese elements while retaining the typical KEA design style. To be more specific, this can be best demonstrated with showroom, model bedrooms and kitchens. Wicker chair can be used more in the sitting room

and designers can use floral pattern, such as the national flower Peony for the curtains, symbols of wealth and prosperity.

Besides, Chinese ink wash drawing can be used as the decoration of the house, where bedroom pops with caned designs, especially cupboard and dressing table. As bathtub is not popular in China, so shower is a better choice for our “ Chinese Beauty’ designs. There is strong demand for more as a major change takes place in the kitchen as Chinese style food specializes in stating, quick - frying, simmering, deep frying and braising.

An oven is unnecessary since Chinese seldom make cake or toasted chicken at home while it is wise to produce an earthenware pot and steaming basket. In order to decrease the risk reach the minimum and achieve the maximum returns, a qualitative research can be adopted before the launch of new products. The research group can select 50 frequent buyers of KEA in China and show them the attest product sample of “ Chinese Beauty’ to collect their opinions by individual depth interviews so KEA can be more confident about the result of market response.

KEA should only choose two or three stores as pilot testing. The pilot products are ready to be tested on the market and once they get good market reply, it should be launched throughout Chinese markets. As the political, economic and cultural center of China, Beijing is an ideal testing store. Besides, Human is one of three stores on Kike’s expansion list; KEA should launch this project in Human at the same time hen it is opened so we can get the feedback from both the old store but also new store.



The next season is the boundary of this planning and the first season KEA will only produce 1000 pieces per product in the series of “ Chinese Beauty’.

After the end of this season, the research group will analyze the sales revenue of every product of “ Chinese Beauty “ and the information will be fed back to design group. The designers will adjust the design accordingly and manufacturer will change the distribution of the production in the second season.