

Marketing Localization of IKEA in China - Lessons for Western Multinationals

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Abstract: The rate of failure of western multinationals in China in consumer industries is very high. IKEA is a classic case of a western multinational that started off with many problems and yet, persisted, adapted and succeeded in the market in China. The level of market orientation which has been deployed by the company is very high. This has been made possible through a long-term view of the market, which was not sophisticated. It had to engage in educating consumers, reposition itself and engage in organic knowledge development, while adopting a long-term view of the market. When it comes to western multinationals, the case study of IKEA shows that they must be prepared to reposition themselves, must develop value propositions that are suitable for the market and implement strategies which will actually work in the foreign market, rather than standardization in a rigid manner, that will surely result in failure. The regional differences within China must also be considered seriously and western multinationals must be prepared to engage in hyper-localization in some elements of the marketing mix.

Keywords: international marketing, consumer culture, marketing strategy, marketing adaptation and standardization

1. Introduction

IKEA, a Swedish based leading furniture retailer has market presence in many countries globally. IKEA initiated its global expansion first to US market and then it expanded its international operations in European countries and then in 1998, IKEA set its foot in China where it extended its business model of selling low-cost affordable furniture to urban customers in China similar to the way they market products in western countries [1]. Even though, IKEA was able to generate revenue, it was not profitable. It has to be noted that many Western brands faced failure in the Chinese market because they lagged behind in adapting to Chinese market, its diversity and culture and most of the brands did not possess the patience to adapt and gain knowledge from a new and unique market like China [2]. Western brands perceive China as a singular market and equate it to the EU market [3]. But China is very unique in being diverse in market conditions and it is a huge market that comprises of socio-economic variations and cultural diversity.

IKEA is known for its affordable and cheap furniture products and good quality products in Western countries. However IKEA was not the cheapest brand in China and IKEA was not affordable to middle class consumers in China. This necessitated IKEA to develop different strategies specific to China with the aim of adapting to the local market environment to be more profitable [4]. IKEA

transformed its market positioning strategy of being highly affordable and cheap to be innovative and creative in Chinese market and establish itself as an aspirational and innovative global brand in China [2]. In order to minimize product costs and be profitable, IKEA started to source raw materials from local suppliers and manufacture furniture in China. However this was a sequential and slow process of gaining local market knowledge to adapt in China [5].

IKEA in China will be an appropriate and apt case study about a global western brand that is successful in adapting and in competing in a tough Chinese market. So, analyzing the success of IKEA in China and its strategies to adapt to local market conditions and customer preferences and their long-standing strategy of standardization will be an interesting and crucial study to understand the strategies for global and western multinational companies to expand to China or the brands that are struggling to be the market leader and competitive in China. Thus, this is the principal objective of this study.

2. Literature Review

Contemporary management and marketing of multi-national companies focuses on the market needs that are changing rapidly and understanding it in detail to meet the needs and preferences of customers [6]. This is termed as market or customer orientation which is about the readiness of a firm to recognize and understand the market demands in different ways [7]. The internal culture, processes and systems of a firm and external environment like market characteristics etc. will determine customer or market orientation of organizations.

The internal and external factors determine the degree of adaptation taken up by the firm to meet the customers' changing needs [8]. This market orientation in international market happens when the organization is dependent on the revenue from international market and also for surviving the competition and this will lead to a higher level of adaptation. International market orientation and adaptation by global firms are highly essential in a competitive global market. If the market is being considered to be small by a multinational firm or if the market is of low importance, market orientation level will indicate a lower level of adaptation in such markets than important and potential markets. Multinational companies must implement organizational learning orientation so that their adaptation strategy will be effective and this will result in the innovation of products or services in the target market as indicated in Figure 1 [9].

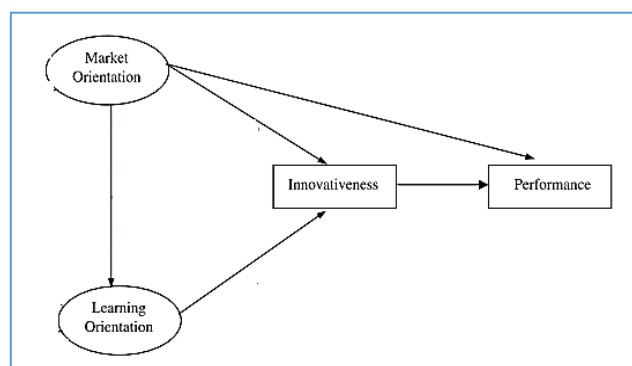


Figure 1: Market orientation and organizational performance [9].

The above presented statements indicate that a global organization's orientation has to recognize market needs and understand uniqueness of the market, in addition, standardization and adaptation strategy of the firm has also to be researched. Related to this aspect, before emerging economies gained sophistication and scale, globalization was assumed to erase the differences at nation-level and western corporates did not implement adaptation to markets with differences especially in Asian

countries [10]. This might not be a valid supposition. The results of globalization have an impact on people and in-turn people also influenced the international and multinational companies [11]. The influence of the local is there on globalization and vice versa. Moreover, standardization has extended benefits like reduction of management and production cost because the firm need to implement complex adaptations and the firm can gain economies of scale [12]. In marketing, standardization of product or service will minimize product or service cost, distribution cost etc. Globalization has proven to enhance divergences and so, organizations' standardization in marketing strategy will fail in divergent markets [13, 14]. Glocalization is a term that encompasses localization and standardization and attaining appropriate balance is essential and this balance is a success factor in divergent markets for multinational corporates [15].

India and China are considered as fastest growing emerging economies and highly potential markets for global organizations [16]. Emerging economies have complex and unique market characteristics and national cultures [17]. Thus, multinational firms developed marketing strategies specific to such emerging economies [12]. Many researchers have developed models that represent adaptation in a new market by international firms and the factors that influence it.

Behavioral model, which was one of the early models proposed to indicate the relationships that emerge through imports or joint ventures in emerging markets depend on the cognitive understanding of the country's culture and the role of trust among partners which are essential in learning the market and understanding the market needs [18, 19]. Network Model is another model which proposes the formation of a local network for better adaptation and remaining competitive [20].

Adaptation level depends on the market entry strategy of a multinational company. The market entry mode determines the financial resources needed and the risk involved [12]. Thus, market entry model is deterministic of adaptation level [21]. The adaptation level is determined by the market potential in the target country, cultural distance from the host country, development and growth potential of the local market, its sophistication and receptiveness of the customer for international brands [22]. Business-political relationship model, focuses on relationship with institutions and political establishments which the multinational organizations establish in emerging economies [23].

Social influences and political relationships are essential in global businesses and the embeddedness of the firm will determine their marketing adaptation. Five dimensions of adaptation in marketing in emerging markets were proposed [24]. They are "market heterogeneity, governance from the socio-political perspectives, abundance or shortage of resources, unbranded competition and level of infrastructure or local value chain sophistication" which determine adaptation of multinational companies. For instance, Home Depot, a US based hardware retailer, failure in China and developed the CELM model ("Culture, Business environment, Consumer lifestyle and Consumer Mindset") [25]. CELM and five dimensions model analyse the variations in socio-culture, consumer and political aspects. The above-mentioned models can support the analysis of marketing strategy adaptation taken up by IKEA in China to be successful and retain its competitive position in China.

3. IKEA Adaptation in China

By analyzing the international marketing strategies of IKEA in China, a case study is being developed by the researcher. A case study "is the detailed examination of a single example of a class of phenomena, a case study cannot provide reliable information about the broader class, but it may be useful in the preliminary stages of an investigation" [20]. The context in which IKEA's marketing strategies in China are studied will allow the researcher to develop a case study that is highly apt for this study. For this research, international marketing strategies of IKEA in China has to be focused upon from 1998, the year IKEA entered China to till date. For this purpose, the researcher will access a wide range of data sources, including Annual reports, media releases and corporate communications and reports of IKEA, reports related to the furniture retailing industry and market analysis reports

from various research organizations, and business reports, sources and news or magazine articles, reports from consulting firms that are trust-worthy and reputable will also be utilized.

IKEA entered the furniture market in Europe when low price was considered as low quality; through innovation it was able to offer low prices with high quality [26]. When IKEA entered China in 1998, it was the company's first foray into an emerging economy that had considerably low affordability even for IKEA's low-priced products [5]. Even if the company strove to become cheap in China, it could never hope to compete with the domestic competitors, who could manufacture for less, while also quickly imitating the products of IKEA. How IKEA reposition itself is shown in the Figure 2, which shows that IKEA started procuring more in China to bring down costs, while hoping to become affordable rather than being the cheapest.



Figure 2: Value proposition and value network - China versus Europe [5].

Thus, the brand focused on being considered an aspirational, global brand for the rising middle classes of China, which had very little exposure to global trends in furniture [27]. Chinese homes were typically smaller than European and American homes and therefore, products of IKEA had to be adapted to be smaller in dimensions and also redesigned to suit Chinese cultural preferences [3].

The above arguments cater to understanding of some of the marketing mix elements. It must also be noted that the basis of marketing is the customer segments which are taken up for targeting and positioning, in a comparative manner. When this is considered, IKEA considered the market to be unsegmented in Europe and the US, wherein its value proposition a simple – just being the cheapest in the market. However, in China, IKEA positioned itself not as a cheap brand but as an aspirational brand for the middle classes in the country, which is also the fastest growing market segment in China which was driving consumption [28]. In 1970, only 2% of the households in China were categorized as middle class, while in 2015, this stood at 70% of the households in the country, which shows the size of this customer segment and the wisdom of IKEA to target this segment [29]. Therefore, even though the typical Chinese household will not find its products to be cheap, it is not targeting the affluent consumers in China, but the middle class, which is much larger in size. IKEA customers in China were first-time homeowners and therefore, had to be educated and provided with more immersive experiences. This often meant customers took product testing to a whole new level, in the form of spending the whole day at IKEA, sleeping on beds and lounging on sofas (Figure 3), while relishing the unique cuisine that was offered in food courts [22]. Since Chinese households are first-time homeowners, IKEA arranges its furniture displays as entire living and bedrooms, kitchens, etc. which clearly allows Chinese consumers to visualize how they want to furnish their homes [30].

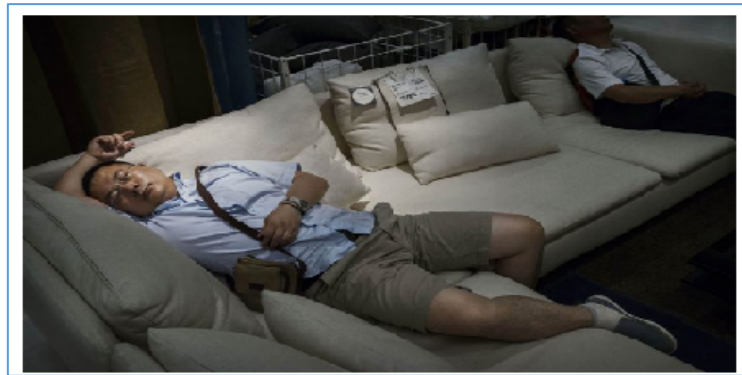


Figure 3: Customer testing a couch at IKEA China [30].

The retail experience that is afforded to IKEA store visitors must also study how marketing has been adapted for the market in China. Chinese consumers do not see IKEA stores just as a shopping destination, but also as a place to spend time for the whole day with the entire family [22]. The stores are typically larger in China than in European nations which allows for a large number of families to be spending extended hours visiting them. The food that is available is also a major attraction for Chinese families, with IKEA having some delectable food items, which are from Sweden and also recipes which are adaptations of Chinese local cuisines that are special in specific cities or regions [1]. Spicy crayfish in Shandong and Sichuanese hotpot in Sichuan are some of the local delicacies that are offered in the IKEA stores in these cities. Thus, the marketing of IKEA in China is more experiential in nature when compared with its marketing strategies in Europe and in other markets.

A clear example of the market orientation of IKEA in China is evident in the realization of the company that there was no do-it-yourself culture in China. The famous buy and assemble at home has been very successful in developed nations, while this is not applicable to China, where customers expect IKEA to deliver them products through expert installation. Labour is cheaper in China and therefore, IKEA arranged for employees to visit customers' homes to assemble the furniture they have bought [30]. The level of adaptation in the market strategy of IKEA must also be studied through the staffing strategies that have been adopted by the company in China. The company only delegated Swedish employees to a few senior management positions, while staffing all the middle management positions and lower with Chinese employees [31]. This enabled organic knowledge development from within the operations in China through intense staff-customer interactions. Chinese employees are paid and treated just like employees in the home country of Sweden and there is no discrimination or differential staffing standards [8]. The staffing standards of IKEA in China are much higher than what is needed legally in China when compared to those which are followed by the competitors of IKEA in China.

IKEA has been a very late entrant into the social media marketing fray in China. However, it has been very successful in e-commerce, with a quarter of all sales happening through digital channels, which was just 5% in 2015 [1]. It has recently opened its own store in Tmall, the e-commerce platform of Alibaba, which allows IKEA to serve customers all over China, not just the cities in which it has a physical presence. IKEA is engaged in broad-based digitalization across its business in China [32].

At the macro level, Figure 4 shows the market adaptation which has been effected by IKEA over the decades [19].

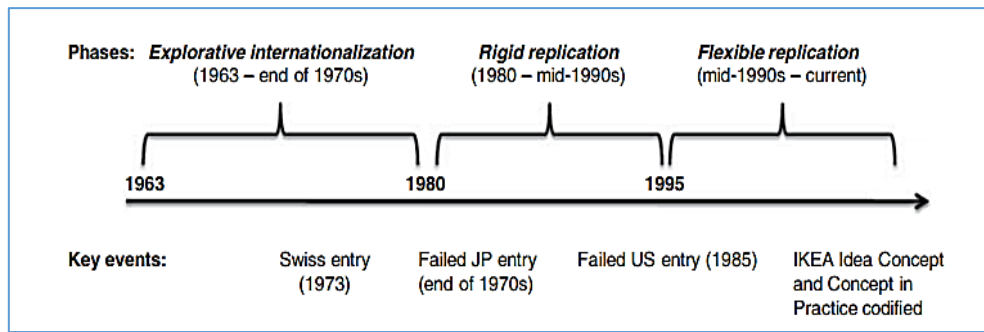


Figure 4: Timeline of IKEA's market adaptation [19].

It started with expansion into markets within Europe which did not demand any major adaptation, which was followed by rigid replication of this to distant markets like Japan and the US. The early failures of these expansions created flexible replication [19]. As per this, IKEA followed high levels of market orientation in customer-facing elements, while following the core values of quality, innovation and superior value proposition across markets.

4. Conclusion

In conclusion, it can be stated that the role that is played by the market orientation of the firm to understand and adapt to the realities of the foreign market may be considered as the foundation of international marketing. This is clearly evident in the case of IKEA, which started with rigidity and evolved to flexible marketing strategies in China. The long-term view of the firm and the level of importance that is placed on it may be considered as an antecedent for market orientation. IKEA considered the market in China to be crucial in its global strategy and therefore, it persisted even after initial setbacks and poor growth. After experimenting with various adaptation strategies in marketing, it seems to have standardized its strategies for China. Yet, the company is experimenting with e-commerce and social media marketing now, which is the next stage in adaptation. Thus, marketing strategy adaptation is a constant process and needs to be viewed from a long-term perspective. When it comes to western multinationals, the case study of IKEA shows that they must be prepared to reposition themselves, develop value propositions that are suitable for the market and implement strategies that will actually work in the foreign market, rather than standardization in a rigid manner, which will surely result in failure. The regional differences within China should also be considered seriously and western multinationals should be prepared to engage in hyper-localization in some elements of the marketing mix.

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