Global structure of ikea

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INGKA Holding BV is the ultimate parent company for all IKEA Group companies. This includes the industrial group Swedwood, which manufactures IKEA furniture, the sales companies that run the stores, as well as purchasing and supply functions, and IKEA of Sweden (IoS), which is responsible for the design and development of products in the IKEA range.

IKEA follows a transnational corporation Strategy. The organisation structure that the IKEA Group follows is a matrix structure, emphasising the need for forward, reverse and lateral knowledge flows. It is important to understand the matrix structure, especially in the light of how knowledge flows within IKEA. Every country has a Service Office (SO), a national HQ with support units. The SOs support the stores in their market. Depending on challenges in a new country, or an existing market where the expansion is slow, IKEA sometimes chooses to establish both a Country Manager and a Retail Manager. The Country Manager deals with getting new projects, discussions with authorities and other issues that are especially complicated. As knowledge has become a key resource for firms striving for competitive advantage it is important to be able to acquire local knowledge and to share this worldwide.

In markets such as Russia and China where Retail needs to cooperate more with Trading and Distribution, the Country Manager plays an important role. The Retail Manager can then concentrate on the retail business, which is the normal responsibility for a Country Manager. At the SO there is also a Sales Manager, HR (Human Resources) Manager and so on, to whom the Sales Manager and HR Manager in each store report. Under each department there are managers responsible for different product categories. The matrix facilitates knowledge sharing. Knowledge is shared line-wise in each store and country respectively. Function-wise knowledge is shared through a SO in each country to a global SO and through annual functional meetings. In addition, knowledge is shared within and between six regions; Europe North, Europe Mid, Europe South, North America, Asia Pacific and Russia/Ukraine.

IKEA’s strategy is to use replication as the means for internationalisation, that is, a standardised concept and range is implemented in all markets despite cultural differences. This can be characterised as having a strong corporate culture where is it important to be cost-efficient in order to be able to offer low prices.

Here we analyse on retail internationalisation of IKEA’s international expansion with specific focus on the market entry into Russia, China and Japan. The reason for choosing these markets is that they are all new markets to IKEA. All three markets are relatively distant from the home market, culturally different and represent different degrees of developed markets; China and Russia are examples of emerging markets and Japan is an example of a mature market, being the world’s second largest consumer market. Japan is very different market from Russia and China. Also, IDEA entered in China and Russia in 1998 and 2000, respectively. The organisation of IKEA in Russia was more or less similar to the original organisation set-up. However, the organisation for the Chinese market is a new organisation. Thus in terms of organisational structure, Russia and China are different in some respect. Japan is a new market that IKEA entered. Here we take the case of each market in separation and are studying the various strategies implemented by IKEA.

IKEA China

IKEA opened its first test store in Beijing in 1998. By mid-2004, a new store in Beijing was under construction since the existing one was not a ‘ real’ IKEA store in terms of looks. As of 2007 there were four stores in China: Beijing, Shanghai, Chengdu and Guangzhou. IKEA planned to open 10 stores in China before 2010. At the initial stage, the expansion focused on eastern China.

One of the major challenges for IKEA China was how to offer low prices. Due to high import duties it was almost impossible for IKEA to offer low prices. In addition, as the income level is very low in China (see Table 2) it was difficult to reach many people. It was crucial that the functional areas within SO as well as between SO and Trading shared knowledge in a search for new solutions and local production. A good example of this was that when IKEA entered China the Klippan sofa was sold at a price of 7000 RMB. At that time it was an imported item. Another challenge in China is the fierce competition with many copycat firms and products. However, IKEA had decided not to fight every case of a copied product. By offering low price products in huge volumes IKEA hoped to win over some of the many competitors in the Chinese market. It was therefore vital to produce locally. However, even more important was to strengthen further IKEA’s home interior competence, which is a key competitive advantage in China. There are few firms that have chosen this positioning strategy of promoting home interior competence. In order to be able to manage this process, market knowledge in combination with corporate knowledge was considered important.

IKEA Russia

By mid-2004, IKEA had four stores operating in Russia, two of them in the outskirts of Moscow, one store in St Petersburg and one in Kazan. The company had also opened its Mega Mall shopping complex at the Tyoplyi Stan site, next to one of the IKEA stores in the outskirts of Moscow. Mega Malls can now be found in Tyoplyi Stan and Khimki. They are treated as a separate business, and are an addition to IKEA’s core concept. As of 2007, there were eight stores in Russia: three in Moscow, two in St Petersburg, one in Kazan, one in Nizhiny Novgorod and one in Yekaterinburg.

As in the case of IKEA China, one of the major challenges in Russia was how to handle the situation with high import duties. This forced the different functional areas to share knowledge and to cooperate in order to speed up the process of producing more products in Russia. This also forced IKEA to develop new routines for handling incoming goods to the stores. Another challenge was the relationship with bureaucratic authorities. At the start of its entrance into the market, IKEA was considered by the Russian government as a ‘ strategic investor’ and special import duties were given. However, the Russian industry put pressure on the government and the earlier reasonable import duties have increased a lot since then. However, by sharing these experiences with other IKEA countries (Sweden, Poland, Germany and Italy) that have had similar problems, IKEA in Russia was convinced that these difficulties could be overcome. This illustrates the importance of having expatriates, that is, experienced IKEA managers with considerable knowledge of internationalisation. A third challenge was how to attract customers. The decision to build and invest in Mega Malls is based on the need to develop the retail culture in Russia. Another reason is that IKEA attracts other retailers to their location and IKEA therefore should take advantage of that by acquiring the surrounding land.

IKEA Japan

In July 2002, the IKEA Group established IKEA Japan KK. By early 2005, IKEA had not opened any stores. The first store was opened in Tokyo, Funabashi in April 2006. The second store, also situated in Tokyo, Kohoku, opened in September 2006. According to the Country Manager, the entrance is described as the biggest greenfield foreign investment ever made in Japan. IKEA planned to open 46 stores in 33 years in order to be able to meet the potential volume of sales. Initially, they plan to launch 8-12 outlets, with the first stores in Tokyo.

Japan was described as a tough and competitive market. Two years before store opening there were two travel agencies focusing only on arranging trips to visit existing IKEA countries. Thus, one major challenge was how to manage the tough domestic competitors as it was argued that ‘ copying in Japanese refers to copy something and to make it even better’. Apart from tough competitors, Japanese customers were described as very quality-oriented. One example of this was that in Japan packaging is important. This was considered as a huge challenge for IKEA as packaging is normally not considered top priority. However, in Japan the appearance of packaging will have a great influence on the buying decision. Another challenge related to the Japanese customers was the fact that people live in rather small and crowded homes. For IKEA, a huge challenge was how to convince the customer to buy new products as there is no space left in the existing homes. As a consequence, IKEA developed a service where old furniture was transported away by IKEA. A third and critical challenge was how to set the right/affordable price but not one that is too low. Despite the fact that ‘ 100 yen stores’ were becoming more popular in Japan, Japanese consumers tended to evaluate low price as low quality.

We can see from above that IKEA implemented different localized strategies to get into and succeed in different geographies. At the same time superior integrating mechanism and inter geographic sharing of knowledge ensured that the organisation stays focused in its corporate goals. In the case of IKEA Russia it was clearly emphasised that expatriates were needed in order to ensure that IKEA remained IKEA and did not develop into a Russian IKEA. Another reason for involving many expatriates was to be able to start operations from Day One. Thus, here was a greater emphasis on corporate than on market knowledge. At IKEA China there was a greater emphasis on diversity among expatriates than with IKEA in Russia. In the pre-entry stage of IKEA’s entry into Japan served as a platform for understanding how to search for relevant market information.