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## Consultancy Project Report

To analyse the feasibility of IKEA's marketing strategies in the Chinese market



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## **Executive Summary**

With the accelerated development of China's domestic real estate industry also stimulated the development of the home furnishing industry. IKEA as a leading international home furnishing brand, it entered the Chinese home furnishing market successfully. The reason for IKEA's success is its unique marketing strategy, according to the PEST analysis, it is found that the Chinese market has a stable political environment and a loose tax policy, as well as a high consumption level and strong purchasing power of consumers. All these advantages bring a lot of opportunities to multinational companies like IKEA and help company successfully expand into the Chinese market. However, IKEA also faces the threat of alternative products and low customer satisfaction in the Chinese market. Therefore, IKEA need to enhance the quality of products and improve the after-sales services in order to solve those problems

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## **1.0 Introduction**

### **1.1 Introduction to the IKEA company**

IKEA is a Swedish multinational home furnishing company founded by Ingvar Kamprad in 1943 (Mcfarlane,2020). At the beginning of its establishment, IKEA upheld the business idea of “providing a wide range of high-quality products at affordable prices” (IKEA,2020) and used low-price strategies to attract more consumers. Nowadays, IKEA has become the world's largest household goods company, with tens of thousands of product types. IKEA company currently has 433 shopping malls operating in 52 countries all around the world. According to the 2018 IKEA financial report, its annual revenue reached € 38.8 billion (Anna & Sonya, 2018).

In 1998, IKEA entered the Chinese market and opened China's first IKEA store in Shanghai. As of 2019, IKEA has opened 28 stores in China (Thibaud,2019). At the same time, the data from financial report in 2018, IKEA's sales in China exceeded 14.7 billion, an increase of 9.3% over last year (Hampton group, 2018). For the Chinese market, the biggest attraction of IKEA lies in its Scandinavian design and good brand image (Richardson,2018), and IKEA's shopping model is also popular with Chinese consumers. The success of IKEA is closely related to reasonable marketing strategies.

### **1.2 Project justification**

As the economy continues to develop, the world market continues to expand, and interregional trade is further strengthened. Many companies are no longer limited to their domestic markets, and use internationalization to help companies expand to overseas markets (Kotler & Armstrong, 2001)

However, according to the views put forward by Welch and Loustarinen (1988), there are still great risks in international expansion. As a multinational company, IKEA has developed well in the European market, but after entering the Asian market, its development has been relatively slow. There is a certain gap in sales profit compared

with the European market (Burt et al., 2008). Therefore, a reasonable international market strategy is very important for the development of multinational companies in foreign markets. By using the PEST and SWOT analysis methods to assess the risks faced by enterprises in the external environment and internal environment, it can help companies make the right strategic choices and also estimate the feasibility of international marketing strategies.

### **1.3 Aim of this project**

With the global expansion of multinational companies and the continuous development of new retail formats, IKEA has undoubtedly become a leader in today's home furnishing industry. The aims of this consultancy project report is based on the content of the project description document, in order to evaluate the feasibility of IKEA's marketing strategies in Chinese market, and to help IKEA clarify their own advantages and disadvantages, so that the company can give full play to their advantages on the existing basis and avoid the risks and challenges facing overseas markets in the process of further expanding the Chinese market.

### **1.4 Objectives of this project**

Firstly, this project report will use PEST and SWOT tools to analyze the external environmental factors that affect the development of IKEA in the Chinese market, and explore the advantages and disadvantages of IKEA's international marketing strategy used in the Chinese market.

Secondly, this project report uses questionnaire survey research method to conduct a sample survey of consumers, in order to analyze consumer satisfaction with IKEA and find some areas for improvement. At the same time, some theoretical knowledge is explained through secondary research methods to help support the viewpoints in this report

Thirdly, it analyses the differences in marketing strategies between IKEA and various furniture stores, and then discovers the problems in the operation of IKEA in the Chinese market, and finally puts forward suggestions to improve IKEA's marketing strategy in China.

## **2.0 Environment Analysis**

### **2.1 PEST**

PEST analysis stands for 4 aspects "Political, Economic, Social, and Technological". It is a tool to used in analysing the macro-environmental factors of overseas markets (Burt et al., 2006). To analyse the macro-environment of a foreign market will help company with the decision-making process and reduce the impact of potential threats to the company(Pindince & Ionita, 2013). However, PEST analysis is not an effective tool and its research needs to spend a lot of cost and time(PESTLEanalysis,2016).

#### **2.1.1 Political factor**

The stability of the national political environment is an important prerequisite for multinational companies to enter the target market (Garnaut,2018). While China's overall economic development and people's living standards have been steadily improving, the legal system has been constantly improved, which has brought a stable political environment to China and also provided a good opportunity for international enterprises like IKEA to develop.

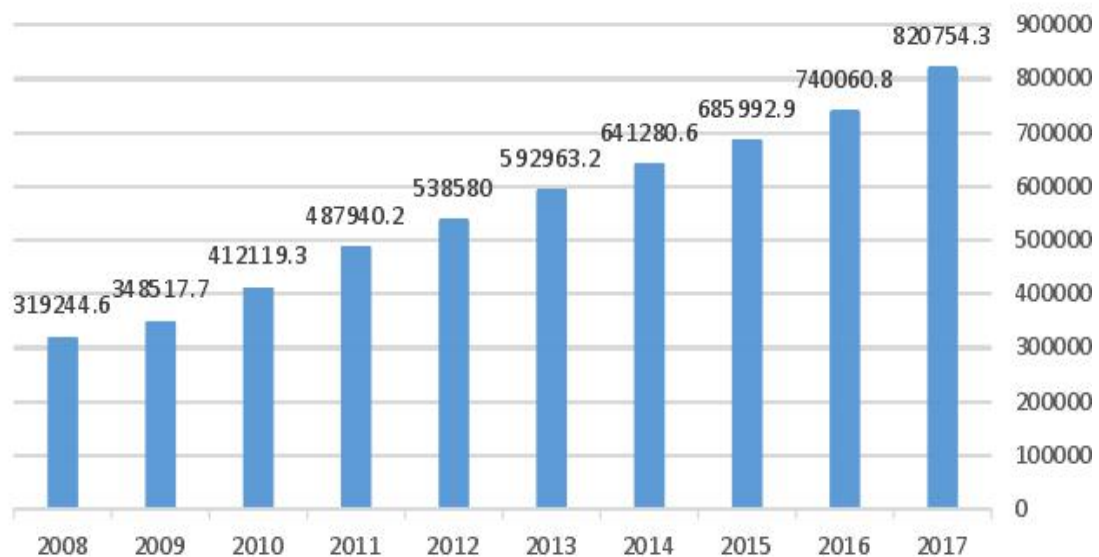
In order to promote economic development, China has introduced various preferential tax policies to attract more foreign companies to invest in China (PESTLEanalysis,2015). Many international brands use various policy advantages to expand their marketing in China. Therefore, the political environment is conducive to IKEA's development in China at present.

#### **2.1.2 Economic factor**

The economic factor refers to the external economic environment in which the operators are currently located. China's economy has been in continuous and stable

growth in recent years (PESTLEanalysis,2015). As shown in Figure 1, the continuous growth of GDP(Gross Domestic Product) also increases the income level and consumption level of residents, increasing their purchasing power, which stimulates the market supply and demand of the household industry. At the same time, with the change of Chinese national consumption concepts, many consumers are more inclined to pursue innovative products. IKEA's unique style in product design is to cater to the consumer needs of current consumer groups, and also provides opportunities for IKEA's development in China (Wu, 2020).

Figure 1 : Per capita disposable income in China (National Bureau of Statistics,2018)



### 2.1.3 Social factor

Social factors refer to some factors such as per capita consumption ability, education level, age that affect consumers' consumption behavior and preferences. China has entered a period of rapid economic development in recent year, the construction of China's urbanization has gradually shifted the population to cities. The rapid development of the real estate industry has greatly increased consumer demand for products in the furniture industry. According to Figure2, the demand for housing is still increasing, and consumers have also increased their demand for more household brands, which brings opportunities to IKEA.

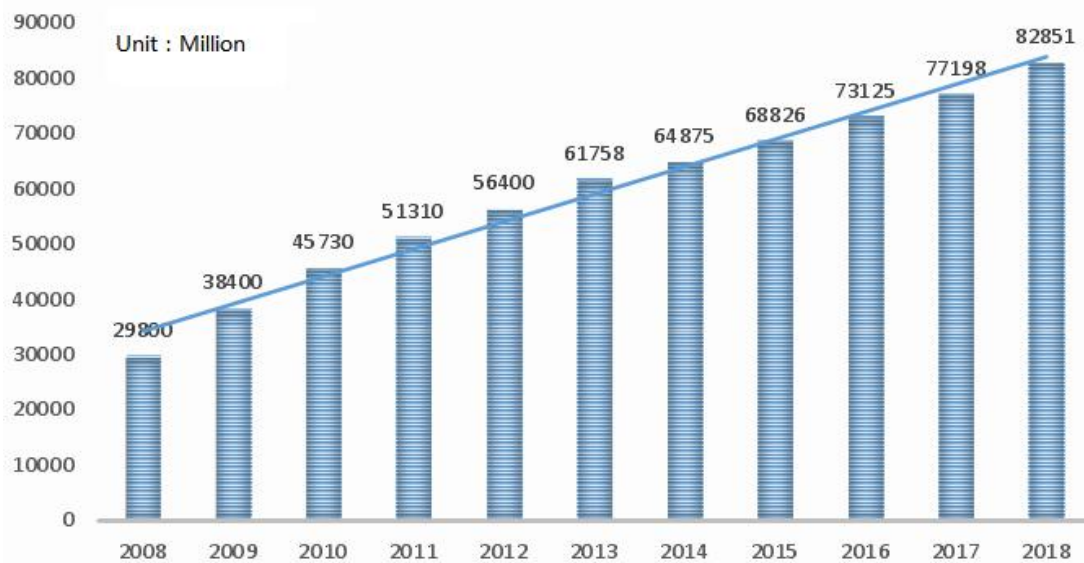
Figure 2: The sales of commercial property during 2011-2018 (CNIL,2018)



#### 2.1.4 Technological factor

The technological factor is the most rapidly changing factor that multinational companies face when they enter the foreign market (Stever & Muroyama, 1988). With the rapid development of Chinese science and technology, Chinese enterprises are paying more attention to technology research and development. The popularity of the Internet and China's huge population advantage make the Internet shopping model develop rapidly. It can be seen from Figure 3 that the size of China's Internet users reached 829 million in 2018, and the number of new Internet users increased to 56.53 million. Meanwhile, the Internet penetration rate also reached 59.6 million. This illustrates the huge changes that have taken place in the Chinese consumer market. As an important industry in the vast consumer industry, the home furnishing industry is also experiencing the era of e-commerce. As a home furnishing company, IKEA also needs to make better use of intelligent programs to improve its marketing methods, so that IKEA can give full play to its advantages in the environment of technological change, and better expand its market in China (Wu,2019) .

Figure 3: The scale of Chinese Internet users from 2008 to 2018 (CNNIC,2018)



## 2.2. SWOT

SWOT analysis is a technique to develop strategic planning (mindtool,2020). It is to find out the internal advantages and disadvantages as well as external opportunities and threats according to the enterprise's own conditions, and evaluate its competitive position (Grant,2020). SWOT is a simple technique with low cost, however, the analysis will lack of clarify and the analysis with a certain degree of subjectivity (Status,2018).

### 2.2.1 Strengths

IKEA adopts an outsourcing strategy. It seeks the lowest-priced suppliers worldwide and strictly controls manufacturing costs (Lingxiu,2017). At the same time, IKEA will set up new suppliers for different customer groups to reduce costs.

Moreover, IKEA has a brand advantage. According to Piontek (2019) 's point of view, "the success of an enterprise is inseparable from the creation of brand culture, and excellent brands can have a huge appeal to consumers." (Somma,2016) As an international home furnishing brand, IKEA's brand value has been at the forefront of the world for many consecutive years. In China, IKEA has established a good reputation and is accepted by many Chinese customers. At the same time, IKEA has a good public image and actively participates in the cause of public welfare and

environmental protection, winning public awareness, and at the same time, it can increase the reputation and influence of the IKEA brand and help increase the market share of the brand and its products (IKEA,2016).

### **2.2.2 Weaknesses**

IKEA company lacks experience in e-commerce marketing. IKEA's marketing channels were relatively simple before 2018, the physical shopping malls caused a lack of consumer coverage and also limited the growth of IKEA's business in China. When competitors began to use e-commerce marketing, IKEA's e-commerce marketing started relatively late and was at a disadvantage. In addition, the construction of the new channel needs to invest a lot of manpower, capital and technical support, and the lack of IKEA's e-commerce experience is also one of the factors restricting the construction of its e-commerce marketing channel (Jiang,2017). Moreover, the price positioning is not accurate. Although IKEA in China promotes the business concept of "high-quality product with affordable prices", but it is based on the price positioning of consumers in the developed regions of Europe, which may not be feasible in the Chinese market. The overall consumption level in China is still relatively low at the present stage, with the middle-income group accounting for the majority. The purchasing power level is still somewhat different from that in developed countries, which is inconsistent with IKEA's inherent price positioning strategy (Wu,2020).

### **2.2.3 Opportunities**

According to scholar "Chen" (2016), the production concept of IKEA is consistent with the concept of "green and environmental protection". People's awareness of environmental protection has been continuously enhanced, and consumption has become more inclined to environmentally friendly products. At the same time, IKEA's measures to reduce transportation and packaging are consistent with China's implementation of a low-carbon economy, which will undoubtedly promote the future development of IKEA in China.

#### **2.2.4 Threat**

IKEA's threat comes from competition from Chinese home furnishing companies. As the Chinese real estate industry has promoted the development of the furniture industry, a large number of Chinese furniture companies came into being and quickly seized a considerable share of the Chinese market, which seriously threatened the development of IKEA in China (Wu,2020). There are a large number of IKEA imitations in the products of domestic furniture companies. This not only affected the scale expansion of IKEA in the Chinese market but also had a certain impact on the IKEA brand. Lingxiu (2017) pointed out that some of these imitations were made by IKEA's foundries which had already terminated their contracts. They understood IKEA' operating process and they were eager to explore the market and imitated IKEA's products. At the same time, IKEA also faces the threat of alternatives, for example, the furniture tailor service industry, consumers can provide a complete set of furniture design schemes to the furniture customization service enterprises according to their own unique aesthetics and interests. This highly personalized furniture production and sales The model also poses a considerable threat to the development of IKEA (Wu,2020).

### **3.0 Research Methodology**

According to the book “Research Design and Methodology” by Kassu Jilcha Sileyew (2019), the author indicates that research methodology is a way for researchers to investigate. In the research process, the research questions and objectives are identified, and data are obtained to present the results in order to meet the research objectives. In order to meet the research purpose, qualitative and quantitative research methods are generally adopted. The research used these mixed methods, combining primary and secondary research methods to collect and analyse data.

#### **3.1 Primary research**

The primary research method means that materials obtained directly from personal practice or investigation (Saunders & Lewis & Thornhill, 2012) In this project report, it uses questionnaire method for statistics and surveys. The questionnaire method is to measure the problems studied by researchers with this kind of controlled measurement, so as to collect reliable primary data. It can sent the questionnaires in a variety of ways, and the participants fill in the answers. The main advantages of questionnaire method are standardization and low cost (Kabir,2016).

The purpose of questionnaire is to collect data about the customer satisfaction degree of IKEA company to analyse the advantages and disadvantages of IKEA's marketing strategies. It will also analyse the accuracy of the IKEA's market positioning through the data proportion of the consumer groups and basic personal information such as income and occupation. The object of this research will be the IKEA consumers. For the process of this questionnaire, the researcher will design questionnaire on WJX website (Chinese website for designing questionnaires) with 13 questions and sent those to various platforms. After that, collecting all the questionnaires and select those viable questionnaires to analyze some data by using excel or other graphics software to summarize the final results.

The limitation in this research will be the sample size due to there are only about 15 objects in questionnaires, therefore, it will be not sufficient to find more detailed. Moreover, the questionnaire method may has the limitation such as the lack of effective responses, because respondents will not take this questionnaire seriously, they may skip through questions sometimes, or choices the answer without thinking. Therefore, it may affect the validity of data.

### **3.1.1 Ethical Consideration**

Preissle (2008) believes that ethical issues must be considered in the research process. According to Saunders (2012), the following points represent the most important principles of ethical considerations in the report:

- Research participants should not be harmed in any way.
- The privacy of research participants must be protected.

- The confidentiality of research data must be ensured
- The anonymity of individuals and organizations participating in the research must be ensured.

In the process of implementing the questionnaire, this report guarantees the privacy of participants. All participants are voluntary and fill out anonymously. The content will not be published on social media. In order to take into account the authoritativeness of this report, the report will use Harvard reference style to cite the work of other authors used in any part. At the same time, maintain objectivity in the discussion and analysis of the entire research process.

### **3.2 Secondary Research**

According to Thorne (1994), secondary research means that resources obtained by indirect way, such as books, news and websites. In this report, it uses literature review method to read, search and sort out a large number of domestic and foreign literature to obtain the concept and characteristics of multinational corporation marketing and some related theories.

The literature review is a convenient, safe and free method. The literature review method is not restricted by the outside world, As long as the necessary literature is found, research can be carried out. At the same time, the literature method can save time and money, and the efficiency is relatively high. The literature review method is based on the work of others and is a shortcut to gain knowledge. It does not require a large number of researchers and special equipment, and can obtain more information with less manpower, capital and time than other research methods (Fitzgerald & Shawn, 2001) However, the viewpoints of many literatures may not be comprehensive enough, or the authors' opinion is not subjective in literatures (Brian, 2020).

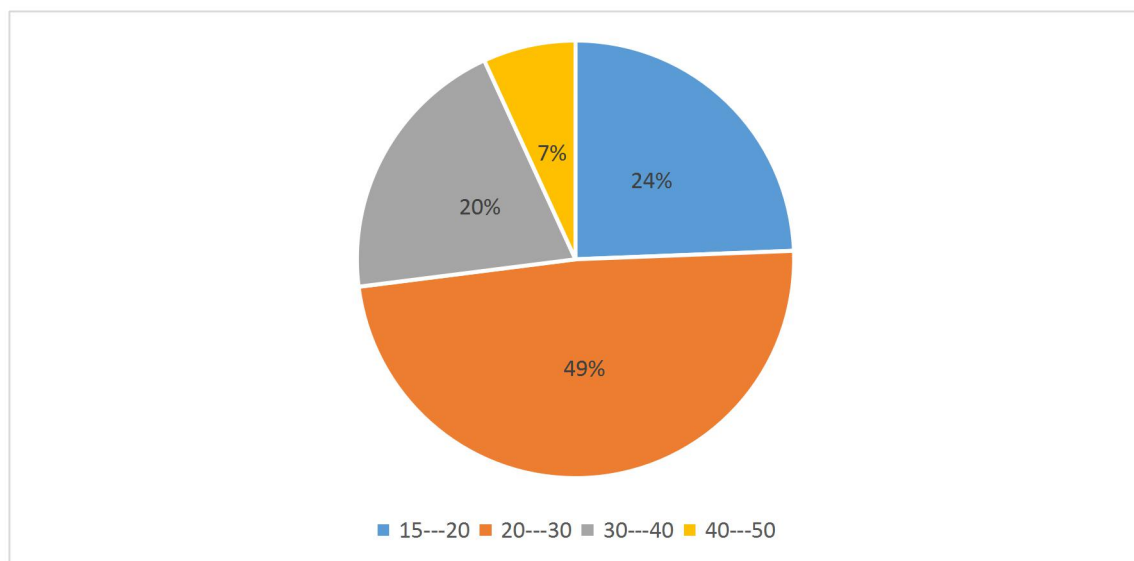
## **4.0 Findings and Analysis**

### **4.1 Data collection from Questionnaires**

At present, there are still some defects in the marketing strategy of IKEA in the

Chinese market, and the customer satisfaction of IKEA in the Chinese market is not very high. In order to do some research about IKEA's marketing strategy, the survey launched a questionnaire on IKEA's marketing strategy on the Internet. In figure 4, the proportion of ages between 15-20 years old accounted for 24%, those aged 20-30 accounted for 49%, and those aged 30-40 accounted for 20%. Over 40 years old accounted for 4%. It can be found from the questionnaire data that the main consumers in IKEA are the consumers between 20 and 30 years old, which means that IKEA should accurately target groups when formulating the marketing strategy, and understand the preferences of target groups so as to develop products that satisfy and meet the needs of consumers.

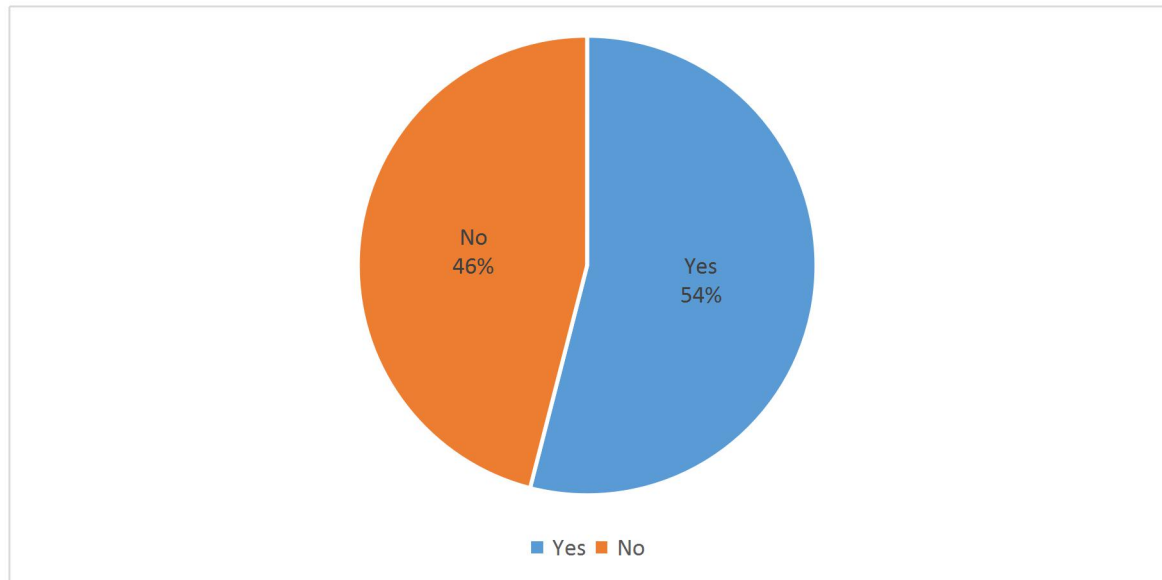
**Figure 4 : The age of consumers in IKEA company**



In the question "Are there quality problems when you buy products at IKEA?" According to Figure 5, 54% of consumers said that after purchasing IKEA furniture products, there were quality problems. Ikea furniture did not give consumers a satisfactory service reply, which is also one of the reasons why many consumers are not satisfied with IKEA furniture. Therefore, if IKEA wants to continue to expand the market size and influence in the Chinese market, it must further strengthen its own after-sales service business. China's home furnishing market still has great potential to

be tapped. Therefore, IKEA must not ignore the after-sales service for consumers, and effectively improve the quality of its own after-sales service.

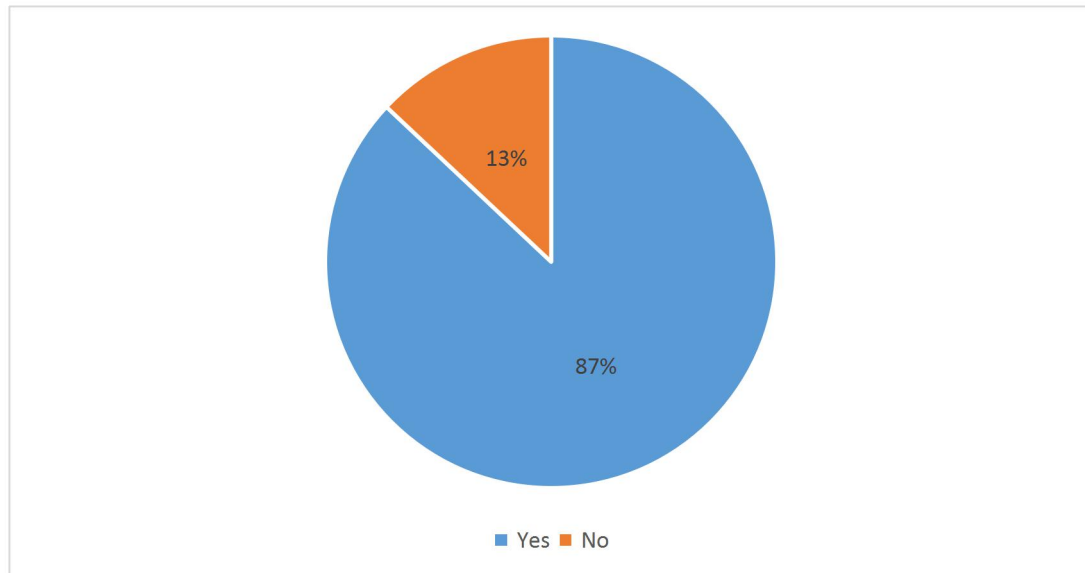
Figure 5: "Are there quality problems when you buy products at IKEA?"



The success of IKEA's marketing strategy is closely related to its success in the Chinese market. IKEA took the lead through unique marketing strategies such as experiential marketing and distribution of brochures to effectively capture consumers' psychological needs and service needs, thus laying a solid foundation for its development in the Chinese market. Although IKEA's market strategic positioning is dominated by the low-middle consumption class, many people say that IKEA lacks comprehensiveness in China's home furnishing market and does not effectively cover China's high consumer groups, but with the success of IKEA's home market strategy , IKEA is currently gaining popularity in China. In the IKEA Home Furnishing Marketing Questionnaire, the question "Do you go to IKEA for shopping every year? (Including IKEA restaurants)", 87% of the respondents chose "Yes". From the data in Figure 5, IKEA has effectively attracted consumers from all walks of life to buy furniture, making the home furnishing sector weakened by the division of consumer class. Therefore, China's home furnishing enterprises should be good at learning the

success of IKEA home furnishing from IKEA home furnishing marketing.

Figure 6: “Do you go shopping in IKEA every year?(including the restaurant)”



#### 4.2 The findings of secondary research

IKEA's success lies in its unique marketing. Joseph and James (1998) were the first scholars to propose the concept of experiential marketing. They believe that experiential marketing is carried out based on consumer sense, emotion, thinking, action. In the purchase process of consumers, both rational thinking and perceptual thinking are interactive and interdependent. Therefore, the consumer's experience and feelings in the consumption process will affect the consumer's purchasing behavior. At present, with the increasing psychological needs of consumers, experiential marketing will have more and more influence on the operation of enterprises. Experiential marketing will be more widely used and developed by modern enterprises.

#### 5.0 Conclusions

The purpose of this report is to analyze the feasibility of IKEA's international marketing strategy in the Chinese market. It is mentioned in the article that IKEA mainly adopts experiential marketing strategies and price strategies in marketing. The implementation of these strategies not only allows consumers to understand IKEA's

products, but also better promote the brand.

This article uses PEST and SWOT tools to analyze the factors that affect IKEA's marketing strategy, as well as the advantages and disadvantages it faces in the Chinese market. And through the questionnaire survey, it is found that although IKEA has used these marketing strategies well, there are many problems in the marketing model and after-sales service. And on this basis, this report will give some recommendations for solving the problem about after-sales services.

## **6.0 Recommendations**

Firstly, IKEA needs to improve product quality issues. the company must strictly monitor product quality, the raw material of the product should be examined and screened strictly. In addition to global procurement, ikea can also purchase in the regions where its stores are sold and actively cooperate with local purchasers to obtain high-quality and inexpensive raw materials. In terms of production, products must not only strictly follow China's quality standards but also strictly follow international quality standards to ensure product quality and safety. If product quality problems occur again, IKEA needs to face the defects of the products and find ways to improve them.

In terms of style, IKEA can try a variety of styles, retain the typical Nordic minimalism, the company should design different style of products, and attract more consumers.

In terms of sales channels, IKEA's sales are mainly offline, and it can focus more on online operations to create a perfect e-commerce strategy.

For consumer satisfaction, because consumers generally do not consume offline Feedback or suggestions, so IKEA can encourage consumers to provide suggestions or design questionnaires to survey consumer preferences, so that they can develop products that better meet consumer needs. At the same time, IKEA can help companies improve after-sales service by optimizing distribution services and improving the distribution system. First, IKEA needs to manage third-party logistics

companies. Through careful selection in terms of price, efficiency, safety, etc., outstanding third-party logistics companies are selected. Secondly, it provides forecast information for a series of logistics links such as production, procurement, warehousing, and sales, based on factors such as sales in different regions, different seasons, and the consumption capabilities of different consumers. Finally, each logistics link adjusts the logistics plan based on the forecast information provided to improve work efficiency.

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## Appendices 1: Ethical Form



Ethics Approval  
form.doc

## Appendices 2: Cope of questionnaire

Level of satisfaction 【 1 is strongly disagree(very dissatisfied)---5 is strongly agree/(very satisfied)】

|                                                                                  | 1                     | 2                     | 3                     | 4                     | 5                     |
|----------------------------------------------------------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| 1. IKEA company provides a wide range of products                                | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| 2. Products are often out of stock in IKEA company                               | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| 3. IKEA company can provide me with an easy shopping operation                   | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| 4. The return policy in IKEA company is good                                     | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| 5. The efficiency of handling return goods is quick                              | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| 6. A high brand trust for IKEA company                                           | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| 7. The IKEA company will give me some useful information about discount products | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |

8. Your gender

☐ Male ☐ Female

9. How old are you?

☐ < 20 ☐ 20-30  
☐ 30-40 ☐ >40

10. Do you go shopping in IKEA every year?(including the restaurant)

☐ Yes ☐ No

11.Are there any quality problems when you buy products from IKEA

- Yes
- No

12.Some weaknesses that exist in IKEA company?

- Poor product quality
- Few products or brands
- Bad service attitude
- Lack of user comments
- Slow delivery
- Bad reputation
- others

13.What do you think IKEA company needs to improve?

- Products price
- Quality of products
- After-sales service
- Online customer service
- Others

15. What products do you often buy in VIPSHOP company?

- Clothing,shoes,luggage,etc
- Cosmetics
- Baby products
- Household goods
- Electronics,etc
- Others

20. Your occupation

- Student
- Office worker
- Freelance workers
- Self-employed
- Others

21. The degree of education

- At middle school or below
- College degree
- High school
- Graduate degree or above

22. How much is your monthly income

- Below 800rmb
- 800---1500rmb
- 1500----2500rmb
- 2500---4000rmb
- 4000---6000rmb
- Above 6000rmb

23. Your average monthly spending on online shopping

- 0---100rmb
- 200---500rmb
- 600---1000rmb
- 1000-5000rmb
- Above 5100rmb

23. The number of days you visit official website of VIPSHOP company

- Almost everyday
- Often
- Sometimes
- Rarely
- Barely