

# Options for ikea in the international market assignment

Business



Internationalization project KEA enters the South American market Executive Summary In this essay, we will discuss an internationalization option for ' KEA: entering Brazil. KEA is an established leader in the flat-packed furniture market. Its' success is based on effectively delivering their value proposition: wide range of products that are well designed, at affordable prices. This is possible due to economies of scale and scope, shifting assembly from the KEA value chain to the consumer, and a global network of suppliers.

A good understanding of what target clients considered value guaranteed that products ere developed to maximize what their clients appreciated the most: not necessarily ' price' but ' good value for money. Brazil is a favorable choice for a new market based on both factors inherent to the country and existing operating knowledge KEA possesses. Brazil: \* 7th largest economy in the world with a GAP per capita of \$11, 340, concentrated in relatively few, large cities including SAA Paolo, Brasilia and ROI De Jeanine \* The GAP growth rate averaged 4. 4% over the past 5 years (World Bank 2007) \* The middle class is expanding and is encouraged by the government (expanding from 8% in 2002 to in 2012 according to the Brazilian government) \* Brazil ranks average in comparison to other South American countries in the business freedom index which measures business freedom, trade freedom, fiscal freedom, government spending, monetary freedom, investment freedom, financial freedom, property rights, freedom from corruption and labor freedom. \* Few large comparable competitors. \* History of international consumer brands succeeding in replacing local businesses (Struck, Careful, H; M). 5th largest furniture producer in the world (production opportunities). ' KEA: KEA operates in a same language country (Portugal) - this would reduce

the rationalization costs of catalogues (integral to Kike's marketing strategy, and 70% of their marketing budget) advertising, packaging and instruction manuals. Considering the large amount of products in range, those costs are significant. \* As Kea does not operate in Latin America, the location can act as a regional headquarter for further expansion in the region; it is part of the Numerous economic good links (roads, seaports) to most South American countries.

The expansion consists of two phases: block and has A) Develop links with manufacturers to gain country intelligence. B) Open progressively 3 stores or more (depending on market demand) progressively covering SAA Paulo, ROI De Jeanine and Brasilia, with potential further expansions as demand dictates. The choice of cities has been led by a combination of factors, including population size and GAP; the target group is the growing middle and upper middle class in the region. The stores will follow the template of all the other international locations, with a large product offering.

Given the strong association of the brand with an international experience (lifestyle) and the lack of international competitors to benchmark, the products will be offered at skimming price - this will also allow room to decrease costs progressively, in alignment with other region's strategies. Extra services including hassle-free delivery and assembly will be offered, given the comparatively low cost of labor and the decision of positioning the brand for middle class and upper middle class. The opportunity for expanding into a large market currently undeserved with a relatively low psychic distance is, without questions, appealing.

Company Analysis KEA Group KEA Group consists of a complex structure of independent companies and foundations that jointly own close to 300 stores internationally and the trademarks and licenses for all products, brands, systems and concepts. There are about 40 stores owned by franchisees independent of the group. The aforementioned structure is deliberately intricate with reasons for this ranging from tax sheltering to independence. It is, however, essentially a family-run business founded by Angina Kampala, one of the wealthiest individuals in the world with a fortune similarly intricate to calculate.

Figure 01 - Company structure The company has a solid position in the market and a simple yet powerful value proposition: to offer a wide range of well-designed, functional home furnishing products at prices so low that as many people as possible will be able to afford them. The group, as most non-public companies, does not have the most transparent financial reporting structure, however it shows solid revenue growth in the last 10 years and good performance Y/POP" in last PC's consolidated income statement.

Figure 02 - Financial Consolidated Income Statement 2011-2012 History The company started with a young Angina Kampala, buying matches by bulk and ailing them individually to neighbors. He expanded his range of product offering, always following the same principle. Once his ability to make sales calls was outgrown, he resourced to a mail order catalogue: element that is still present in the company and core to its marketing strategy. The distribution was made through the local county milk van. About ten years

later the first showroom was open, second core element of KEA concept, and key differentiator from other mail to order retailers.

It was clear from a very early stage that Samara's understanding of strategic advantage was sound. Strengths and opportunities. The company has been extremely successful in last years, consolidating strength in several fields.

We will use SOOT analysis to summaries this, making a distinction between tangible/hard strengths and intangible/soft. Strength | Opportunities |

Tangible | Economies of Scale: The scale of KEA operations allows costs significantly lower than their competitors for similar or even superior quality.

Economies of Scope: Product development, on-going investment in R&D and a strong focus on standardization make it possible to generate further value.

Solid financial: The company has a healthy balance sheet, with uninterrupted venue growth, and enough reserves to support economic decelerations |

Tangible | International expansion: As a global company with an extensive product range and substantial internationalization done, KEA is well placed to expand the existing geographical coverage.

| Intangible | Brand Equity\*: " Kike's brand is much bigger than the size of the computationally value: The Nordic countries are worldwide perceived as sophisticated. | Intangible | Weakness | Threats | Tangible | Poor quality\*\*:

The value products tend to be of marginally acceptable quality, but close to sub- standard. | Tangible | Poor online experience: While some products are available through kea. Com, the purchasing experience is sub-standard.

Many other retailers are ahead in online sales. | Intangible | Diluted concept:

The introduction of market products appears to be misaligned with self-assembly furniture.

Swedish- nepotistic culture: The strong influence the Kampala family has in company decision and a predominantly Nordic-centered management raise questions about the ability to understand other markets | Intangible | New trends: New trends can threaten the positioning of KEA if those aren't incorporated into the existing range. Negative involuntarily communications: Unskilled employees, faulty products and poor store experience can damage the brand image. | \* KEA is the most valuable furniture retailer brand worldwide. Interbrain puts its value Circa US 12. Billion (2012). \*\* KEA value range, mostly because of the brand value, is still a consumer preferred option even if they product quality is inferior to the expected. It appears to bear similarities with Ryan air and other low-cost brands. Target Country Selection UNEXPLORED Market is not ready yet Opportunity High store concentration Medium Low store concentration Historic Expansion Considering the ethnocentric and heavily criticized Swedish heritage of the now global firm, it is understandable why the highest concentration of stores is in occidental Europe.

KEA takes advantage of the almost non-existing trading barriers between the countries at the present time (and good bi-lateral/regional commercial treaties historically) plus the geographic and cultural proximity to expand its market in an effortless fashion. While North America and Asia have been explored, Africa and South America are excluded. From both regions, South America appears to be more appropriate for expansion, given the following

factors (most of them indicators of the BEER index). Greater political stability

- \* Higher economic growth
- \* Better attitude towards foreign investors

Current proposition: Brazil The choice of South America was based in a combination of factors including experience of the market, and corroborated via hard data. Such election model is what most Seems use (following the entrepreneur focus on efficacy rather than efficiency) as described in 'Sources of Power'. While KEA is a large multinational corporation, it is at heart the Samara's family business. South American opportunity landscape A large market: Brazil represents a population equivalent to all other countries combined.