

IKEA's Development Path in China

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Abstract: *When entering a new country, multinational retail companies must consider the entry method, and it is also necessary to consider whether to follow the strategy in the country and other markets, or to achieve localized development. As an international furniture retail giant, IKEA's development path in China shows the direct investment of retail companies and the choice of localized operation. This article uses IKEA as an example, analyze the choice that IKEA made according to the theories of localization and standardization, and it was found that IKEA's operation in China has evolved from standardization to localization to re-standardization, which provides a reference for the operations of other multinational retail companies.*

Keywords: *IKEA's development path, localization, standardization*

1. Introduction

When multinational companies enter the international market, they need to consider enter mode. From export to licensing to international investment, the decision is made by the enterprise after analyzing its own situation and the situation of the host country. The current academic theories on multinational corporations include internalization theory and the eclectic theory of international production. For the retail industry, its transnational operation has its own characteristics. Founded in Sweden in 1943, IKEA is currently one of the largest multinational furniture retailers in the world. From its inception to the present, its low-cost and high-quality brand value has been at the forefront of the world, guiding the public and consumers pay more attention to the product. It expanded from a Swedish local brand to an international furniture retail giant, and the expansion was mainly through international direct investment. Therefore, through IKEA's Chinese road, some suggestions can be provided for the development of the international retail industry. At the same time, IKEA's localization process also has something to learn from.

2. IKEA's Internationalization Process

IKEA is an unlisted private multinational company that sells flat-packed furniture, kitchen supplies, bathroom supplies and other household products. At present, IKEA has a total of 445 stores, of which 271 are located in Europe and a total of 82 stores in Asia.

IKEA owns shopping malls in 54 countries and regions around the world. Its retail business adopts franchise operations. Most of the shopping malls are owned by the IKEA Group, and the rest are owned and operated by other franchisees. The franchise system allows IKEA to successfully achieve international expansion while protecting its concepts.

After the stable development of IKEA, it started the process of gradual expansion from Northern Europe to other parts of the world. At first, IKEA adopted a horizontal expansion method to move towards countries and regions with similar cultural and economic levels. IKEA first entered Norway in 1963, and opened an IKEA store in Switzerland in 1973, marking the beginning of IKEA's global expansion. In 1974, IKEA entered Germany. The minimalist design concept of IKEA was loved by Germans, and Germany soon became IKEA's largest market. In the 1980s, with the gradual start of the globalization process, IKEA quickly expanded its stores in the United States, Italy, France, the United Kingdom, and deployed them all over the world. With continuous overseas expansion, vertical expansion has become another feature of IKEA's overseas layout.

After IKEA entered China, it started the process of localization. In 1998, IKEA chose to locate its first store in Shanghai. Its simple design concept was loved by young consumer groups. Since then, IKEA has rapidly occupied the Chinese market through expansion. Currently, 33 stores have been

established in mainland China. After entering China, IKEA pays attention to localization, and adjusts its strategy in a timely manner to adapt to the peculiarities of the Chinese environment. The Chinese market now provides IKEA with most of the purchased products and is the largest sales base. The development of the Chinese market has played a significant role in the internationalization of IKEA.

Based on the background of the above cases, this article will further analyze the motivations of IKEA's choice of entry methods in international expansion, the motivations of localized operations in China, and the pros and cons brought about by it.

3. International Business Model Analysis

IKEA's international expansion is mainly through the establishment of wholly-owned companies, and some of them enter new markets through franchising. When entering China, IKEA adopted a joint venture method due to policy reasons. Later, IKEA currently operates almost exclusively as a wholly foreign-owned enterprise in China.

Dunning's production compromise theory can explain the choice of IKEA's multinational business model. The core is the ownership advantage, internalization advantage and location advantage.

(1) Ownership advantage

Ownership advantage is the monopoly advantage of a company, including asset advantage and transactional advantage. Asset advantages include tangible assets and intangible assets of enterprises, transactional advantages refer to enterprises that can reduce transaction costs by arranging resources and avoiding risks when operating across borders. Ownership advantage is only a necessary condition for enterprises to invest abroad.

First, asset advantages. IKEA's expansion from China to Europe has accumulated a large amount of capital, which provides the economic foundation for its expansion to other regions. In 2020, IKEA's annual sales reach 41.3 billion euros and net profit reaches 2.9 billion euros. Brand is an intangible asset of an enterprise and a part of its core competitiveness. As the world's only well-known company specializing in international home furnishing products, IKEA implements a low-price strategy, takes high quality and low prices as the concept, and advocates a life aesthetic with Nordic characteristics, and adopts experiential marketing conveys this concept and brand image, which becomes a company's unique brand equity and corporate culture. This kind of company image and brand value is difficult to replicate. As a retail company, IKEA's comparative advantage is that it has a higher level of technical management and differentiated products than its competitors. These assets are of great value to IKEA, so they tend to enter the international market in a more controlled way.

Second, channel advantages. IKEA has unique channel assets, strong control in the channels, and high-quality human assets. These international talents with corporate value recognition and rich skills are the inexhaustible driving force for IKEA's creativity and development. IKEA has adopted smart home experiences which allow customers to participate in experiential consumption to the maximum extent through an interactive mode that combines special display cabinets with home environment. IKEA's main competitors in China are Red Star Macalline and Juran Home, but these two companies do not have independent research and development capabilities. Relying on shopping mall rents to obtain revenue makes their relationship with the tenants strained.

Third, the advantage of economies of scale. Deploying procurement centers around the world, improving supply chain management, and setting up factories in places with cost advantages, enables IKEA to expand its production scale when it expands globally, and has economies of scale to reduce costs.

(2) Internalization advantages

For technology and knowledge products whose value is difficult to determine, integrating them into the enterprise's unified management through internalization can optimize the allocation of resources. IKEA has a large number of patent assets. Based on years of investment and accumulated patents and know-how, it constitutes the advantages of research and development. IKEA insists on independent product design and patent protection. In order to effectively avoid the direct impact of external competition and market incompleteness on the economic benefits of the company, IKEA has implemented and successfully created a set of product design, raw material procurement, processing, production and market sales for the first time in China, strictly control the sales of suppliers at the end of the channel to reduce the pressure and uncertainty of external resource supply. The advantage of

internalization is only a necessary condition for enterprises to invest directly abroad.

(3) Location advantage

First, the market has great potential. China has a large population. With the development of the economy, people pay more attention to the quality and appearance of products. The fashionable design of IKEA caters to the love of young consumers, and the price is closer to the consumption level of young people, so it has a greater development potential. When IKEA entered China, the Chinese furniture market business was relatively fragmented and there was no obvious monopoly. Therefore, it is more appropriate to enter by direct investment at this time. Subject to the policies at the time, only joint ventures can be selected. However, the sole proprietorship method can now be used to increase profits. Retaining in its own enterprise gives the enterprise greater control, which is more conducive to the long-term development of the enterprise.

Second, abundant human resources. High-quality educational resources enable IKEA to recruit high-quality management personnel, professional technical personnel and excellent sales personnel after entering China, which can meet IKEA's localized business needs. Moreover, local labor costs in China are lower than those in developed countries, which is conducive to the development of IKEA.

Through the analysis, we can see that IKEA has the above three methods at the same time, and can enter the new market by way of sole proprietorship. For multinational retail companies, they can completely control new markets, control the entire management and sales process, and maintain brand awareness. But this is also an extremely expensive investment, which is vulnerable to political and economic risks. Especially in the initial stage of investment, it is difficult to quickly recover huge investment due to the small sales income. As a high-risk and high-control investment method, other retail companies must do a good job of analysis when investing. Generally speaking, multinational companies are more likely to succeed in direct investment in countries with similar cultures and economies. When investing in countries with longer cultural distances, they need to conduct investigations in advance to consider potential differences. When IKEA first entered the Chinese market, it first adopted a joint venture method. On the one hand, it can reduce capital investment. On the other hand, it can understand the market to facilitate adjustment of policies. After IKEA has entered China for a period of time, it has a better understanding of the Chinese market. Choose to establish a wholly foreign-owned enterprise to achieve better control.

4. Analysis of IKEA's Localization Strategy

The international expansion of multinational corporations implies the idea of maximizing corporate profits. Multinational corporations hope to obtain the supply of key elements, reduce costs, expand the market or pursue higher efficiency through overseas operations. For multinational companies, standardized management can save costs and at the same time help form a unified global brand impression. But localization strategies enable multinational companies to better respond to the needs of consumers in the local market. If a company wants to achieve localized operations in different markets, it first means that the company needs to have localized capabilities. If the company has the ability to meet the differentiation of different markets, then the company can find a boundary between standardized and localized operations, if the company's capabilities are not enough, the company cannot make localized allocation with existing resources to determine the localized boundary, then enterprise will have a great risk when it enforces the localization strategy.

(1) The economic boundary between standardization and localization

The boundary between standardization and localization can be analyzed from the perspective of economics. The corresponding cost of standardization and localization is economical if it is controlled within a certain range, otherwise it is uneconomical. The cost of standardized operation of an enterprise is MSC , and the cost of localized operation is MLC , so $MLC=MSC$ is the boundary between localized operation and standardized operation of multinational enterprises. If $MSC>MLC$, it means that the current degree of localization is small, and the level of localization can be further improved, when $MSC<MLC$, it means that the degree of localization is too large, and the proportion of localization needs to be reduced and the level of standardized management needs to be reduced.

(2) Standardization and localization phased strategic action theory

Japanese scholar proposed a staged strategic action theory. He proposed that multinational retail companies, because of their innovative business advantages, can choose to enter the host country with

standardized business strategies accumulated in their home country or overseas operations, and then combine the characteristics of consumers in the host country's market. The changes in the market environment are oriented towards the adjustment and optimization of localized business strategies that are compatible with them, forming and solidifying a "re-standardized" business strategy with local characteristics, and expanding and developing in the form of chain operations. The core of the theory is that retail companies' business development in overseas markets will dynamically adjust their business strategies in stages due to changes in the host country's market environment. This theory has a certain explanatory effect on IKEA's business strategy after entering China.

(3) IKEA standardization features

IKEA's practice in China reflects the combination of appropriate standardization and localization. After IKEA entered China, its standardization is reflected in the unified sales channels and supply chain. Consumers experience furniture products from its stores. After purchasing, they can directly pick up the goods from the warehouse connected to the store or choose delivery services. This sales method is a major feature of IKEA, so it still retains this feature after entering Chinese market.

Experiential marketing is the biggest feature of IKEA, and it is also the biggest competitive advantage of IKEA in the world. By providing customers with a relaxed shopping environment, it provides a reference for the matching of different spaces. The cross-display of merchandise and the model room display are also unique styles of IKEA. For people of different sizes, styles, and family structures, IKEA provides multi-style model rooms for reference and experience. The real model rooms make consumers feel like they are in a warm home. At the same time, IKEA conveys the message of free creation and matching to consumers. In order to save transportation costs and provide low-priced products, IKEA products use special flat packaging, which means that most household products require consumers to piece together. Some parts are common in different commodities, and consumers can modify different commodities.

(4) IKEA's localization strategy in China

The above unique advantages are unique brand advantages for IKEA to compete in the international market, so they are unified in the international market. After entering China, IKEA has also made other adjustments to adapt to the characteristics of different markets.

First, localization of site selection. In its global operations, IKEA has always regarded the suburbs as its main location. On the one hand, it is consistent with IKEA's consistent cost-saving concept, and on the other hand, it can satisfy the mentality of returning to nature for people in developed countries. Because IKEA is equipped with a spacious parking lot and convenient transportation in developed countries, the suburbs are a reasonable location for IKEA in developed countries. However, in the early stage of IKEA's entry into China, due to the low per capita income level in China, especially in rural areas, there was less demand for imported furniture products, so IKEA chose to locate its stores in prosperous commercial districts to attract passenger flow. The first store in China is in the Xujiahui business district in Shanghai. With the development of the Chinese economy and the increase in IKEA's popularity after entering China, the brand effect has been reflected in the subsequent expansion, IKEA chose to locate its stores in slightly remote areas to reduce costs.

Second, localization of prices. In terms of price strategy, IKEA's original intention is to provide high-quality and low-priced products. Through reverse pricing, it first determines price that is about 10% lower than that of similar products before proceeding with production, thereby ensuring its own cost-leading strategy. This practice is welcomed by consumers abroad. They can ignore the price when shopping at IKEA, because this is the lower price they can buy on the market. Whether in Sweden or other European or North American markets, the image of IKEA convenience stores is deeply rooted in the hearts of the people. However, because of the difference in income levels and consumption levels between China and foreign countries, this low price in the international market is really high for Chinese consumers. Therefore, in the eyes of Chinese consumers, IKEA is a high-end household product. But IKEA did not significantly reduce prices at early stages after entering China. IKEA believes that high prices are conducive to building a high brand image, and IKEA hopes to create cognitive value in the minds of consumers through non-price factors. Therefore, in the early stages of IKEA's development in China, it was mainly to establish consumer loyalty through differences in brands and services to form a competitive advantage, and basically maintained the internationally accepted price level in terms of price strategy. After operating for a period of time, IKEA found that IKEA has a large passenger flow in China, but the sales volume is not high. People regard the purchase of IKEA furniture as a status symbol. This is undoubtedly the biggest misunderstanding of IKEA's operation. The target customers are always concentrated in the middle-class group with higher income,

mostly young women, who like IKEA's novel design and can accept IKEA's price. In order to break this situation, IKEA adjusted its price strategy and began to drastically reduce prices to return to the image of civilians and serve the public.

Third, localization of procurement. Cost leadership strategy has always been IKEA's business philosophy. In the early stage of IKEA's overseas expansion, IKEA began to look for low-cost raw material suppliers. With its development in China, IKEA aimed at China's huge consumer market and its advantages in labor prices and raw material prices. It lowered costs by establishing a procurement center in China and supplying the global market. Later, it continued to produce in China to maintain low prices and reduce local prices. The transportation cost of the product.

Fourth, localization of sales channels. With the rapid development of e-commerce in China, IKEA finally opened an official flagship store in March 2020, becoming an online flagship store on a third-party platform worldwide. During the period of vigorous development of China's e-commerce, IKEA has always been cautious, worrying that online and offline businesses are likely to have problems with each other. The reduction of consumers to the store will affect experiential consumption and catering revenue, and online delivery may also generate additional delivery costs and uncertain risks. Therefore, IKEA has always adhered to the service model of "order online and self-pickup offline" and did not choose to parallel the booming e-commerce. While IKEA's competitors, EASY HOME and Red Star Macalline, have gradually put aside their obsession to join the e-commerce platform, but IKEA's sales growth rate has declined year by year under the constraints of the outdated model. IKEA launched a new business model and started a localized business transformation.

(5) IKEA's current re-standardization strategy

After IKEA entered China, it first opened a store in Shanghai. After a period of adjustment and understanding of the characteristics of the Chinese market, it started to expand to other cities in China. In this expansion process, the characteristics of re-standardization have been reflected. For example, most of IKEA's location selection is in the suburbs, and the products in the Chinese market are not very different. This helps to save costs on the basis of gaining experience.

5. Summary and Evaluation

For large multinational retail companies such as IKEA, they mainly choose franchise mode and international direct investment mode when they operate internationally. When an enterprise expands, it needs to consider a series of comprehensive influences such as commercial factors, economic factors, benefits and risk-taking methods, weigh the importance of each factor and its own advantages and disadvantages, and choose the most suitable expansion mode.

The standardization and localization of multinational retailers have had a great impact on the business performance of retailers. Since retailers directly face consumers, this market is difficult to standardize. Therefore, it is more difficult to operate retail businesses in different countries or regions by adopting a principle and method common in various markets around the world. Multinational retail companies should pay more attention to the importance of localization in their operations, especially investing in a market with a large psychological distance. IKEA's operations in China have adopted some standardized strategies. These standardized strategies have played a significant role in IKEA's success. However, the reason why these standardized strategies can be used in the Chinese market is because they conform to the characteristics and characteristics of the Chinese market. Consumer demand does not mean that these strategies can be standardized and replicated in any country's market. Determining a reasonable localization boundary based on the characteristics of the target market is a basic principle that retailers must follow when operating overseas.

In implementing the strategy of internationalization, enterprises should better maintain their core values and competitiveness while properly localizing, so that they can truly go on in the international market for a long time.

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