

# The Marketing Strategies of IKEA in China Using Tools of PESTEL, Five Forces Model and SWOT Analysis

Yiqiong WU\*

wuyiqiong@nwpu.edu.cn

Northwestern Polytechnical University, 127 Youyixilu Road, Xi'an, Shaanxi Province, P.R. China

**Keywords:** main strategies, IKEA, China, environment analysis, strategy capability PESTEL, five forces, SWOT analysis

**Abstract.** The paper is aimed at analyzing the cost leadership strategy and international strategy of IKEA using tools of PESTEL, Five forces model and SWOT analysis. From the analysis, we find the two strategies has there suitability and they benefit to IKEA's success in the market of China. The description and evaluation of IKEA's strategies also provide with whole-facets market environment of IKEA in China.

## 1. Introduction

IKEA is an international company since 1970s. In 2019, it became the fastest growing furnishing retailing company and has achieved £41.3 billion total sale. Temperately it already has more than 361 stores spreading 50 countries in Europe, North America, Asia and Australia. The giant IKEA group nowadays was started by a 17 years old Ingvar Kamprad in Sweden in 1943, and he used cost-cutting solutions that did not affect the quality of products to achieve success. Strictly follow their company vision of a better everyday life for the many people, IKEA offer a wide range of well designed, functional home furnishing products with prices so low allowing as many people as possible to afford them. By lowering prices, improving stores, opening more stores and providing new services, IKEA make it easier for customers to buy at their stores.

IKEA as a leader in the industry of home furnishing retailer, has its mature and unique market strategies to stand out from other competitors. However, due to its internationalized background, more specific markets will be discussed, in this paper China, with a different market background and cultural context compare with European countries where IKEA flourished. The differences of markets and customers allow IKEA to adjust strategies to match new market and change according to new situations.

This paper will focus on the company of IKEA through the use of theoretical and analytical tools. The main strategies will be based on business level mainly generic strategies. Then the evaluation is followed according to the description by estimating the current environment, its strategy capabilities. The third part comes the discussion about the difficulties and success IKEA faced and what were their solutions; its situation in present and the potential success and difficulties in the future based on research. The last part would be a conclusion which integrate the whole paper and reemphasize the results of the discussion. The existing papers on IKEA strategies are mainly focus on the general concept and are lack of analytical tools. In this paper, PESTEL and Port's Five Forces model will be used to support the environment analysis. SWOT will be conducted to analyze the strategy capability. So that the discussion of the performance of IKEA main strategies could be more objectives.

## **2. IKEA's Main Strategies**

For a better understanding of the marketing strategy it is necessary to know its business concept as formulated in its business mission:

IKEA offers a wide range of well-designed, functional home furnishing products at prices so low that many people as possible can afford them [1].

From the mission we can get the key words which we can address their marketing strategy. The first is the standardized approach of IKEA. By working in almost the same way in every market, IKEA creates its operational advantage and makes the cost as low as possible. Moreover, the same IKEA image can be recognized by the world. By offering lower price products with higher quality products compared with its competitors, IKEA hopes to reach as many as possible customers around the globe. So cost leadership strategy and international strategy are their key drivers for future development and in this part I will describe them specifically.

The company pursued a cost leadership business since IKEA was founded in 1943. IKEA not only cut the cost through a secret network of suppliers to obtain wood and fabric, it also allows their customer to feel and experience their furniture. Kamprad knew how to turn difficulties into advantages in the time when it is hard to get a supplier. He restructured the supply chain into Poland which can give them the competitive advantage of lowering the cost of production, and even now Poland is still a manufacturer for IKEA.[2] To get more market share and allow more people to know IKEA and become its customers, IKEA spread its business throughout the world. However, as a standardized international company, their goal of providing good quality products with low cost is not easy when it first enters a new market like China. So the IKEA ideas need to adjust to new markets and culture context by using international strategies. In this part, the two main strategies of both cost leadership and international strategies will be described.

### **2.1 Description of IKEA's Cost leadership strategy**

"Cost leadership strategy involves becoming the lower-cost organization in a domain of activity." Cost leadership is an element from Porter's Generic Competitive Strategies. Porter [3] argues that three means can help companies to achieve competitive advantage. They are having a lower cost than their competitors, providing products and services which are exceptionally valuable for customers even if the prices are high and focusing on narrow customer segments. To make it clearer, generic strategies can be catalogued into cost-leadership, differentiation strategy and focus strategy.

Most manufacturers design a product, and then try to figure out how to make it for a target price. For IKEA, the price comes first. The cost leadership approach can be achieved through many aspects for IKEA, including their cost control from design to manufacture; change the traditional role of customers; their flat pack strategy; their selling environment.

IKEA has its designers and engineers design low-cost, modular furniture ready for assembly for customers, not the same with some other furnishing companies relying primarily on third party manufacturers. The most important element they choose a supplier is about cost and IKEA works closely with the suppliers so that they can work efficiently to get high profit.

One of the key concepts which require the customers to play a role in contributing to the low price is that, customers need to pick up the items they choose all by themselves in the store, carry them to their cars and take them home instead of free home delivery [4]. The customer first has to enter their showroom and then take the goods they choose which are unassembled (flat-pack) to the shopping cart and finally to the cashier. Their customers are fully involved in the shopping experience which contributes to the low price they pay.

The flat pack furniture is also a contributor to its cost leadership strategy. The concept of ready-to-assemble furniture was first mentioned in 1953, by Grills Lundgren, one of IKEA's first employees [5]. At that time the insurance company was complaining that there were many cases of furniture damage when being shipped to customers. So selling unassembled furniture was utilized to

reduce the percentages of damage and also save more space when shipping. The task customer take both create value for IKEA and reduce the price of their furniture.

IKEA follows a standardized layout around the globe which is a large blue “box” locate itself at the outskirts of cities for a lower cost and close to highways. There would be some differences among countries and some stores locate in the city such as the first IKEA store in Shanghai. Instead of dividing the showroom into different catalogues, IKEA placed every item together with no separation. IKEA also designed in a one way layout to allow all the visitors to find what they like. After they go through the whole layout would the customers to pick up their items and move forwards to cashier. This shopping environment fully reduces the cost, meanwhile create more potential customers.

## **2.2 IKEA’s International Strategy**

International strategy refers to a range of options for operating outside an organization’s country of origin. Porter divided international strategies into four kinds according to configuration of activities and coordination of activities. In other words, the degree of coordination which is high or low, and the choice of configuration which is dispersed or concentrated will lead to different approaches of International strategy. Here, the four are simple export, multidomestic, complex export and global strategy. However there is some misunderstanding about what is globalization for some people. They think of globalization as production and distribution of products and services in homogeneous type and quality on a global basis [6]. In fact every multinational enterprise is first developed on its home basis and then spread across the globe. These multinational companies (MNEs) have to adjust themselves in the new market and provide products and services which fit customers’ taste.

IKEA is a multinational enterprise that focuses heavily on being international to get profit worldwide using home based products or services [7]. IKEA has grown from a small private-owned Swedish furniture retailer to a leading multinational enterprise selling thousand of their products to more than 300 stores around the globe. Their innovative way of self-service by customers and establishment of key suppliers producing their self designed furniture win great profit from the world. IKEA first stand still in Swedish market providing customers with high quality, low prices furniture. Then it started its internationalization plan: they stretched their business to Switzerland, Germany. After the establishment of their European business, IKEA began to reach United States in 1985 and at the same time develop further in European countries such as the UK in 1987. The first store was opened in Shanghai in 1998. As the process of their global strategy, home based Swedish style furnishing products are have to differentiate for pursuing a international recognised brand.

## **2.3 The Entry Modes of IKEA in China**

When a particular market is chosen for entry, the company should identify its entry mode which is defined as institutional arrangements that allow the organization to use their products or service in a country exchange [8]. There are four types of entry modes: exporting, joint venture, licensing and franchising and wholly owned subsidiaries. Organizations have to analyze the determinations of successful entries into different markets before a matched entry mode was made. An environment analysis is necessary to know in what way an organization can achieve success in a new market.

Things changed in China due to its geographical barriers and absolute different market environment. IKEA first entered China market using joint-venture (Beijing Northern Sweden Limited Company) with many reasons. Different from European markets where suppliers and markets are identical, China has a totally different market with the aspects of legal, cultural, financial and other issues. To minimize the risks, IKEA have to use this as an entry mode. The first store was opened in Shanghai with a local partner by renting land from the Chinese government. After this, IKEA began to open its “real” store in China.

### **3. Evaluation of Strategies—Its Suitability**

In order to test the suitability of these two strategies implemented in China, systematic criteria and techniques are going to be used including the environment evaluation by PETST analysis and Porter's Five Forces Model, capabilities of IKEA by SWOT, and stakeholder expectations by Stakeholder mapping.

Before the evaluation, it is necessary to define the term suitability. Three key evaluation criteria are suitability, acceptability and feasibility, which together are used to assess the viability of strategy options. Suitability is concerned with assessing which proposes strategies address the key opportunities and constrains an origination faces through an understanding of the strategic position of an organization.

#### **3.1 PESTEL Analysis for China**

PESTEL is a tool to analyze the macro-environment of an organization and it consists of six elements: political, economic, social, technological, environmental and legal. The four most important factors which contribute to the change of the industry are political, economical, technical and social which I would like to describe in details.

##### **3.1.1 Political**

The macro-control policies of Chinese government have more impact on manufacturers than retailers. Although the timer price is increasing, the furniture did not response to that. This is due to the policy that furniture export rebates is reduced from 14% to 5% in the near future. This limited the furniture export and also gives more pressure towards furniture manufacturers in China.

##### **3.1.2 Economic**

The growing GDP with annual growth of 6.6% in 2018 and government macro-control are stimulating the growth of national consumption. It is widely believed that China has big potential for consumption in the future. Chinese individual consumption occupies only 39% while the percentages are 67% and 60% for the US and the UK respectively in 2017. In the 'thirteenth five-year plan', China regards expand domestic demand as a major task. The furniture retailing as an *important aspect of consumption will also increase as other retailers.*

##### **3.1.3 Social**

The improving living standard of Chinese people allows more people purchase furniture with high quality and good reputation. Chinese people care much about their 'mianzi' and want to present their guests with beautiful furniture. This makes the furniture retailing more potential to get profits in the future.

Moreover, the one-child policy create a new generation aged between 35 to 25 who have relative high education background and very impulsive on purchasing foreign brands. Chinese customer loyalty level in low and new brands are more easily accepted. This has a good implication for new furniture retailing company and catching their attention would help them build future success.

##### **3.1.4 Technological**

The technology of furniture manufacturers are lack of new technology and qualified standards compare with European countries. The reason for that is lack of capital and qualified workers. This stop company from developing and making profits and this also contribute to the reason why Chinese do not have dominant market share holders.

#### **3.2 Five Forces Model of China**

Porter's five forces help to analyze the attractiveness of an industry by five competitive elements: the threat of entry, the threat of substitutes, the power of buyers, the power of suppliers and the extent of rivalry between competitors.

### ***3.2.1 The threat of entry***

Chinese furniture market is very promising due to the higher living standard and growing economics. The market of China is relatively regional due to the transportation cost and region differences. New players are always focusing on different areas. However, the shortage of technology and qualified employees would make new player hard to get high profits.

### ***3.2.2 The threat of substitutes***

This industry contributes great towards the GDP of China, with £90 billion. People have to replace their furniture due to new technology and the life span of the existing furniture. So it is almost impossible to substitute the industry of furniture manufacturing and retailing. However the way products or services can be supplied has become substitutable for the emergence of online purchase. China also has the same trend of online purchasing. IKEA also has its online shopping to keep their competitive advantages.

### ***3.2.3 The power of buyers***

With many alternatives to choose, customers always seek whatever brand that can provide high value products with low price. The retailers have to try their best to improve their performance and build stable relationship with the customers through customer loyalty by better shopping experience and service. IKEA even provide nursing room and playground for children. It also provides customers with hotlines to answer their questions on assembly. Its return policy allows 100 days refund is also unique. To adapt Chinese market, IKEA adjust their strategies to meet Chinese customers' needs such as locate in cities centres for their convenience and offering home delivery of long distance.

### ***3.2.4 The power of suppliers***

With thousands of suppliers in 53 countries, IKEA have a close relationship with their key suppliers and the suppliers follow the Code of Conduct "The IKEA Way on Purchasing Home Furnishing Products" (IWAY), help to establish a good connection with its global suppliers. Unlike UK, when IKEA entered Chinese market they found the price to be high for customers. So they decided to build new suppliers in China as they have more share of the market. IKEA used to make Malaysia the Asia stock and products are to be first arrived there before shipping to China. However, due to the large proportion of shipping cost it will take, IKEA changed their suppliers of China guided by their cost leadership strategy. They now get most of suppliers in China to reduce the cost and benefit their customers.

### ***3.2.5 Competitive of rivalry***

China has thousands of small competitors and only a few have large share of the market. Chinese market is far from mature and most local firms still use original equipment manufacturing (OEM) (Wei, Zou, 2007). There are some privately owned company such as Qumei, Oupai, Guangming and Meike developed quickly in recent years. Most of the firms located in Guangdong Province, a wealthier region compare with the other places in China.

## **3.3 Strategy Capability Analysis---SWOT Analysis for IKEA in China**

Strategic capability can be defined as the capabilities of an organization that contribute in its long-term survival or competitive advantage.

I would like to use SWOT analysis tool to diagnose the strategy capability of IKEA. It is a strategy planning tool used to analyze strengths, weaknesses, opportunities and threats of a business. It aims to help the company generate strategy options and assess future courses of actions.

**3.3.1 Strengths**

The success of IKEA is based on its ability to magnify the strength which benefits both customers and the company. IKEA find their suppliers worldwide with the lowest price and strictly control the manufacturing to be at a low price. The self service, flat-pack strategy also aimed at lowering the cost. The global strategy lead IKEA becomes a brand of unique and high reputation. IKEA does not only success in Europe, but Asia countries like China as well. IKEA know how to fit their strategies with different market when entered the market of China. They targeted a different group of customers and established new suppliers to lower the cost due to the low income standard of Chinese customers. They know how to combine the global strategy with local needs.

**3.3.2 Weakness**

In China, IKEA has built its good awareness and is accepted by many Chinese customers. However, IKEA still weak in the price advantage due to its supplier chain. It is better for IKEA to establish a large chain of Chinese suppliers for a further reduction of price.

**3.3.3 Opportunities**

In China, IKEA opened 28 stores, the number is only 9 just 10 years ago. The market of furniture retailing is bigger than any other countries in the world for its large population and increasing living standard. IKEA can develop in Chinese market via marketing campaigns and can open more stores in China.

IKEA also try to break their traditional “blue box” layout to fresher store format to cater the changing customer tastes.

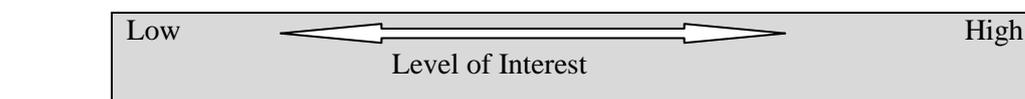
**3.3.4 Threats**

The dropping of furniture sales stress the market and many companies seek development by copying the low cost flat-pack furniture. When search “flat-pack furniture” on Google, many advertisements of furniture retailers jumped out saying they can provide flat-pack low price furniture. This would address burden to IKEA. Besides, the inflation of furniture price and new timer rules also make IKEA into a new challenge.

In China, although IKEA has a good start in the last few years, the stores only reached southeast part of China. To spread it further, IKEA need to consider the different culture and customer tastes. Moreover, the self-service idea based on cost leadership strategy is still not suitable for the mainstream of Chinese culture. To establish long term good brand image in China still need no spare effort for IKEA.

**3.3.5 Stakeholder Expectation**

To get a better understanding of stakeholder influence, stakeholder mapping is used to identify stakeholder expectations and power and help in understanding political priorities. The figure 1 provides the stakeholder mapping analysis.





income. Then IKEA changed their suppliers from the globe to main suppliers in China for reduction on cost of their products. IKEA in China experience a price drop due to the new strategies.

The success of its professional design, however, gives IKEA threat. Chinese furniture industry is lack of expertise and good designer. Many of Chinese furniture are almost the same even from a different brand. The lack of regulation in the area of furniture design allows many companies mirror the design of others and IKEA became one of these victims. One observer claimed that many Chinese shoppers in IKEA were drawing pictures of furniture but not buying any.

## **References**

- [1]Information on <https://www.ikea.com/>
- [2]Information on <http://www.stevenclark.com.au/>
- [3]Porter, Micheal, *Competitive Strategy*, Free Press, New York, 1980.
- [4]S.Burt , Johansson U & Thelander, A.. *Standardized Marketing Strategies in Retailing? IKEA's Marketing Strategies in Sweden, the UK and China*. *Journal of Retailing and Consumer Service*, 2011.
- [5]J. Barthelemy, *The Experimental Roots of Revolutionary Vision*, MIT Sloan Management Review, 2006.
- [6]A.Rugman, R.Hodgetts, *International Business: A strategic Management Approach*, New York, Pearson Educatoin, 2000.
- [7]A.Rugman, R.Hodgetts, *The End of Global Strategy*, *European Management Journal*, issue 4 August (2001) 333-343.
- [8]T.L.Calof, *The Mode Choice and Change Decision Process and its Impact on International Performance*, *International Buiness Review*, Vol 2 (1993) 97-120,
- [9]A.Rugman, .R.Hodgetts, *International Business: A strategic Management Approach*, New York, Pearson Educatoin, 2000.