

Corporate structure of ikea marketing essay



IKEA was established in 1943 by Ingvar Kamprad in order to sell pens, wallets and picture frame. In 1958, IKEA was introduced as a leader of Swedish Furniture Company. They started from producing local furniture by local manufacturers and gained positive attention from customers. Later, they began to create furniture for flat packs and self-assembly in order to reduce storage space which is the prominent style of IKEA. They are also expanding the business line such as restaurant and Kitchenware. IKEA, the largest furniture display in Scandinavia, opened the first store in Almhult, Sweden. Then, they opened more stores in other countries such as Norway, Denmark and Germany. They do not only offer inspiring home furnishing solutions to customers while keep the prices affordable for people but also locate in less-expensive areas in different countries. Nowadays, IKEA is the major retail company that experience in 36 countries around the world. Though, there are 279 of IKEA stores in 36 countries, IKEA group owns 247 IKEA stores in 24 countries and the rest is managed by franchisees in 16 countries. The only two Asian countries that IKEA group owns their stores are in Japan and China. (IKEA Group Corporate sites, n. d.)

Japan is the first country in Asia that IKEA considered to enter while most countries were closed off the outside world. The differences between culture, lifestyle and behaviour make IKEA face the failure. Japan is different from North America or Europe so it is difficult to pursue success in the same way. In 1986, IKEA needed to withdraw their shop out of Japan because of difficulties and then twenty years later, they decided to re-enter Japanese market for one more time. At the present, there are three stores of IKEA in

Japan which are in Tokyo (Funabashi), Kokoku (Yokohama), and Port Island (Kobe) and about to open another store in Osaka this April 2008.

China is the second Asia country that IKEA decided to enter. First of all, IKEA entered into China, Beijing in 1998, Shanghai in 2003, Guangzhou in 2005, Chengdu in 2006 and Shenzhen in 2008. There are five stores of IKEA in China until now and they are going to open one more stores in Daming July 2008. As we know that, Chinese market is not only a huge market with a high power purchase of populations but also has a unique culture which is different from western countries. To invest in China, IKEA provide cheap labour, abundant resources and the potential business market to comfort for its investment. However, there are some challenges for IKEA to enter because of bureaucracy system, high duty rates and customer's behaviour.

Despite its Swedish roots, IKEA is owned and operated by a complicated array of not-for-profit and for-profit corporations.

The IKEA corporate structure is divided into two main parts: operations and franchising. Most of IKEA's operations, including the management of the majority of its stores, the design and manufacture of its furniture, and purchasing and supply functions are overseen by INGKA Holding, a private, for-profit Dutch company. Of the IKEA stores in 36 countries, 235 are run by the INGKA Holding. The remaining 30 stores are run by franchisees outside of the INGKA Holding.

INGKA Holding is not an independent company, but is wholly owned by the Stichting Ingka Foundation, which Kamprad established in 1982 in the Netherlands as a tax-exempt, not-for-profit foundation. The Ingka Foundation
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is controlled by a five-member executive committee that is chaired by Kamprad and includes his wife and attorney

While most IKEA stores operate under the direct purview of Ingka Holding and the Ingka Foundation, the IKEA trademark and concept is owned by an entirely separate Dutch company, Inter IKEA Systems. Every IKEA store, including those run by Ingka Holding, pays a franchise fee of 3% of the revenue to Inter IKEA Systems. The ownership of Inter IKEA Systems is exceedingly complicated.

Challenges and Outlook for IKEA:

Its expansion into the US market. It adopted an ethnocentric strategy for going international - where it had standardized products and standardized operations. This helped to keep costs low, but ignored the different tastes and preferences of the US market and the way they purchased furniture. IKEA had to change the model of operating; giving greater ownership to its US subsidiary, to become polycentric - stores in the US had the ability to adapt furniture and customize to suit the local market. Costs increased as a result, but this localization approach was necessary for sales.

IKEA has looked towards emerging markets e. g. China for growth. Further adaptation to products has been necessary - including pricing strategy. Income level of consumers is lower and stores needed to be located within the cities as car ownership is lower. IKEA has experienced greater competition from national brands.

IKEA in Japan

In the mid-1970s, IKEA, Swedish home-furnishings giant company, decided to enter Japanese market as the economic expansion in Asia emerged (Lane, 2007) by launching a franchising deal in 1974 (Wijers-Hasegawa, 2006).

However, IKEA have been through a rough time to survive in 1970s and they eventually decided to pull out of Japanese market in 1986 (Lane, 2007). IKEA encountered with failure as a result of rush jumping into Japanese market, the size of store as too small and only few Japanese consumers were willing to assemble IKEA's do-it-yourself kits (Carpell, 2006). At that moment, IKEA also needed to deal with strong local competition such as Mujirushi Ryohin (known outside Japan as Muji) and Nitori.

Since IKEA are not successful from the first time they entered in Asia, IKEA has planned for five years in order to return to Japan carefully as "Japan is the second- biggest economy and retail market in the world", Tommy Kullberg, Last President and CEO of IKEA Japan K. K, stated (Wijers-Hasegawa, 2006) as Dahlvig estimated that though Japanese market is tough for entering, Nowadays, IKEA is directly owned the three new mega-stores in Japan, Funabashi, Kohoku and Port Island. The first shop was opened in Funabashi (Chiba) on April 24, 2006 with the Swedish traditional ceremony. This grand opening outside Tokyo gained a lot of attention approximately 35, 000 customers who formed the long line outside. (News Gate NY, n. d.)

IKEA in china

IKEA opened its first store of China in Beijing in 1998. A new store in Beijing was

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reconstruction in mid-2004 as the appearance in term of looks and size was not a

'real' IKEA store. (Jonsson, 2008). The re-opened of IKEA store in Beijing in 2006

made IKEA store in Beijing is the second largest in the world which cover 43,000

square meters. (China Economic Net 2004, cited in Capdevielle, Li & Nogal, 2007)

IKEA opened the next store in Guangzhou in October 2005 (IKEA homepage 2005,

cited in Capdevielle, Li & Nogal 2007) and plan to open more than 5 new stores

within 6 years (ibid.).

IKEA enters China by adopting joint venture with Chinese companies. This is due to

the policy of Chinese government to achieve the principal of equality and mutual

benefit (Li, 2007). Therefore, IKEA's store in mainland of China belongs to IKEA

group and operates as joint venture (ibid.).

Firstly, the customers saw IKEA as an expensive western brand. This happened

during the open of IKEA's first store in Shanghai. (Lewis, 2005) Low price was the

major challenges of IKEA in China as the high import duty tax at the beginning.

Furthermore, it was difficult to reach a large people since the income level is relatively low. Another challenge of IKEA China is the violent competition with

others imitate firms and products. IKEA chooses to produce their product locally so

that it can offer a large volume of products with low price which enable IKEA to

compete with other competitors in the Chinese market. (Jonsson, 2008) At present,

IKEA has manufacturing factories and some material suppliers in China (Li, 2007).

Therefore, IKEA reduced prices by 10% resulting in increasing sales by 50% in the

first quarter of 2004

IKEA in Russia:

in Russia IKEA has face many problems like severe shortage of houses like in china and furthermore the overcharging of power by Russian power company, corruption, low income level of people, high import duties, and many more but IKEA is facing and solving these problem very effectively and keep going on the path of progress and expansion

Conclusion

IKEA are considered as retailer internationalization since IKEA plan in organizing strategic objective, understanding the local nature of markets and using outlet as a retailer's product. Besides, IKEA also has strong relationship of network structure, large number of suppliers and customers and cost structure in order to internationalize.

The factors that influence the success and failure of IKEA in Asia, Chinese market and Japanese market, are summed up In brief; firstly, psychic distance creates barriers for IKEA to enter both Japanese market and Chinese market because of differences in many aspects between European and Asia which lead to learning in different perspectives. Secondly, strategic decision in planning leads to achievement in Chinese market while planning and researching are missing in Japanese market. Thirdly, there are too little in degree of adaptation in Japanese market but the adaptations in Chinese market exist. Fourthly, though IKEA invested in both Japanese market and Chinese market without directly owned in order to gain knowledge; there are differences in modes of entry as IKEA applied franchising in Japanese market but joint venture in Chinese market. Fifthly, size of store is matter in characteristics of organization since the store of IKEA in Japan is small but

rather big in China. Next, IKEA in Japanese market lacks of supply network while IKEA owns supply centres in China which lead to different characteristics of management.

As far as we consider IKEA in Russia, it is facing a large number of problems and which are of crucial nature like bribery, corruption and severe shortage of houses so IKEA has started making prefabricated houses in china and Russia to boost up its sale and future customers. Currently there is an issue of overcharging of power bills because IKEA did not offer bribery to this power company. IKEA have to face these problems due to Russia's law and order situation.

H&M

History

The company was established in 1947 by Erling Persson in Västerås, Sweden. At the time it only sold women's clothing and was called Hennes, Swedish for "hers" (H&M official).

In 1968, Persson acquired the premises and inventory of a Stockholm hunting-equipment store, Mauritz Widforss. Included in the inventory was a supply of men's clothing, prompting Persson to expand into menswear. Accordingly, he renamed the store Hennes & Mauritz, later abbreviated to H&M. Erling's son Stefan became chief executive officer in 1990 and chairman of the board in 1998. Today, the majority of the clothing is manufactured in Asia and Europe, including Bangladesh, China, Egypt, India and Turkey (H&M Official).

The company worldwide

Europe

Its first non-Swedish store was opened in Norway.

From 1964 onwards, the company embarked upon a major expansion programme opening many further stores in Europe, including Denmark, Germany, Switzerland and the United Kingdom.

In the 1990s, its first stores opened in Austria, Belgium, Finland, France, the Netherlands, Portugal and Spain. The company has continued to expand its business and the company has an extensive network throughout much of Europe.

Russia

On March 13, 2009, the company launched their first shop in Russia in the Metropolis mall in Moscow, near the Moscow Metro Voykovskaya station. On March 20, 2009, it launched a second Russian location in the MEGA Family Shopping Centre in Khimki. On October 22, 2009, a third location opened in the MEGA Family Shopping Centre in Belaya Dacha. On October 18, 2009, a store was opened in Rostokino at the Golden Babylon shopping centre, Europe's largest shopping centre.

Canada

The company opened its first Canadian store in March 2004. There are currently forty-eight stores in Canada, including Alberta, British Columbia, New Brunswick, Nova Scotia, Ontario and Quebec.

United States

As of August 2010, the company had nearly two hundred individual stores in the United States. It opened its first U. S. store in New York City, New York

On March 18, 2010, it opened its first store in the North Carolina market at the Crabtree Valley Mall, in Raleigh.

In October 2010, plans were announced for the company to open its first Texas location in Dallas.

It had another grand opening in The Gardens Mall in Palm Beach Gardens, Florida, on November 5, 2010.

South America

The company also has plans to expand into South America with a focus on Brazil, although a specific date has been disclosed.

Asia

the company opened its first Asian store (also the company's first franchise) in Dubai, United Arab Emirates, in 2006. It followed with a store in the Salmiya district of Kuwait City, Kuwait.

The two first Israeli stores opened in Tel Aviv and Haifa, with a Jerusalem location opening in March 2010. More stores are expected to open in more Israeli cities (mainly in the Gush Dan area of Tel Aviv).

It expanded into East Asia in March 2007, with its first store opening in Central Hong Kong on March 10, 2007. Australian pop singer Kylie Minogue

opened that store where she also exclusively launched her range of swimwear, “ H&M loves Kylie”.

The first location in Shanghai, China, was opened in 2007.

The first Japanese store was opened in Ginza on September 13, 2008, while a second store was opened in Harajuku in November 2008. Another store was opened in the Shibuya shopping district on September 19, 2009.

The company signed an agreement to open its first store in South Korea, located Myeongdong district of Seoul and was opened during Spring 2010.

The company will open the first store in Singapore in Autumn 2011, to be located on Orchard

Working and corporate strategy of H&M

In order to keep prices down, they don't own any of their own factories and instead, buy in bulk from suppliers in various countries. However, in order to regulate working conditions, they put in place a Code of Conduct to “ be sure that [their] products are produced under good working conditions (H&M).”

They employ 60 auditors to inspect about 800 factories to try and maintain good working conditions. They can request changes be made and if the factory isn't meeting their standards, they claim that they will stop relations with that factory. But, as stated on their website, the Code of Conduct provide “ guidelines” for the factory; because they don't own the factories they can't forcefully impose any rules or regulations, they can only suggest changes be made.

Problems being faced in different countries

Stated in the Code of Conduct, their “ general rule is that all [their] suppliers must, in all their activities, follow the national laws in the countries where they are operating (H&M).” H&M is associated with suppliers primarily from Europe and Asia, with about 30% of their clothing manufactured in China. They also have many suppliers operating in Bangladesh and an organic cotton clothing line, primarily grown and manufactured in Turkey. China has been experiencing rapid economic growth and yet the gap between the rich and the poor has widened dramatically. They have massive unemployment and unionization is allowed but it is controlled by the state (The Social and Economic Policy Institute). Bangladesh has also experienced recent growth in GDP, but that doesn't necessarily mean the country is benefiting from it. They are largely agrarian and manufacturing is considered “ weak.” They are suffering from increasing unemployment and high rates of inflation (Bangladesh Institute of Labor Studies). Turkey has been suffering an economic crisis and has had intervention by the IMF. Neoliberal policies have created an atmosphere controlled by privatized companies that have demanded more from their workers and have driven wages down (Yeldan).

The Code of Conduct set forth by H&M does try to correct inhumane practices and give workers more rights, but they work with so many factories and I find it hard to believe that they are able to regulate all of them. Plus, since they don't own any of these factories, their Code of Conduct is full of “ shoulds” and is considered a set of guidelines rather than the required standard.

conclusion

H&M is generally a globally conscious company, trying to sell cheap and chic clothing while also improving working conditions and environmental sustainability. They claim, “ taking responsibility for how [their] operations affect people and the environment is an essential prerequisite for [their] continued profitability (H&M).” On the surface, their policies are very civilized and humane, however it’s proven difficult to completely put them into practice.