A case study ikea in brazil marketing essay

However, there is much more to IKEA than just its cheap stylish furniture. As Eberhard-Harribey (2006) states, regardless of its openly aggressive focus on cutting costs, IKEA is a leading company when it comes to Corporate Social Responsibility (CSR) matters. IKEA has managed to combine a cost focus with CSR issues, as opposed to companies such as Starbucks and The Body Shop, which is considered to be high CSR-oriented but that charges a premium-price for its sustainable products. IKEA has respectable policies on child labour and has strong partnerships with UNICEF, and the WHO which for instance set a standard for all other business around the world.

IKEA has a transnational strategy as they try to maximise its global strategy of product standardisation whilst responding to, consumer local needs. Globalisation, factors like economic growth, deregulation, more disposable income and rising housing market have created many opportunities for growth in which IKEA have continuously taken advantage of in many countries. In spite of its global presence, it is worthy to point out two facts. First fact is that Europe accounts for 82% of IKEA’s total revenues and North America accounts for 15% (Datamonitor, 2009). Second fact us that in both Europe and North America regions, as a result of the economic downturn, the furniture retail industry is under a lot of competition and pricing pressure; as well as ever growing customer demand environmental awareness.

In order to reduce the political-economical and social-demographical risks inherent with such regions, IKEA needs to concentrate on diversifying its operations into other markets promptly and efficiently. Moreover, by expanding into other markets, IKEA can also take advantages of opportunities that these new markets offer that current markets no longer do. For example, in the past when China opened-up its policy to FDI, it eventually led to the Chinese economic improvement, the rise in the housing market and subsequently the demand for home furnishings in China. These events have unambiguous allowed IKEA to successfully enter this market.

The current strategy mode that IKEA undertakes when entering a new market is International Franchising whereby products, limited rights, operating systems and the use of IKEA’s brand name are sold to the foreign franchisee for a sum fee and share in the profits.

It seems sensible therefore that IKEA continue on expanding into new markets. Nevertheless, before IKEA chooses another market to enter, several analyses (example?) need to be undergone in order to choose the most appropriate market that not only match the Furniture Industry but ultimately complement IKEA as a company.

In this work IKEA’s plan will be to further its global expansion into the South American Market, having Brazil as a target. South American has kept strong growth in value, a trend that according to Marketline, 2009 is meant to carry on rising. Brazil is the largest country in South America and according to Datamonitor (2009), it is characterises the most attractive country for the Furnishing Industry. The following analyses have as an aim to critically investigate whether or not IKEA can successfully enter the Brazilian Market and how it should best endeavour it.

Industry Overview: Global Home Furnishing Retail

The home furnishings retail sector includes furniture, floor coverings and household textiles. Furniture sales dominates the global home furnishing retail sector, with 63. 9% of the sector’s value. IKEA has the largest share in the global home furnishing market. Its share accounts for 2. 3%.

Europe accounts for 43. 1% of the retail sector’s value and the compound annual growth rate of the sector in the period 2004-2008 was 2. 6%. Moreover, according to Datamonitor, 2009, sector’s value reached a value of $663. 4 billion in 2008 and it is forecasted to grow by 24. 9% in 2013 (MarketLine, 2009).

Moreover, according to Mintel (2008) the UK is IKEA’s most successful market. However is being held back by the difficulty of getting new stores, low consumer confidence due to the economic slowdown.

The UK housing market has slowed dramatically and with house prices and the number of transactions forecast to fall this year, this must be bad news for furniture retailers. Already in 2008 there have been a number of casualties, including Sleep Depot and New Heights, and most recently Ilva and ScS.

At the same time furniture retailers are facing unprecedented levels of competition from outside of the specialist market from the likes of Tesco, Asda, Woolworths, Argos, Homebase, B&Q, and even Next and M&S. Is it all doom and gloom for the furniture specialist?

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The UK housing market has slowed dramatically and with house prices and the number of transactions forecast to fall, furniture retailers are facing exceptional amount of competition from outside of the specialist market from the likes of Asda, Argos, not to mention M&S and Next.

Five Forces Analysis

Retailers of furniture, floor coverings and household textiles are the players of the home furnishing retail sector and the main buyers are taken as end-users, and manufacturers of furniture, floor coverings and household textiles as the key suppliers.

Regardless of the presence of IKEA's big competitor like Bed Bath & Beyond, Federated Department Stores or Linens ' n' Things, the home furnishings retail industry continue fragmented (MarketLine, 2009). These companies defend themselves from possible future fluctuations in prices or any rise in competition through economies of scale and by offering diverse services.

Moreover, the Internet has helped new businesses to enter the market and enabled the development of a more informed consumer, making it more difficult for retailers to raise prices (Datamonitor, 2009).

Although retailers are not easily persuaded by brand loyalty, customers' preferences are important and greatly decide what goods such companies are likely to sell. Furthermore, brand name has helped to create a strong reputation and recognition of leading companies resulting in highly visible store locations.

Retailers tend to purchase merchandise from numerous foreign and domestic manufacturers and importers, reducing reliance on any one supplier. Moreover, smaller companies may compete by focusing on a particular segment of the market and offering greater depth of products.

Low-cost companies like IKEA can deliver low margin products to the market, which, whilst yielding lower profits, still generates sufficient sales to cover the company’s fixed costs and provide a substantial profit margin. Substitutes to home furnishing retailers exist in terms of department stores, discount and mass merchandise stores.

However, stores that specialise in home furnishing retail have typically a larger selection of items within the home furnishings category (Datamonitor, 2009).

IKEA Swot Analysis

IKEA has been ranked one of the best global brands around the world in 2008. But although IKEA’s strong brand image boosts the group’s growth into new markets and new product lines, the slowdown in the UK and USA housing market due to limited housing supply and higher prices are negatively concerning the revenues of the company. Additionally, it seems that IKEA’s concept has achieved maturity in the majority of European markets. Although IKEA has had to reinvent very few elements of its strategy, it has carried out different market positioning in different countries. For example, in China IKEA is seen as upmarket and aspirational.

Planning permissions are a major problem for the company in most countries, especially in the UK where sales concentration are much bigger than anywhere else.

Identification of a New Market

Whereas the North American furniture and floor coverings market is currently going through difficult times, South American has kept strong growth in value, a trend that according to Marketline, 2009 is meant to carry on rising.

As for 2010 IKEA will enter the South American market. The first IKEA store will be allocated in Santo Domingo, Dominican Republic (Reference?). However, as it is shown bellow there are other countries within South America in which IKEA could be successful.

Furniture & Floor Coverings in South America

Industry Profile

The South American furniture & floor coverings market generated total revenues of $19, 801. 3 million in 2008, representing a compound annual growth rate (Datamonitor, 2009) of 7. 5% for the period 2004-2008.

Market Segmentation

“ Living room furniture sales has proved the most lucrative for the South American furniture & floor coverings market in 2008, generating total revenues of $7, 420. 1 million, equivalent to 37. 5% of the market’s overall value. Brazil” (Marketline, 2009) however, Brazil leads the South American furniture and floor coverings market, accounting for 63. 3% of the market’s value.

Factors Influencing the Likelihood of New Entrants in the Furniture Market in South America

As shown above, there is a lack of brand strength in the Latin American furnishing market. This is turn shows that somewhat easy for new businesses to enter the market. Examples of such business however, are those well established diversified retailers, such as supermarkets and department stores entering the market.

Advantages for retailers occur within the market on a small scale with either one or several outlets, for which fixed costs and entrance barriers are fairly low.

However, the impact of the current global economic recession on the retail environment can discourage the entrance of new furniture businesses into the high-street in the medium term. There is however little government regulation which only concentrates on health and safety of the products. Overall, Datamonitor (2009) sees that the threat of new entrants to the furniture market in South America is considered to be strong. It is therefore important that establishes its presence in the region before other multinational companies decide to enter the South American. By being a entering such region, IKEA can be as successful as Telefonica has been since 1990 (Griffin and Pustay, 2009). It can generate more sources of revenue as well as establishing new customer base before competitors.

Drivers of Degree of Rivalry in the Furniture Market in South America

There are a large number of different retailers of different sizes from small independent retailers to large chain-stores operating within the furniture and floor coverings retail market. Many players within the market are diversified retailers, such as department stores, supermarkets and DIY stores, which are not critically reliant upon furniture sales, which in turn eases rivalry. However, there are many small specialist stores, where the sale of furniture and floor coverings products is critical to success.

These companies need to compete intensely with the supermarkets, which is becoming increasingly difficult in terms of price without compromising product quality; as the supermarkets can afford to make smaller margins over a wide range of products. The current economic downturn is adversely affecting retail sales, reducing growth potential and increasing exit barriers, which enhances rivalry. Overall, rivalry with respect to the furniture and floor coverings retail market is moderate.

General Brazil Pestle Analysis

Brazil has come out to be of the best market to invest (Griffin and Pustay, 2009) the economic reforms implemented after 2003 led to increases in real per capita income, and an improved income distribution. Real per capita income increased 14% from 2004 to 2007 and the inequality in the distribution of income, measured by the Gini coefficient (which ranges from 0, which reflects equality, to 1, which indicates inequality), diminished from 0. 6 in 2000 to 0. 5 in 2007.

The Brazilian economy was not affected by the global financial crisis as the country’s economy is tightly regulated with orthodox macroeconomic policies. The country’s growth rate increased in 2008 to reach 5. 9%. Moreover, Brazil is the founder member of Mercosul regional integration which for instance, are responsible for 75% of South America's GDP and it is the world's fourth-biggest integrated market. The economic reforms, liberalized foreign investment to most sectors have been considered to be responsible for the current economic.

However, despite its high profile, Brazil still suffers from corruption. According to Transparency International's Corruption Perceptions Index for 2008, " Brazil is ranked in the 80th place out of 179 countries". Because corruption is perceived to be very strong in Brazil, the majority of businesses are expected to encounter corruption when proposing contracts to governments. Moreover, deforestation caused by multi-nationals is making serious harms to the Brazilian rainforests. As the demand for environmentally friendly companies in Brazil and around the world continues to rise, companies such as IKEA can certainly expect to have its CSR scrutinised before receiving any license for operation.

PESTLE Analysis o IKEA in Brazil

Politic and Legal environment

Although the political stability in Brazil does not have the same standard of security as other OECD's, the political stability in Brazil is improving steadily. Brazil's president is considered to be more sensible than other South American leftist leaders. And Although Lula obviously seeks to protect national companies, He is also aware that many Brazilian businesses are not very efficient. After being re-elected, Lula has welcomed FDI in Brazil with open arms (Reference)

Additionally, as the poverty situation in Brazil is still high, the Brazilian government and its population are in turn very active when it comes to social programs. There are major government programs that aim to tackle the problems of income inequality and access to credit. Programmes such as “ Zero Hunger” (Projeto Fome Zero) provides low-income families conditional cash transfer bases reach nearly one quarter of Brazil’s population (MDS).

Such programs can be seen as an opportunity for IKEA. Since IKEA has such renounced CSR programs in place, it can certainly work with partnership with the Brazilian government. Also, as more people are acquiring houses, the demand for furniture will eventually increase.

Economical environment:

With emerging markets capturing 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 (Fleming, 2007).

Amongst its neighbours, Brazil is the country that provides its population the highest average purchasing power (IMF, 2006) Thus, Brazil seem a very attractive market for IKEA, especially since the its furniture imports have experienced a growth of 16. 27% during the third quarter of 2006. The imports of furniture in Brazil are controlled by the United States with 39% of the share, followed by Germany with 36% and Italy with 10% (ABIMOVEL, 2008)

An economical risk related to the imports of furniture originates from the Brazilian high government debt remaining at 51% of the GDP, in spite of a relative decline in 2004. This debt can increase import taxes and or worsen the value of Brazilian's currency. This could certainly mean bad news for IKEA as its low costs strategy is based on high volume sales. On the other hand, IKEA could work with partnership with one of the 13, 500 Brazilian furniture manufacturers (source?). The issues however can arise sue to the size o such manufacturers. Brazilian furniture manufactures are small-family businesses that are very unlikely to meet IKEA's extensive demand.

Social environment:

Although Brazilian has a growing population of 186 million people and it experiences 86% literacy levels, just as in most of the LDCs, the inequality gap is still a substantial issue in Brazil. 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% (source?)." Therefore social status is very meaningful, especial for the middle-classes. As IKEA has been very proficient in selling lifestyles to its customers (KeyNote, 2008) the status importance amongst Brazilians could turn out to be advantageous for IKEA. However, credit option is extremely limited among most consumers in Brazil, and consumers expect to pay for their goods in instalments. Sometimes consumers opt for a certain product not because if its quality, but because of the payment facilities. Consumers can pay for a TV of the equivalent of £300 in 10 instalments and without any added interest. IKEA should certainly be aware of consumer's buying behaviour as to not have any problems regarding to its liquidity ratios.

Technological environment:

As the telecommunication penetration rate in Brazil remains low, IKEA would not be able to rely in online sales in Brazil in the middle future and its online advertising should be very efficient

Legal Environment

- 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. However, over the past couple of years, the government has been very cautious about global warming caused by MNC’s deforestation. So IKEA would need to ensure the Brazilian government that its practices are very sustainable.

IKEA in Brazil

From the analysed above, it can be deducted that there are several attractive aspects for IKEA to invest in the area of furniture industry in Brazilian market. First of all, the furniture market in Brazil is attractively due to a big value of imported furniture and it is continues growing more and more. (Reference?). Additionally, the labour cost is cheaper compared to Europe and America.

Market analysts also estimated that the import of furniture especially institutional furniture such as furniture used in hospitals and hotel will increase significantly (reference?).

Moreover, the most of Brazilian furniture manufacturers are small and family-owned companies which merely specify a population in southern Brazil as a target market. For above reasons, it might be assumed that there still have large market share for foreign investors to invest in Brazilian furniture manufacturing. Some more reason is the trade liberalization started in 1990, it could be apparent that the Brazilian trade system changed to be more open and competitive. The last reason that supported IKEA to expand into Brazil is the million hectares of planted forests. As IKEA's mission statement was stated that to be a cost leadership and to assemble " a quality product with components derived from all over the world utilizing multilevel competitive advantages, low cost logistics and large simple retail outlets in suburban areas" (IKEA Annual Report, 2002). So, IKEA should consider Brazil to be a partner because Brazil has abundance of wood supply with low cost for producing and distributing reliably. Another reason is the import tax for furniture in Brazil is low around 5-15 per cent, encouraging IKEA to integrate operations into Brazil. Due to the major end-users of furniture prefer to purchase from renowned and reliable suppliers therefore, this relation might be a hypothesized that IKEA, which is the world's largest and famous furniture retailer can be recognized by Brazilian furniture lover and extend enormously its business.

From the centralized strategic direction through franchising, it causes certain difficulties such as the complexity of logistics system, the difficulty to respond national needs and cultural sensitivity issues, the uncontrollable franchisees, and the emerging demographic trends. So, the internationalization of IKEA strategy needs to be balanced between country level autonomy and centralized system. Since, all entry modes have both advantages and drawbacks; the trade offs between each mode is significant.

Mode of Entry

On deeper analysis, the best market entry mode for IKEA to re-establish its furniture industry in Brazil is strategic alliances, referred to " cooperative agreements between potential or actual competitors" (Lee and Carter, 2005). This method run the range from the joint venture which means " an arrangement where a firm is required to share equity and control of a venture with a partner from the host country" (Lee and Carter, 2005). Establishing strategic alliance with Brazilian company has many advantages. For one thing,

IKEA benefits from the potentially Brazilian furniture competitors, interior decorators and architectures' knowledge about competitive conditions, and culture and demographic differences since they are people who recommend styles to customers.

In other words, this entry mode helps increase the level of involvement of partner. The first point, the Scandinavian headquarter can improve technology know-how, skills and assets, the state of the art equipment, the quality standard of furniture to local company, satisfied customer demand and differentiated products. A second point that the foreign alliance who know clearly about its business condition, helps smooth the progress of entry in to Brazil market. This outcome can be seen obviously from the example of Warner Brother. In order to solve the complexity of approval process and distribution in China, Warner Brother goes into Chinese market by participating with the two Chinese partners. Then, the joint venture in China allowed Warner Brother to enter Chinese market easily, distribute film and even produce films for Chinese TV (Chang, 2004). Moreover, both foreign firm and local partner can share the fixed cost of developing new products and reduce the level of risk including the conflict with nationalization or government interference.

However, strategic alliances also have some disadvantages such as transfer technology know-how to the partner which results in the risk of unmanageable and uncontrollable of technology, and the battles between partners which bring to the bargaining power of venture collaborators (Hill, 2007). Last but not least, so as to gain the good alliance, IKEA needs to concern other three factors which is partner selection, alliance structure and the management style of the partner.

Conclusion

The conclusion to be drawn is that the centralized control by headquarter through franchising in Brazil brings to the failure of IKEA. Therefore, IKEA needs to adapt a policy and process to entry the Brazilian market by being aware of cultural and demographic difference. Also, choosing alternatively the entry mode as strategic alliances for expanding IKEA furniture industry worldwide will convey numerously good results.

Moreover, Brazil market can be new sourcing area for IKEA to progress the furniture business. However, IKEA is required to survey market directions of furniture industry in Brazil in order to achieve business goals. In the same time, IKEA is able to adjust other marketing entry methods, such as licensing, franchising, and exporting to suit situations in Brazil. The company needs to realise that no one strategy is the best in reality.