

Business Model Innovation of IKEA China in the Digital Economy

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Abstract: In the era of digital economy, the wide application of information technology has made it easier to design business models effectively. As a result, the competitive landscape and business models of the retail industry have undergone profound changes against the backdrop of the explosive growth of the digital economy. In response to market changes, IKEA China has implemented digital innovation initiatives with the objective of exploring new avenues for IKEA to meet the challenges and seize the opportunities presented by the Chinese market. In this paper, through PESTEL and Porter's Five Forces analysis tools, the macro environment and competitive environment IKEA China is in in the digital economy era are systematically analyzed, and its business model innovation strategy is then discussed. The results show that IKEA China has realized business model innovation through digital transformation, innovative marketing strategies, and the integration of new retail models under the influence of multiple factors, including political, economic, social, technological, environmental, and legal aspects. Moreover, the paper evaluates the effectiveness of IKEA China's business model innovation and makes suggestions for future development, which offers a practical reference point for the digital transformation of the retail industry, while also providing a model for other enterprises seeking to innovate in the context of the digital economy.

Keywords: IKEA China, Digital Economy, Business Model Innovation, PESTEL, Porter's Five Forces.

1. Introduction

Against the backdrop of the explosive growth of the digital economy, retail platform enterprises are confronted with both unprecedented opportunities and huge challenges. In order to cope with these changes, retail companies must re-examine their business models, and adapt to market changes and lead market development through innovation, so as to realize sustainable development. The existing research primarily focuses on the impact of the digital economy on enterprises and the theoretical framework of business model innovation. However, there have been fewer case-specific analyses, especially an in-depth exploration of the strategies of global companies such as IKEA in the Chinese market. The paper aims to systematically study the macro-environment and competitive environment IKEA China is in in the era of digital economy through PESTEL analysis and Porter's Five Forces analysis, and to deeply discuss its business model innovation strategy and its effect. As a result, the external macro-environment of IKEA China is analyzed in terms of political, economic,

social, technological, environmental and legal aspects, and the competitive landscape of IKEA China is assessed through the Porter's Five Forces model. In addition, this paper delves into IKEA China's specific innovations in product and service digitalization, marketing innovation, and new retail model, evaluates the effectiveness of IKEA China's business model innovations, and proposes recommendations for future development. The results are expected to serve as a practical reference for the digital transformation of the retail industry and to offer insights into the innovative strategies employed by other companies in the digital economy.

2. Theoretical Foundations

2.1. Overview of the Digital Economy and Enterprise Business Model

The digital economy is defined as an economic system that identifies, selects, or stores resources and information using digital technology and networks as a carrier, and rapidly optimizes, rationally allocates, or updates resources in a digital environment. [1]. The business model refers to business activities in system modeling, an integrated approach to designing infrastructure entities, elements, and activity systems, a transaction structure based on the creation and capture of value by stakeholders, and the creation of value between a company and its stakeholders [2]. Business model innovation is the process by which enterprises align their resources and technologies with corporate performance, which can fundamentally change the way enterprises transact with consumers or other partners [3]. Zott and Amit believe that it should focus on novelty, lock-in, complementarity, and efficiency [4]. In addition, key business and process innovations, value proposition innovations, revenue model innovations, and the reorganization of external relationship networks and value networks should be included [5]. The advent of digital technology has precipitated the digitalization of the retail industry, and the butterfly effect that has been brought about by this development has transformed consumers' shopping habits into new consumption patterns, including online shopping and contactless consumption. Concurrently, a number of government policies designed to foster the growth of the digital economy, including tax cuts and subsidies, are facilitating the transition of traditional retail businesses to a digital business model.

2.2. Analytical Model Selection

In studying the business model innovation of IKEA China in the digital economy, it is imperative to utilize an appropriate analytical model. In this paper, the PESTEL and Porter's Five Forces are used to comprehensively and systematically analyze the business environment of IKEA China from two distinct yet interrelated perspectives: the external macro environment and the competitive situation of the industry. In particular, the PESTEL analysis examines the external macro environment of a company through six key dimensions: political, economic, social, technological, and environmental factors. Therefore, the PESTEL analysis of IKEA China reveals the macro environmental changes in China as well as the opportunities and threats it faces. In addition, Porter's Five Forces analysis is designed to assess the competitive landscape of an industry, promoting a full understanding of the competitive dynamics of an industry by examining five key elements: the competitive intensity of existing competitors, the threat of potential entrants, the threat of substitutes, the bargaining power of suppliers, and the bargaining power of customers.

3. Status of IKEA China: Market Environment Analysis and Competitive Assessment

3.1. Enterprise Profile and Current Status

Founded in 1943, IKEA has 473 locally popular stores in 63 markets around the world as of May 27, 2024 [6]. Even as it transitioned from the initial brick-and-mortar economy to the current digital economy, its annual sales figures have continued to grow. Additionally, the Chinese market has emerged as an important market for IKEA to try out new business model innovations in the rapid development of China's digital economy. By studying the business model innovation of IKEA China, it can be mapped to other similar enterprises to a large extent.

3.2. Environmental and Competitive Analysis

3.2.1. PESTEL Analysis

On the political front, the Chinese government is paying increasing attention to the digital economy, introducing policy support such as tax cuts and subsidies, which IKEA China has used to drive its digital transformation. At the same time, changes in global trade policies have affected IKEA's supply chain and market expansion strategies, leading IKEA to optimize its cross-border e-commerce business. On the economic front, global economic uncertainties require IKEA to have a flexible business model to respond to changes in market demand. At the same time, consumers in the digital economy era are more sensitive to price and value, and IKEA China offers more competitive products and services through digital platforms to attract more consumers. In terms of society, through the analysis of the changes in consumers' shopping habits caused by new media in the digital era, it is known that new media makes some people more inclined to online shopping. IKEA China has strengthened its online channels to provide a seamless shopping experience. At the same time, IKEA China takes advantage of economies of scale and makes use of the large amount of information provided by users of mainstream software, such as WeChat users, to deliver corresponding advertisements. And the use of artificial intelligence technology to provide consumers with customized homes, to meet the needs of consumers' personalized products and services. In terms of technology, IKEA China has continuously optimized its e-commerce platform to improve user experience and transaction efficiency. Ikea will combine smart home technology with its products to provide more intelligent home solutions to meet consumers' needs for smart living. In terms of the environment, IKEA China promotes a circular economy model, implements product recycling and reuse, and reduces resource waste. Finally, on the legal side, with the continuous strengthening of data privacy protection regulations, IKEA China ensures that its digital platforms comply with relevant legal requirements to protect consumer data security.

3.2.2. Porter's Five Forces Analysis

First, IKEA's supplier bargaining power is relatively low. IKEA has the world's largest furniture procurement system. And they treat suppliers as partners with shared responsibility. So IKEA has the stability of its supply chain. Second, consumers' bargaining power has improved. Consumers can easily compare the price and quality of different brands and products online. However, IKEA has improved the shopping experience of consumers through innovative digital marketing strategies, such as online malls, virtual reality (VR) experience, and personalized recommendation systems to weaken the bargaining power of buyers. Third, the digital economy has lowered the barriers to entry for the industry. New entrants can use e-commerce platforms to quickly enter the market. In this situation, IKEA invests smart warehousing and distribution systems to ensure that they will not be eliminated on the e-commerce platforms. Additionally, with IKEA's brand value, global supply chain, and

advantages in economies of scale, its market position is strengthened. The difficulty of entry for new entrants increases. Fourth, the threat of alternatives increases, such as custom furniture, used furniture and shared furniture. Ikea has met the personalized needs of consumers by launching DIY products, whole-house customization services, and so on. Meanwhile, IKEA's efforts in sustainability, like recycling programs, have also increased the brand's value and reduced the attractiveness of alternatives. Finally, for the environment of competition in the furniture industry in the era of the digital economy, IKEA has enhanced its competitiveness through the omnichannel strategy of online and offline integration. For example, IKEA has developed online design tools and in-store booking services to improve the user experience.

4. Data-Driven Business Model Innovation and Impact Analysis

4.1. Market Data Analysis and Trends

Figure 1 displays the annual percentage of online sales derived from pertinent data collection. Combined with the financial reports of IKEA's official website from 2016 to 2023, IKEA's overall online sales channels have grown significantly [6]. In 2018, e-commerce sales accounted for only 5% of total sales, but this proportion rose to 16% in 2020, and the sales of its online sales channel accounted for more than 20% of total sales in the following years. This shows that IKEA is gradually strengthening its e-commerce platform to cope with the trend of more and more consumers buying through online channels, and IKEA's e-commerce platform has established a relatively solid foundation to adapt to the long-term changes in consumers' shopping habits. This supports the Analysis in PESTEL Analysis and Porter's Five Forces model.

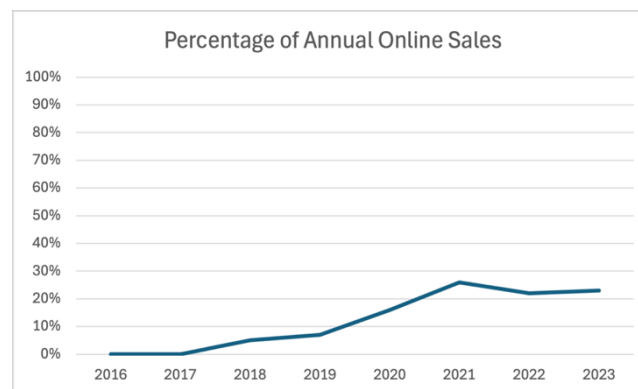


Figure 1: The Percentage of Annual Online Sales from 2016 to 2023

4.2. Business Model Innovation Paths

From the analysis of the relevant literature on the business model innovation path of retail enterprises in the era of digital economy, it is known that the business model innovation methods of the industry can be divided into the following five types: three kinds of innovation methods, namely the power of retail, digital technology and management; Trinity-led innovation method, that is, enterprise, content, business model as one of the construction method; An innovative approach driven by cross-border integration; Innovative approaches to stakeholder pedigree; A digital technology-centric approach to innovation [2]. These five innovative methods can be mapped to IKEA China's existing business model innovation path.

4.2.1. Business Model Formed by the Convergence of Three Forces

From the strength of retail analysis, in addition to IKEA's traditional large physical stores, IKEA China has set up small supermarket stores in the city center for some cities with less land. For example, in Hong Kong, Taiwan, and other markets, small supermarkets have been successfully operated for decades [7]. Analyzing the power of digital technology, IKEA has also established an online business model in recent years, which has narrowed the distance between IKEA and customers through improved online shopping capabilities and diversified strategies such as home delivery and service.

4.2.2. Business Model Formed by Trinity

IKEA has always been enterprise-led, ensuring cost-effective and stable supply through continuous innovation and optimization of its supply chain and logistics systems. In terms of content, IKEA attracts and retains customers through uniquely designed, functional and affordable home products, as well as regularly updated product catalogs. In terms of business model, IKEA provides personalized shopping experiences and preferential activities through the membership system (IKEA Family) to strengthen customer loyalty.

4.2.3. Business Model Formed by Cross-Border Integration

In the era of digital economy, people's consumption patterns have shifted from offline to online. Ikea China conducted cross-border cooperation with Alibaba, opened a flagship store on Tmall to attract traffic, and successfully let consumers know that IKEA furniture can also be purchased online, increasing online exposure. At the same time, to protect its profits from third-party platforms, IKEA China develops its online apps and WeChat mini programs. In addition, IKEA China has also cooperated with food delivery platform Ele. me to launch a home food experience, so that consumers can enjoy food while feeling the IKEA home atmosphere. These cross-border collaborations not only expand IKEA's brand influence but also add new sources of revenue.

4.2.4. Business Model Formed by Stakeholder Collaboration

IKEA places great importance on relationships with customers, suppliers, and employees. For example, IKEA actively listens to customer feedback and constantly improves products and services through customer satisfaction surveys and social media interactions. To meet customers' individual needs, IKEA China also provides whole-house customization services in addition to the customization and DIY home furnishing mentioned earlier. In the supply chain, IKEA regards suppliers as the most important development partners to improve product quality and supply chain efficiency.

4.2.5. Business Model Centered on Digital Technology

In addition to its online shopping platform and AR/VR technology, IKEA has also developed smart home products, such as the TRADFRI smart lighting system, to further meet the needs of modern consumers for smart homes. IKEA also optimizes inventory management, supply chain efficiency and marketing strategies by applying artificial intelligence and big data analytics to its back-office systems to improve operational efficiency. Therefore, IKEA can offer more individualized services and recommendations by using digital models to analyze the purchasing habits of its clients and gain a deeper understanding of their needs.

4.3. Achievements and Challenges

Despite the more successful innovations, IKEA China's business model has some drawbacks. For example, in the process of digital transformation, IKEA's progress is slower, and the development of online business is not mature. The China E-commerce Development Report 2020 indicates that IKEA lags behind other e-commerce giants in the field of e-commerce, such as Alibaba and JD.com. [8]. In addition, the high distribution and installation cost of large furniture directly affects the profit margin and user experience of IKEA's online sales, and the cost of the last kilometer distribution and installation service of furniture distribution usually accounts for 20% to 30% of the total sales cost [9]. In addition, IKEA's shopping experience depends on consumers' experience in physical stores, including showroom layout, real scene layout, product touch, and interactive experience, which is a major feature of its brand [10]. The distinctive offline experience presents numerous challenges to replicating this experience online, which precludes IKEA from fully replicating the advantages of brick-and-mortar stores.

5. Conclusion

To sum up, IKEA China has demonstrated significant business model innovation in response to the digital economy's challenges and opportunities. Through comprehensive analyses by using PESTEL analysis and Porter's Five Forces frameworks, IKEA China has effectively solved various macro and external environmental problems by enhancing its market competitiveness. They use the following innovative paths to approach to digital transformation: digital marketing strategies, big data back-office analytics, online purchasing channels, and efficient distribution systems. In addition, IKEA China is also eliminating the external environment threats in the process of digital transformation by expanding its e-commerce platform, introducing smart home technologies, and building strong stakeholder relationships. These efforts have made IKEA China increase sales in the digital economy era. This reflects the company's ability to adapt to changing consumer behaviors and preferences. Even though the digital transformation of IKEA China still faces challenges, including slow online business development and high distribution and installation costs, other companies can learn from IKEA China's approach and adopt similar strategies to achieve success in the digital era. In the future, IKEA China needs to improve its online business operations and reduce logistics costs, so that they can maintain a competitive edge, ensure sustained growth in a digital marketplace.

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