

Ikea case essay sample



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1. How has Globalization of markets benefited IKEA?

Globalization of Markets is one of the facets of the 21st century's major trend called "Globalization". Globalization of Markets is a growing concept defined as companies expanding their businesses all over the world to serve different customers' needs and desires internationally. Apart from customers tastes and preferences becoming more universal and diminishing trade and investment barriers by different governments, the major driving force of this rising facet is technology. The IT revolution - from advancements in transportation to telecommunications - has enabled global corporations to offer globally standardized products which are not only innovative, reliable and functional, but also low priced (Levitt). In simple words, globalization of markets is an intensifying modern trend where companies try to create one single global market and sell standardized consumer products to that entire global market.

As a home product company, IKEA has proven itself to be very successful with its 'one-design-suits-all' (Research) global expansion strategy.

According to the case (Hill, 2012, p. 37, Line 14-24), IKEA applies the concept of globalization of markets when it opens a new store in a new market by using a simple yet bright method. It has 5 universal practices:

1) Open a large warehouse store designed in the blue and yellow colors of the Swedish flag and sell 8000 to 10,000 items, from beds, wardrobes, hall furniture, and kitchen cabinets to candlesticks. 2) Use wacky promotions to drive traffic into the stores.

3)Configure the interior of the stores so that customers have to pass through each department to get to the checkout. 4)Add the restaurants and child care facilities so that shoppers stay as long as possible. 5)Price the items as low as possible. Make sure that product design reflects the simple mark.

As a world renowned furniture retailer, IKEA has benefitted a lot from its globalization of market strategy. Firstly, globalization of markets has enabled IKEA to reduce the store operational costs and production costs. Since IKEA applies its universal design for the store layout and facilities, less investment and time is required in hiring new designers for creative ideas and hence it helps reduce the operational costs. At the same time, with consumer's tastes and preferences converging into a global norm, IKEA is able to sell standardized household products globally which leads to a mass production and allows IKEA to benefit from the economies of scale which indicates a low production cost.

All in all, the low operational and production costs form a low cost structure and this allows IKEA to reduce the prices of its products and retain its original target group - the middle class who are looking for well-designed household products at an affordable price.

Secondly, there is a multiplying effect to the above cost-cutting strategy which leads to another benefit. Since IKEA can successfully reduce the operational and production costs of the business, IKEA can afford to lower the prices of its products. As the basic law of demand suggests, the decline in product prices will increase customer's demand of the renowned brand's household products. This will lead to a big boost in the number of sales,

leaving IKEA with big profits to reap. To conclude, globalization of markets enables IKEA to reduce its overall cost structure and sell products at a lower price which eventually leads IKEA to a solid sales performances and big profits to gain.