

# ***The Marketing Position and Strategy of IKEA in China under New Retail Background***

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**Abstract:** With the development of economic globalization and technological informatization, the home furnishing industry is facing the transformation from traditional retail to a new retail model. Based on literature analysis and case studies, this paper discusses the concept of new retail and its difference from the traditional retail model and analyzes the challenges faced by IKEA in the Chinese market, such as slowing sales and traffic growth, late e-commerce layout, and fierce competition. Using the STP model and the 4P model, we analyze IKEA's marketing strategy in the Chinese market and suggest improvements to the product, promotion, and publicity strategies. It will promote IKEA's development and innovation, and bring thoughts and strategic value to the Chinese home furnishing industry in the new retail era. Through the analysis of IKEA's marketing strategy, it can be determined that in the new era, home marketing should start from product diversification and networking to win consumers with more appropriate prices and convenient channels.

**Keywords:** new retail model, IKEA, China market, marketing strategy, STP model, 4P model

## **1. Introduction**

With the development of economic globalization and technological information, more and more enterprises have accelerated the process of international market expansion in order to seize market share. Since the reform and opening up, the Chinese market has continued to develop at a high speed and has become a must for the development of major enterprises. Along with the increase in income, the change in consumer awareness, and the diversification of consumer demand, the new retail model has shown great advantages in the Chinese market competition. At present, most of the research on IKEA's marketing strategy is about the development of traditional retail models and e-commerce. With the arrival of the new retail era, there is a lack of timeliness and comprehensiveness. This thesis focuses on IKEA's marketing strategy in the Chinese market, the competitive landscape, and the market environment from the perspective of new retail transformation. A research and analysis approach is used to analyze the differences between the concepts related to new retail and traditional business. Using the STP and 4P models, it explores the differentiated marketing strategy based on product diversification in the Chinese market, as well as the marketing strategy aimed at industrial innovation and upgrading, online and offline multi-scene integration, and re-organization of the merchandise ecosystem. This thesis provides an in-depth discussion of IKEA's problems in the Chinese market and gives recommendations covering three perspectives: product, promotion, and

communication. For IKEA's development, the paper provides a comprehensive analysis of its marketing strategy in the Chinese market through data and models. The market issues faced by IKEA in the context of the new retail model are discussed in depth. It is hoped that by optimizing its marketing strategy, the company can improve its competitiveness and achieve long-term stable development in the Chinese market. For the home furnishing industry, IKEA, as the leading company in the industry, faces problems and develops strategies that can bring thought and value to other companies in the industry. In addition, the rationalization suggestions for the new retail model through the analysis of IKEA's case will be an important reference for the industry's transformation and development.

## **2. Concept and Development of New Retail Model**

### **2.1. The Essence of New Retailing**

New retailing is the new development direction of the traditional retail industry based on e-commerce. In essence, new retail is the organic combination of online, offline, and logistics to meet consumers' higher consumer demand and better consumption experience. Zhang Pu proposed that the construction of new retail adheres to the concept of focusing on smart platform building, online and offline integration as the core, and offline promotion of online as the guide [1]. At the same time, Zhang Wen showed in his study that any retail innovation and transformation is to better increase the profits of enterprises, and expand the scale of development of enterprises, whether the initial emergence of e-commerce or the subsequent continuous development of online e-commerce, therefore, the scholar believes that the germination of new retail is actually to adapt to the changing needs of consumers, from the shopping experience and shopping environment and the convenience of shopping When it comes to providing consumers with a better retail model [2].

### **2.2. Differences Between New Retail and Traditional Business Models**

With the change in the consumer environment and consumer philosophy, the inherent deficiencies of traditional retail and traditional e-commerce are becoming more and more prominent. In the traditional retail model, which is limited by time and place, consumers' experiential, high-quality and diversified shopping needs cannot be met. In traditional e-commerce relying on the Internet, consumers lack the intuitive shopping experience of touching, feeling, seeing, hearing, and guaranteeing the quality of goods when shopping offline. However, compared to the traditional retail model and e-commerce, the establishment of a new retail business model requires the support of high technology and a deep understanding of the nature of new retail. Ying Chen suggests that by leveraging the essence of new retail to achieve mutual compensation and mutual reinforcement between traditional sales and new retail, it can further cover more full-scene consumption patterns and further expand its marketing form and marketing market so that consumers can meet their consumption needs with the help of more diverse consumption scenarios [3].

## **3. IKEA's Marketing Strategy in China under the New Retail Era**

### **3.1. IKEA (China) Market Positioning Analysis-STP Model**

With the development of technology, communication channels have begun to diversify, greatly reducing the distance between businesses and consumers. Product information has begun to gradually become transparent, and consumers can obtain product information through multiple channels. At the same time, with the development of new retailing, consumers have realized a multi-channel consumption mode. In addition, consumers have a much wider range of choices than in traditional

retailing, and their demand for products and services has been gradually upgraded. The change in consumers has further changed the Chinese market and has also had a key impact on the market positioning of companies. The "S" in the STP model refers to market segmentation; the "T" refers to target market; and the "P" refers to positioning. Therefore, according to the American marketing expert Philip Kotler, the core of contemporary strategic marketing can be defined as "STP". By analyzing the STP model, IKEA can select the target market for positioning through market segmentation from the perspective of customer analysis, clarify its capabilities, and build a competitive advantage on this basis [4].

### 3.1.1. Market Segmentation

The new retail model has realized a diversified integration of retail modes, so various multinational home furnishing brands need to consider different levels and information of consumer groups in the process of market segmentation and marketing strategy formulation. IKEA China has not only fully considered customer needs in the market segmentation process, but also predicted the market development law in advance. In his study, Zhang Weiwei showed that IKEA's segmentation strategy is a geographical segmentation based on the population, consumption habits, and other characteristics of different regions, dividing the market into Asian, American, and European markets. In the case of the Chinese market, IKEA also divided the market into two parts of the market: large cities and small and medium-sized cities, based on the characteristics of different cities and the cultural features of different cities [5]. The major cities are mainly first-tier cities, new first-tier cities, and second-tier cities, while the medium and small cities are third-tier cities and others.

### 3.1.2. Market Targeting

In the explosive growth of new retail in China, IKEA had to adjust its target market strategy based on the original one in order to adapt to changing consumer habits. IKEA needs to ensure that the new strategy will meet the needs of the period and region by evaluating the development potential and prospects of the existing market, and will bring more business value to the company. In his study, Zhang Weiwei showed that IKEA chose to implement a target market strategy that focused on three aspects of non-differentiation, differentiation, and concentration in order to respond to the differentiated needs in the context of new retailing and the market transparency characteristics of both big data [5]. Firstly, a non-differentiated target market strategy is to take the whole market as the target object of marketing, which needs to develop a marketing strategy for the common needs of all consumers. Second, the differentiated target market strategy breaks the traditional marketing barriers and reorganizes many aspects of IKEA's products and services for different levels of audience groups. It also diversifies and adjusts the prices of its products and related services, thus making IKEA's online and offline marketing strategies more competitive. For example, the main target market for hard furnishing design can be set in offline experiential stores, while the main target market for soft furnishing products can be placed in online shopping malls. In addition, according to the difference in the city's target market, you can promote more high-end products to first-tier cities, the cost-effective products to promote the new first-tier cities or second-tier cities. Finally, the centralized target market is targeted for a certain type of target market for targeted marketing strategy planning, for example, brand or price adjustments to increase brand exposure and sales margins.

### 3.1.3. Market Position

IKEA uses a differentiated market positioning strategy, which is mainly based on cost positioning and product positioning. Based on the free combination and matching product sales model, IKEA offers component materials of different compositions, materials, and price points for the same

products in response to different consumers' cost needs [6]. For example, in the LIDHULT sofa series, medium materials emphasize cost-effectiveness and comfort, while higher materials emphasize design and experience. At the same time, IKEA is repositioning its existing products for their characteristics and specific target markets. For example, decorative products are expanding their appeal to potential consumer markets through targeted changes in shape and packaging. IKEA should leverage precision positioning to continuously expand its brand's reach. As a civilian, diversified home furnishing brand, it should continue to improve product quality based on the pursuit of distinctive design styles, thus further creating a good brand image and product image for IKEA.

### **3.2. IKEA China Marketing Strategy-4P Model**

The 4P marketing theory studies marketing issues from the perspective of management decisions. Initially proposed by Professor Jerome McCarthy of Michigan State University, the father of marketing, Philip Kotler, later further confirmed the 4Ps as the core of the marketing mix approach. Through the 4Ps model to achieve promotion, enterprises fully mobilize resources, actively extend to the market, adjust prices, meet competition, and improve products, thus IKEA can gradually improve the efficiency of enterprise sales tactics [7].

#### **3.2.1. Price**

Based on the control of cost reduction from the perspective of whole industry chain optimization and technological improvement, IKEA's low price strategy gives consumers a long-term sustainable price. The low price strategy runs through the entire process of product design, production, logistics, sales, and store management. IKEA's product designs are based on cost budgets that not only meet market demand but also achieve lower cost prices compared to competitors [8]. IKEA also takes advantage of globalization to select high-quality, low-cost raw materials, manufacturers, and cheap labor to achieve cost savings and pursue lower-cost prices. In addition, IKEA has established a unique logistics system and flat-pack strategy to minimize production and transportation costs. On this basis, IKEA adopts a direct sales approach to avoid middlemen to earn the price difference, which not only reduces product prices but also improves operational efficiency [8]. At the same time, it is also hoped that the low price strategy can help IKEA to attract more public consumers.

#### **3.2.2. Product**

IKEA seeks to provide consumers with a wide range of beautiful and functional home furnishings. IKEA's product positioning is clear, and it has become a global leader in home furnishing entrepreneurship through its broad product range, unique style, and innovative, cost-reducing product strategy. IKEA focuses on product patents. With more than 100 designers, it incorporates individual design under standardization. Each product line has a different style and type to meet the distinctive needs of different types of consumers. While focusing on the individuality of the products, IKEA takes into account the practicality of the products and the cost of production. IKEA offers a combination of standardized products and a variety of components, so that each standardized product can be combined with different types of components to meet the individual requirements of consumers [8]. This combination of standardization and personalization maximizes the consumer's experience of shopping for pleasure and satisfaction.

#### **3.2.3. Promotion**

IKEA insists on an experiential promotion strategy and employs professional designers to set up a variety of special model rooms according to product types, such as living rooms, bedrooms, kitchens

and bathrooms, and offices. What it sells is not only home furnishings, but also a home culture and lifestyle. Customers not only learn about one type of product, but also become interested in other related products, increasing their desire to buy and forming a chain of marketing [8]. From pre-sales to sales to after-sales, consumers can experience the freedom and fun of the entire shopping process, which is not available in general home furnishing stores.

#### **3.2.4. Place**

With the development of new retail in the Chinese market, IKEA has also observed different consumption patterns. 40% of people are willing to pick up their products, but most prefer to have them delivered. IKEA started to adopt a multi-channel strategy, adding two channels, e-commerce and order centers, with the aim of attracting and reaching more consumers. At the same time, to avoid sales competition from different channels, IKEA managed the order centers in association with nearby stores. In addition, IKEA has adopted a similar model for e-commerce management. The most important point of the multi-channel strategy is the multi-channel business approach, which allows IKEA's products and services to be available regardless of time and location. The different channels are not in competition, and e-commerce sales belong to the malls. Promoting e-commerce platforms in physical malls makes the shopping experience more convenient for consumers and enhances the motivation of employees.

### **4. Problems and Suggestions of IKEA Marketing Strategy in the New Retail Era**

#### **4.1. Product Decision**

In the post-epidemic era, there is a growing emphasis on the concepts of sustainability and affordability. IKEA is aware of the changes in the consumer market at this stage and has set its priorities for 2021 in terms of sustainability and affordability [9]. By adapting raw materials and eliminating wasteful resources, IKEA is going green and providing consumers with more environmentally friendly and sustainable home products. IKEA's commitment to renewable energy has significantly increased the proportion of deliveries made by electric vehicles from 70% to 90%, and the number of cities delivered entirely by electric vehicles has increased to 17 [9]. By developing more sustainable products, IKEA can help consumers discover the infinite value in their homes and use their emotional appeal to increase consumer stickiness.

#### **4.2. Promotion Decision**

Due to the recession caused by the New Crown epidemic, the home furnishing industry as a whole experienced a decline in sales. IKEA staggered daily promotions with holiday promotions, hoping to achieve both quality and savings. By providing consumers with a clearer timeline for ongoing promotions, the problem of consumers easily missing out on promotions was addressed. Themed promotions are conducted according to consumer demand, with special offers and significant price reductions to widely attract consumers. And online and offline sales together to meet the real needs of consumers.

#### **4.3. Channel Decision**

With the rapid progress of information and communication technology, new media has gradually become one of the main means of corporate marketing [9]. Under the influence of the new crown epidemic, consumers' lifestyles are gradually shifting to online. However, IKEA currently has fewer online brand promotion strategies, and IKEA's official account has a low fan base and low influence [10]. It is suggested that IKEA should establish a marketing team for self-media, increase its



promotion efforts on popular self-media platforms, and form a media promotion network through a combination of old and new media marketing to achieve accurate and efficient brand promotion and further expand brand awareness.

## 5. Conclusion

From the perspective of the overall development trend of the home furnishing industry, the focus of future competition will shift from product and price to sustainable marketing and diversified sales channels. The advent of the new retail era has opened up a new round of competition, as consumers begin to pursue personalization and diversification of products, and competition in online retail channels is particularly fierce. By analyzing IKEA's current market situation and marketing strategies, IKEA's implementation of a sustainable product production concept improved brand communication model and diversified marketing strategies, and continuous search for its own development direction and market opportunities will realize IKEA's steady development in the increasingly competitive Chinese market. Since this thesis deals with only one company, IKEA, it cannot represent the situation of all companies in the new retailing era. It could be improved by considering more cases from other retail industries to get a more comprehensive analysis of marketing strategies. A comparative study of the strengths and weaknesses of Chinese and foreign retail industry companies can also be conducted in future studies.

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