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IKEA's International Expansion

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Abstract

This case concerns a global retailing firm that is dealing with strategic management and marketing issues. Applying a scenario of international expansion, this case provides a thorough analysis of the current business environment for IKEA. Utilizing a variety of methods (e.g. SWOT, PESTLE, McKinsey Matrix) the overall objective is to provide students with the opportunity to apply their research skills and knowledge regarding a highly competitive industry to develop strategic marketing strategies. The case is oriented towards upper-level undergraduate or MBA marketing students and can be taught within a one to two-hour class with several hours of outside student preparation.

Keywords IKEA, Home Furnishings Industry, International Expansion, Expansion Strategy

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Introduction

Traditionally in Europe, children inherited their furniture from their forefathers. However, modernization and globalization in both developed and developing countries have changed consumer buying patterns. Recently, younger generations are more prone to purchase low costing, portable contemporary furniture and home furnishing products (Jonsson, 2008). As a result, global retailer IKEA has intentionally designed their products to cater to this target market, further reducing costs by streamlining operations with local suppliers. In fact, IKEA is a model example of a company that has redesigned an industry in relation to how its supply chain operates (Antidote Issue, 1997). IKEA has successfully implemented it's strategic business models in numerous countries in Europe, North America, Asia Pacific and Russia/Ukraine (Jonsson, 2008).

Furthermore, IKEA intends to extend their corporate strategic models when entering Serbia, Croatia, South Korea, Russia, China and India (Bloomberg, 2011). IKEA is world renowned for combining competitive low pricing with high quality products, within an appealing store setting (Reynolds, 1988). In fact, IKEA's corporate slogan is "Low price with meaning", and Vision Statement is "To create a better everyday life for the many people" (IKEA Group, 2011; Moon, 2004). In other words, IKEA's main driving force is to provide customers with trendy functional products with minimalist lines, that are manufactured cost-efficiently with suppliers, and priced low enough so that most people can afford them (Hill & Jones, 2005). Moreover, IKEA "measures strengths by utilizing Key Performance Indicators (KPI) which help assess the progress of its vision and long-term goals by setting targets and monitoring progress" (Times, 2009, p. 3).

The purpose of this report is to ascertain how IKEA should determine its strategic position in continued international expansion. First of all, an extensive literature review on IKEA's company background and worldwide expansion will be provided. Secondly, an in-depth analysis of IKEA's life cycle, product range, target market segmentation, corporate and business strategies, and financial performance results will be critiqued. Thirdly, SWOT, PESTLE, market competitor analysis, McKinsey Matrix, and organizational gap analyses will be utilized to determine IKEA's trends and growth. Fourthly, IKEA's challenges in penetrating US, Japan, and China home furnishing markets will be fully addressed. Finally, recommendations for innovative strategies in contributing to IKEA's future growth and revenue stream will be evaluated.

Company Background

Industry and company background

The name IKEA comes from the initials of the founder, Ingvar Kamprad, his farm Elmtaryd, and his county, Agunnaryd, in Småland, South Sweden (Moon, 2004). Since IKEA's humble beginnings in 1943 on Kamprad's small farm, to opening it's first furniture showroom in Almhult, and later large scale Scandinavian and international expansion in Europe, North America, Asia Pacific and Russia/Ukraine, IKEA has become one the world's most successful global retailers (Hill & Jones, 2005; Jonsson, 2008; Moon, 2004). By 2008, IKEA had 253 home furnishing superstores in 36 countries and territories and was visited by 583 million shoppers generating €21.2 billion in sales (Times, 2009; Hill & Jones, 2005).

Company product and services

Product Strategy Council

IKEA sells from 8,000 to 10,000 home furnishing products from kitchen cabinets to candlesticks (Hill & Jones, 2005). Products have a "democratic design", which according to Kamprad, “was not just good, but also from the start adapted to machine production and thus cheap to assemble.” (Hill & Jones, p. 16). IKEA manager Gillis Lundgren adds that IKEA “finds ways to alter the design of furniture to save on manufacturing costs” (Hill & Jones, 2005, p. 16).

Product development undergoes a rigorous process, overseen by a product strategy council, which consists of select senior managers who establish priorities for IKEA’s product line-up (Moon, 2004). Once prioritized product line-ups are determined, product developers analyze prices, thereby reducing the price point by 30% to 50% (Hill & Jones, 2005). When the target retail price for the proposed product is set, the company selects a manufacturer to produce it, and distributes a description of the product’s specifications and target cost to its suppliers, encouraging them to compete for the production package (Moon, 2004). This process may take as long as 3 years, even though IKEA replaces a third of its product line every year (Bloomberg, 2005; Hill & Jones, 2005). According to Hill & Jones (2005) “about 90% of all products were sourced from independent suppliers, with 10% being produced internally” (p. 21). Before shipping, all products are placed in “flat-packaged” boxes, to reduce transportation costs for both IKEA and the consumer (i.e. more items can fit into a crate, which means fewer delivery journeys, and reduces warehouse costs and damages) (Moon, 2004; Times, 2009).

Retail Outlets

IKEA trademark blue and yellow retail outlets average 300,000 square feet, and have meticulously designed store layouts. (Bloomberg, 2005; Moon, 2004). Store interiors are deliberately designed to require customers to pass through each department before arriving at the checkout (akin to a maze), thereby enticing customers to make more impulse purchases during shopping (Hill & Jones, 2005). Shoppers are encouraged to try out and test products in the furniture showroom. Consumer concerns about quality control and longevity are also addressed (e.g. seat testing machines work demonstration products to destruction) (Reynolds, 1988). For easier purchase decision making, each display has pricing information, materials used, colors available, instructions for care of the product, product dimensions and characteristics itemized on a standard ticket, and where to order and collect the product within the store (Antidote Issue, 1997; Reynolds, 1988). IKEA provides extra-wide checkouts, with roof-racks available for purchase (to ease transportation of products), or home delivery options for an additional extra charge (Reynolds, 1988). There is also a fourteen day "No-Nonsense Return Policy" (Reynolds, 1988). In addition, IKEA further entices customers to stay longer by having restaurants (usually in the middle of the store) and child-care facilities (located at the entrance) (Hill & Jones, 2005). This form of "gentle coercion" is to keep customers in the store as long as possible (Bloomberg, 2005).

Target Market Segmentation

IKEA's main consumers are classified as young, middle class, and upwardly mobile, who prefer low-priced but trendy furniture and household products (Hill & Jones, 2005). Moon (2004:8) describes IKEA's target market in the US as "someone who traveled abroad, liked taking risks, liked fine food and wine, had a frequent-flier plan, and was an early adopter of consumer technologies". Recently, IKEA has developed its product plans to increase its use of waste or recycled materials due to their customers increased demand for eco-friendly products (Time, 2009). It is however important to note that the average age and income level in most developed countries is expected to rise, while IKEA's target segmentation of young, low- to middle-income families is expected to shrink (Harvard Business School, 1996). Therefore, IKEA may need to adjust their STP strategies accordingly.

Corporate and business strategies

IKEA’s main corporate strategy focuses on offering customers low priced contemporary designed, functional products (Bloomberg, 2005; Time, 2009). Through its “steely competitiveness”, and “relentless cost-cutting”, IKEA strives at lowering prices on all products by an average of 2% to 3% each year (Bloomberg, 2005:54). Mark McCaslin, manager of IKEA Long Island, in Hicksville, N.Y. corroborates this: "We look at the competition, take their price, and then slash it in half" (Bloomberg, 2005: 54). To achieve this, IKEA spends considerable time on product development (constantly finding new ways to manufacture products cheaper), and strengthens long-term relationships with their suppliers (Harvard Business School, 1996). Strategic global outsourcing of product manufacturing has enabled IKEA to effectively reduce prices on their product, leading to international expansion (Hill & Jones, 2005). Moreover, productive internal competitiveness developed among the retail outlets and supply chain distributors (Harvard Business School, 1996).

However, during expansion IKEA has encountered various pitfalls in building supply networks (Hill & Jones, 2005). For example, in Eastern Europe, after the fall of communism, new managers of manufacturing companies did not have loyalty to IKEA, and often “tore up contracts, tried to raise prices, and underinvested in new technology” (Hill & Jones, 2005:21). As a result, IKEA adapted quickly by purchasing a Swedish manufacturer, Swedwood, thereby giving IKEA a low-cost supply source, inside knowledge about the manufacturing process in

Eastern Europe, and the ability to help suppliers adopt new technology and drive down their costs (Hill & Jones, 2005). Another example of IKEA's corporate strategy in building relationships with suppliers is in Vietnam, where IKEA has expanded its supply base. Vietnam suppliers offers low-cost labor and inexpensive raw materials, while IKEA provides the prospect of forging a long-term, high-volume business relationship, and advice on locating the best and cheapest raw materials, setting up and expanding factories, choosing what equipment to purchase, and strategies to boost productivity through technology investments and management process (Baraldi, 2008; Hill & Jones, 2005).

It appears evident that IKEA has adapted to international markets, while remaining true to its business concept (Johannson & Thelander, 2009). In other words, IKEA is a concept driven company, where it is essential to manage operations, and share knowledge the IKEA way, regardless of the location of the retail outlet (Jonsson, 2008). Open communication is vital to IKEA's operational systems. For example, whenever a problem occurred, both external and internal networks are utilized to find speedy resolutions. This corresponds with research arguing that it is important to build good relationships in order to enable the sharing of knowledge (Ghoshal, Viorine & Szulanski, 1994, as cited in Jonsson, 2008).

Other competencies such as purchasing raw materials in bulk at cheaper costs (e.g. wood), streamlining decision making, maintaining delivery schedules and filling available manufacturing capacity with suppliers, mastering new technology in furniture production, and effective advertising methods (e.g. product catalogues and wacky promotions) have all contributed to IKEA's distinct competitive advantage in the furniture industry (Bloomberg, 2009; Bloomberg, 2005; Hill & Jones, 2005 ; Harvard Business School, 1996:6).

Financial Performance

For the first time in IKEA's history, financials were revealed in 2010. Total revenues reached a record high of $31 billion, representing an 8 percent increase from the previous year (Bloomberg, 2011). In 2010, retail operations saw growth in most markets (2.4%), especially China, Russia and Portugal, with increased sales to €23.1 billion (7.7% from 2009) and profitability of €2.7 billion (IKEA Group, 2011). In addition, higher sales and reduced costs in supply chains, led to gross margin improvement from 44.6% to 46.1% since 2009 (IKEA Group, 2011). However, operating costs increased from €7.2 billion to €7.9 billion, mainly due to legal issues in Russia (over diesel generators), and the impairment of assets in industrial groups (IKEA Group, 2011). IKEA adjusted accordingly by reducing expenses by 2.3% (from 2009), with higher currency results also compensating for decreased financial net interest income (IKEA Group, 2011).

The tax rate increased from 13.2% to 17.6% mainly due to higher taxable profits (especially in countries with higher nominal tax rates), with corporate income taxes totaling €577 million, and €150 million in property taxes (IKEA Group, 2011). Investments in property (12 new stores and eco-friendly wind farms) and increase in cash and securities led to an increase from €3.7 billion to €41.3 billion in total assets, with securities rising from €2.5 billion to €15.2 billion (no credit losses), and total equity amounting to €22.8 billion (IKEA Group, 2011). (For full Financial Data, see Appendix B)

Strengths/Advantages

See Appendix C (SWOT analysis)

Current Analysis

Competitor Analysis

Although IKEA's smaller competitors have less buying power with suppliers (due to less volume orders), they may be able to respond quicker to emerging trends in the market (less inventory or product orders) (WEC, 2011). However, IKEA maintains long term mutually beneficial relationships with suppliers to ensure direct communication to meet the needs of the customer (Jonnson, 2008). In fact, IKEA's networks extend all the way to the raw material suppliers of its products (unlike Wal-Mart) (Baraldi, 2008). With larger competitors, IKEA's main focus is minimizing costs to maintain competitive advantage.

Another competitive advantage is IKEA's absence of production facilities, factories, and warehouses, since all manufacturing is outsourced to local suppliers (WEC, 2011). Moreover, IKEA's brand name value renowned for high quality, low priced, modern contemporary products, poses challenges for new competitors to enter the home furnishing market (i.e. brand loyalty) (WEC, 2011). IKEA also differentiates strategically from competitors by placing outlets in geographic locations best suited for their customers (e.g. near suburbs in Europe and North America and metropolitan areas in China) (Johannson, & Thelander, 2009; WEC, 2011).

Organizational Structure

IKEA is a model global corporation, often described as "the prototypical Teflon multinational" because "no charge ever sticks for long." (Newsweek, 2009 as cited in Bloomberg, 2009:26). Some view IKEA as the "quintessential global cult brand", with an egalitarian culture . (Bloomberg, 2005:26; Hill & Jones, 2005). For example, at company dinners employees eat first, followed by managers, then directors and Ingvar Kamprad often last (Harvard Business School, 1996). Kamprad himself is an informal and frugal man, whose values are legendary and permeates IKEA's organization (Hill & Jones, 2005). All employees are discouraged from wearing business attire (jeans and sweaters preferred), and encouraged to find innovative ways to reduce costs within all levels of the organization (Harvard Business School, 1996). Even the founder models this by flying economy class, eating at inexpensive restaurants, and furnishing his home only with IKEA's furniture (often for prolonged periods of time) (Bloomberg, 2011). In other words, cost consciousness, especially travel and entertainment expenses are particularly sensitive areas. For example, while on a business trip, Kampar found his hotel too expensive (by 5Kr) so he drove around town late at night checking hotel prices, till he found one economical enough (Harvard Business School, 1996).

Kamprad stressed an informal (no titles, privileges, or perks), team-based, nonhierarchical organization (i.e. matrix organization), clearly emphasizing the need for an open flow of knowledge and information within management (Jonsson, 2008). He prefers speaking directly to front-line operation managers (especially the designers and the purchasing group), rather than delegating to upper management (Harvard Business School, 1996). The IKEA management process is face paced, emphasizing simplicity and attention to detail (Harvard Business School, 1996). Moreover, since it is expected that people enjoy their work at IKEA, salaries are not particularly high (Hill & Jones, 2005). Kamprad also views his organization as a family, with its core value being "love" (Hill & Jones, 2005, p. 23). Therefore, he employs like-minded individuals, where the most important value is ödmjukhet—a Swedish word that implies humility, modesty and respect for one's fellow man (Harvard Business School, 1996).

Creativity is also highly valued (especially within the design team) (Hill & Jones, 2005). IKEA will not become publicly listed in the near future, since Kamprad believes the stock market would impose short-term pressures on IKEA, thereby affecting the long-term goals of the company (Hill & Jones, 2005). Stichtung INGKA Foundation (the world's biggest non-profit legal entity) controls INGKA Holding (a Dutch corporation) which in turn controls IKEA. This entitles IKEA to tax exemptions for substantial donations to charities (Bloomberg, 2011).

Current IKEA Strategic Performance

US market

When IKEA entered the US market in 1985, low end general discount retailers such as Wal-Mart, K-mart, Target, and Sam's Club, and office supply stores such as Office Depot, and discount warehouses such as Costco (who sold a limited product line of basic furniture) were the main competitors (Bloomberg, 2005; Harvard Business School, 1996; Moon, 2004; Hill & Jones, 2005). However, their furniture was generally lower quality, primarily functional, and lacking contemporary innovative designs. The high-end retailers, such as Ethan Allen, Thomasville, and Jordan's furniture offered high-quality, well-designed, high-priced furniture, and home delivery services including set up in customers homes (either for free or a small additional charge) (Harvard Business School, 1996; Hill & Jones, 2005; Moon, 2004). In addition, due to the expensive costs in warehousing high-end furniture, much of what was on display in stores was not readily available, and the client would often have to wait a few weeks before it was delivered (Harvard Business School, 1996).

Initially, IKEA had challenges meeting American customers' needs. For example, stores weren't large enough (thereby offering the full IKEA experience), and many were in poor locations, beds were not long enough and did not fit American sheet sizes, bedroom wardrobes not deep enough, kitchen cabinets did not fit US size appliances, sofas were too hard and not big enough for American comfort, curtains were too short, product dimensions were in centimeters rather than inches, and kitchenware was too small for American serving-size preferences (e.g. glasses) (Bloomberg, 2005; Hill & Jones, 2005; Moon, 2004). In addition, prices were too high since IKEA was sourcing many of the goods from overseas, priced in the Swedish kronor, which was strengthening against the American dollar (Bloomberg, Nov 14, 2005; Hill & Jones, 2005). Therefore, IKEA had to localize products, find modern, larger store locations, and outsource goods from local lower-cost suppliers (lowering transport costs and currency devaluation) (Hill & Jones, 2005). Fortunately, American consumption patterns also changed towards an interest in contemporary design, and the idea of disposable furniture (IKEA's main product line) (Hill & Jones, 2005). As a result, IKEA started promoting with a series of "quirky hip advertisements" aimed at their American target market (i.e. young, married couples, college students) (Hill & Jones, 2005:19). However, copycat competitors such as California-based retailer Stör, followed IKEA's concepts in detail (from product design to in-store restaurants to ball-filled play areas for children) leading IKEA to file numerous litigations against them (Harvard Business School, 1996).

Regardless, from 1997-2001, IKEA was able to double revenue (from $600 million to $1.27 billion) (Hill & Jones, 2005; Moon, 2004). The United States had 35 stores (10% of total revenue-$2.4 billion) being the second-largest market after Germany (Hill & Jones, 2005).

Various sources indicate that IKEA plans to have 50 US retail outlets by 2013 (Bloomberg, Nov 14, 2005; Moon, 2004; Hill & Jones, 2005).

China market

Currently, Asia generates only 6% of IKEA's total revenue; however, IKEA sees major growth potential, especially in China (Bloomberg, January 16, 2011). China is the 2nd largest economy in the world, with GDP increasing over 10% yearly (Bloomberg, 2011). The Chinese government stimulus spending and favorable policies toward retailing and consumer lending have encouraged overall retail growth in China (Bloomberg, 2010). Although this may benefit IKEA's Chinese competitors, combined with increasing labor unrest among Chinese migrant workers (especially in International corporations), high import duties, and copycat imitations of IKEA's product line, IKEA projects success in the furniture and home furnishing market in China (Bloomberg, 2011; Jonsson, 2008). For example, IKEA has been allowed to exceed and expand its source of products in China, thereby ignoring the usual sourcing guidelines (same products from outside China) (Johannson, & Thelander, 2009). Producing goods locally to substantially lower prices is key to IKEA's success in China (as much as 70% lower than IKEA stores outside China) (Hill & Jones, 2005; Jonsson, 2008). Nearly 20% of all purchase volumes are made in China (Baraldi, 2008). In fact, previous IKEA executive, Stenebo, submits that raw materials (e.g. wood) purchased in China are purchased at lower than the average price (suggesting illegal purchasing) (Bloomberg, 2009). Baraldi (2009) adds that the technological advancements by Chinese suppliers also contributes to low cost but equivalent quality to traditional European suppliers. However, Jonsson (2008) argues that what is "even more important is to strengthen further IKEA's home interior competence, which is a key competitive advantage in China" (p.

29). Of course, extensive market and corporate knowledge is essential to fulfill this competency (Jonsson, 2008).

IKEA opened first in Beijing in 1998, followed by Shanghai and Guangzhou (by 2006), and 3 outlets in Hong Kong, with plans for investment of $1.2 billion in 10 outlets by 2012 (Bloomberg, 2010; Bloomberg, 2010; Johannson, & Thelander, 2009; Jonsson, 2008). These stores are close to the city (compared to IKEA outlets in other parts of the world), because the majority of Chinese consumers use public transportation (Johannson, & Thelander, 2009). Nevertheless, IKEA still built 700 parking places under the Shanghai store, with expectations that shopping patterns will change in the future (Johannson, & Thelander, 2009). Interestingly, IKEA's main target segmentation are Chinese females around 30 years old (since they often make decisions around home furnishings). Some research has indicated that this generation was born during China's "One Child Policy" and are believed to be "impulsive, easy to influence, very social, and committed to leading foreign consumer brands" (Johannson, & Thelander, 2009:57). In fact, Chinese consumers often use IKEA stores as a "social venue" or weekend family outing (often browsing or taking naps on some of IKEA's products) (Bloomberg, 2010). However, IKEA's GM in China indicated that, "Over the last 10 years, we've seen a very big change in the number of visitors that become customers," he said. "Most people buy something today." (Bloomberg, 2010).

Moreover, IKEA customizes showrooms according to Chinese living patterns and standards. For example, many Chinese people live in small apartments with balconies, therefore, IKEA has added model sets and special balcony sections in the stores to show how to furnish your balcony (Johannson, & Thelander, 2009). Local entrepreneurs have capitalized on home transport services for IKEA customers along with home assistance in assembling the furniture (especially since China does not have a Do-It-Yourself culture (Johannson, & Thelander, 2009). In addition, promotions and marketing are often internal, due to the costs and distances involved in distributing catalogues (Johannson, & Thelander, 2009).

Organizational Structure in China

IKEA has realized the need to adapt its organizational structure and competencies to fit with strategic partners within their networks (Baraldi, 2008). For example, the organizational structure in China was developed differently than the standard IKEA organizational set-up, mainly due to Chinese cultural tenets (e.g. Confucianist hierarchical values) (Jonsson, 2008). According to research on IKEA franchising in China, a certain amount of discontent was reported that HQ was not always very interested in knowledge coming from IKEA in China because of a lack of interest in the Chinese market (Jonsson, 2008). However, HQ had announced that China, Russia and Japan would probably be among the most important markets for IKEA in the future (Jonsson, 2008).

Japanese market

Even though IKEA had entered Japan and failed 30 years earlier, in 2002, the IKEA Group established IKEA Japan KK (Hill & Jones, 2005; Jonsson, 2008). Immediately, IKEA faced challenges in differentiating against local competitors Mujirushi Ryohin (Muji) and Nitori who were well-entrenched (numerous national stores), inexpensive (due to low-cost imports from developing Asian countries) and popular local brands (especially among IKEA's younger generation target market) (Bloomberg, 2006). This mature and saturated market created difficulties in attracting IKEA's target customers (Jonsson, 2008). Japanese consumers were very "quality oriented" and traditionally viewed high priced products as being of high quality (Bloomberg, 2006; Jonsson, 2008). However, many Japanese customers are "in the process of embracing the concept of value" (Bloomberg, 2006).

In addition, IKEA has localized its modern designs to include richer and darker wood products packaged in aesthetically pleasing boxes, which are preferred by their Japanese clients, and customized showrooms (small scale apartments) display fitted IKEA furnishings (thereby changing consumer buying patterns) (Bloomberg, 2006; Jonsson, 2008). Large retail outlets offer home delivery and assembly services, since the Do-It-Yourself culture has not yet been widely accepted in Japan (Bloomberg, 2006). In fact, IKEA is developing a service where old furniture is transported away, to make way for new IKEA furniture (Jonsson, 2008).

Marketing

Various marketing challenges exist in emerging markets like China and Russia and even developed markets like Japan. Therefore, IKEA needs to cooperate and share knowledge between the marketing departments within those countries (Jonsson, 2008). However, Jonsson (2008) argues that, "it may also be devastating to simply acquire a solution from, for example IKEA China to apply to IKEA Japan" (p. 33). For example, although IKEA experienced difficulties with copycat competitors in China, applying similar strategic marketing solutions in Japan may not be successful since copying in Japanese refers to copy something and to make it even better (Jonsson, 2008).

Anders Dahlvig, IKEA's group president, suggests that many competitors could try to copy one or two of these things. The difficulty is when you try to create the totality of what we have. You might be able to copy our low prices, but you need our volumes and global sourcing presence. You have to be able to copy our Scandinavian design, which is not easy without a Scandinavian heritage. You have to be able to copy our distribution concept with the flat-pack. And you have to be able to copy our interior competence—the way we set out our stores and catalogues (Moon, 2004:32).

Regardless, these strategic challenges must be rectified to meet IKEA's targeted potential sales volume, in order to fulfill its goal in opening 8–12 outlets (first stores in Tokyo) with 46 stores in the next 33 years (Jonsson, 2008).

Conclusion

In conclusion, IKEA has strategically designed their products to cater to their target market (i.e. younger generational families), while further reducing costs by streamlining operations with local suppliers. In addition, they have pursued a global expansion strategy of primarily entering countries going through periods of high GDP growth (i.e. China, Eastern Europe) or those developed countries with niches within the home furnishing industry (i.e. US, Japan). This research will further benefit analysts, academics or students seeking to better understand IKEA's primary points of success and weakness. Future research should be investigated into IKEA's strategic goals in entering emerging markets.

Questions

In considering an international market for IKEA and using the information available, the following questions may be pertinent to perform a thorough analysis:

1. In a feasibility study, what competitive advantages do the existing competitive entities have and which can be challenged by IKEA?
2. What specific difficulties will IKEA face in the PESTLE analysis? Is there an existing acceptance of foreign competition in the local market or do negative sentiments exist?
3. Does IKEA’s current STP match the potential target of the country? Are there any variations to consider?
4. What is the potential for strategic alliances/partnerships or joint ventures? Is this an advisable course of action?
5. How will IKEA source its raw materials?
6. Will localization of products be an important factor for IKEA and if so, in what way can IKEA pursue a localization effect?
7. Are there primary locations for IKEA to base its operations and will there be any challenges in this regard?
8. What other local concerns (values, norms, expected behaviors) should IKEA consider in the development of new markets?

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Appendix A

1943: After receiving money for his success in academic studies from his father, Kamprad began his business by selling fish, Christmas magazines, and seeds at the age of 17. He soon expanded his product range including ballpoint pens and furniture, delivering via mail-order and utilizing existing delivery routes (Harvard Business School, 1996; Hill & Jones, 2005; Moon, 2004).

1947: Kamprad expands furniture production via local manufacturers in the forests close to Kamprad's home (Moon, 2004).

1951: IKEA is prohibited direct sales to customers at fairs, thereby changing the customer order process through requests from IKEA furniture catalogs. Kamprad decides to discontinue all other products and focus directly on low-priced furniture (Moon, 2004).

1953: In Almhult, the first furniture showroom is opened (a converted disused factory), allowing customers to sample furnishings before purchasing. Kamprad converted a Company sales grow from SKr 3 million to SKr 6 million in less than 2 years (Harvard Business School, 1996; Moon, 2004).

1955-1956: Due to competitors pressuring IKEA suppliers, IKEA started to design its own innovative and low-cost furniture. IKEA manager Gillis Lundgren also invented the "flat-packing" concept (by removing a table's legs to fit into a customer's car), thereby reducing transportation, storage, and labor costs.

1957: IKEA displayed and sold furniture at home furnishing fairs in Sweden. By streamlining operations and using the self-assembly concept, Kamprad lowered costs of IKEA products compared to competitors (Moon, 2004). Moreover, he found that furniture manufactured in Poland was up to 50% cheaper than furniture made in Sweden (Hill & Jones, 2005).

1958: The first IKEA store is inaugurated in Almhult. 6,700 square meters of home furnishings. It was the largest furniture display in Scandinavia (Moon, 2004). The original idea behind the store was to have a location where customers could come and see IKEA furniture set up. It was a supplement to IKEA's main mail-order business. The store adapted to customer needs and soon started to sell car roof racks so customers could leave with flat-packed furniture loaded on top (Hill & Jones, 2005).

1961: IKEA's annual turnover was over SKr 40 million (80 times more than average competitor) (Moon, 2004).

1964: Over 800,000 IKEA catalogues had been mailed to Swedish homes. Swedish magazine Allt i Hemmet (Everything for the Home) published results that “not only was IKEA's quality as good if not better than that from other Swedish furniture manufacturers, the prices were much lower” (Hill & Jones, 2005, p. 16). As a result, IKEA sales skyrocketed.

1965: During IKEA’s grand opening in Stockholm (45,800 square meter store), thousands of customers waited to purchase products (Moon, 2004). Therefore, IKEA opened the warehouse and encouraged self-service (i.e. customers load flat-packed furniture onto trolleys, and proceed to checkout). This pivotal moment became an important concept for all subsequent IKEA stores (Hill & Jones, 2005). The second outlet was constructed larger, located just outside the city, had ample parking space, and implemented wide distribution of informative catalog, the use of explanatory tickets on display merchandise, stock of products in flat pack boxes, and the cash-and-carry concept (Harvard Business School, 1996).

1973: IKEA had 9 stores with a market share of 15%, becoming the largest furniture retailer in Scandinavia (Hill & Jones, 2005).

1974: IKEA opened near Munich, promising low-cost furniture, quick delivery, and the quality image of the Swedish Furniture Institute's Möbelfakta seal (Moon, 2004). However, the German retailers filed legal proceedings against IKEA with the support of the German courts, and curbed IKEA's activities. Regardless, by the late 1980’s IKEA’s business was successful with 15 stores, and had built a 50% share in the cash and-carry segment of the West German market (Moon, 2004).

1976-1982: IKEA successfully opened 7 stores in Canada (Hill & Jones, 2005).

1985: IKEA entered the US market in Philadelphia and the coastal regions (Hill & Jones, 2005).

1986: IKEA entered into a joint venture with a Hungarian retail chain, opening outlets in Budapest and later Leningrad (Harvard Business School, 1996).

1987: IKEA was slow to expand into the UK. Nevertheless, it had 17 stores by 2008 (successful entry in Warrington and largest home furnishing store in London) mainly due to acquisition of competitor Habitat in the early 1990’s (Harvard Business School, 1996; Hill & Jones, 2005; Moon, 2004).

1988: IKEA Poland built a $25 million warehouse and retail center near Warsaw, purchased furniture and established a joint-venture woodworking factory in Poland, planned outlets in Yugoslavia, and administration offices in Vienna (Harvard Business School, 1996).

1989: In Italy, during the first three days of operation, customers waited for 1 hour outside the store (Harvard Business School, 1996).

1998: IKEA entered China and had 4 stores by 2008 (Hill & Jones, 2005).

2000: IKEA expanded in Russia with 11 stores by 2008 (Hill & Jones, 2005).

2006: IKEA re-entered the Japanese market after failing 30 years previously (Hill & Jones, 2005).

2007: IKEA had home furnishing superstores in 35 countries and was visited by 583 million shoppers. IKEA generated sales of €21.2 billion in 2008, up from €4.4 billion in 1994 (Hill & Jones, 2005).

2008: The IKEA group had 253 stores in 36 countries and territories, with a further 32 stores owned and run by franchisees (Time, 2009; Hill & Jones, 2005). IKEA also had 1,380 suppliers in 54 countries such as China (21 % of supplies), Poland (17%), Italy (8%), Sweden (6%), and Germany (6%) (Hill & Jones, 2005).

2011: IKEA employs 127,000 people (Bloomberg, 2011).

Appendix B Financial Reports

CONSOLIDATED INCOME STATEMENT
SEPT 1 – AUG 31

(IN MILLIONS OF EURO)	2010	2009
Revenue*	23,539	21,846
Cost of sales	12,454	11,878
Gross profit	**11,085**	**9,968**
Operating cost	7,888	7,202
Operating income	**3,197**	**2,766**
Total financial income and expense	76	143
Income before minority interests and taxes	**3,273**	**2,909**
Tax	577	384
Income before minority interests	**2,696**	**2,525**
Minority interests	(8)	9
Net income	**2,688**	**2,534**

CONSOLIDATED BALANCE SHEET – ASSETS
AUGUST 31

(IN MILLIONS OF EURO)	2010	2009
Property, plant and equipment	15,982	14,206
Other fixed assets	2,683	2,652
Total fixed assets	**18,665**	**16,858**
Inventory	3,415	3,116
Receivables	2,238	2,797
Cash and securities	16,955	14,334
Total current assets	**22,608**	**20,247**
Total assets	**41,273**	**37,105**

CONSOLIDATED BALANCE SHEET – EQUITY AND LIABILITIES
AUGUST 31

(IN MILLIONS OF EURO)	2010	2009
Group equity	**22,841**	**19,775**
Long-term liabilities	4,296	4,509
Other non-current liabilities	1,325	1,395
Total non-current liabilities	**5,621**	**5,904**
Short-term liabilities	7,724	7,251
Other payables	5,087	4,175
Total current liabilities	**12,811**	**11,426**
Total equity and liabilities	**41,273**	**37,105**

Appendix C: SWOT Analysis for IKEA

Strengths	Weaknesses
-Strong international brand attracting key consumer groups, and ensures universal low prices, exceptional quality, well designed, functional, and wide range of products (Times, 2009) -Promotes social and environmental responsibility with all suppliers (e.g. production process increases use of renewable raw materials and transport) (Times, 2009) -IKEA has strong purchasing power (i.e. buys large volumes of bulk goods thereby providing barriers for competitors), and partnerships with suppliers (e.g. sourcing materials close to supply chain) to reduce costs (Times, 2009) -Utilizes new technologies to modify	-Increasing international expansion and obsessive need for low cost products creates challenges in maintaining universal standards and quality of products, with differentiation from competitors (Times, 2009) -Needs more transparency with consumers and stakeholders on profitability and environmental activities (e.g. Kamprad needs to hold more public interviews) (Bloomberg, 2009) -Recent negative publicity from former executive has damaged public image (e.g. lack of foreign management, alleged informer network, and cult ideologies) (Bloomberg, 2009; Harvard Business School, 1996)

products, thereby reducing raw materials needed (Times, 2009) -Solid revenue growth (IKEA Group, 2011)	-Concerns around losing patriarch Kamprad leading to demise of companies thrust and drive (Harvard Business School, 1996)
Opportunities	Threats
-Eco-friendly business conduct (i.e. green products, wastewater treatment, energy use reduction, lowering carbon footprint) and information (on website) may result in good returns even in price sensitive markets (e.g. during economic recession) (Times, 2009) -Social responsibility by donating to charities via IKEA non-profit organization (e.g. UNICEF, Save the Children (Times, 2009) -Increased opportunities for expansion and growth in Serbia, Croatia, South Korea, Russia, China and India (Bloomberg,, 2011)	-Social (e.g. less new home owners entering market), market (e.g. increase in low price household and furnishings competitors), and economic (e.g. recession causes less consumer spending) trends pose substantial threats to IKEA (Times, 2009)