

**UNIVERSITY  
OF GÄVLE**

**DEPARTMENT OF TECHNOLOGY AND BUILT ENVIRONMENT**

**The Competitive Advantage of IKEA  
and IKEA in China**

*Zhi Li*

June 2010

Master's Thesis in Logistics and Innovation Management

**Master of Science in Logistics and Innovation Management**

**Supervisor: Lars Steiner**

## Abstract

**Title:** The competitive advantage of IKEA and IKEA in China

**Author:** Zhi Li

**Supervisor:** Lars Steiner

**Purpose:** The main purpose of this master thesis is to describe the IKEA concept and discuss the application in China. After research the history of IKEA, interview with the manager of IKEA store, and find the information from the web and thesis, use the theory of competitive advantage to describe the IKEA concept and the competitive advantage which is the way that IKEA used to get the success. Secondly, discuss the application in China and give IKEA the suggestions to develop the competitive advantage in China market.

**Methods:** Because IKEA is not a public company, I cannot get too much data. I browsed the official website of IKEA to get much information about the introduction of IKEA' corporate culture, strategies, copartner, history and the data of IKEA financial and work group. I find some English and Chinese books, thesis and reports try to find more data and more good ideas of Chinese scholars. Visit and observe the IKEA store and note my questions. I tried to have an interview with IKEA store in china, but failed. Fortunately, I got an interview with Hans Karlsson which is the logics manager of IKEA store in Gavle. He explained the competitive strategy of logistics, the competitive advantage about IKEA and the next step IKEA may do in china. Try to analysis the different culture and other problem that IKEA have to face. Analyze all the data and the idea I have got and use the theory of Michael Porter to finish this thesis.

**Conclusions:** IKEA should have many innovations to adapt to the China market. "At IKEA our vision is to create a better everyday life for the many people. Our business idea supports this vision by offering a wide range of well-designed, functional home furnishing products at prices so low that as many people as possible will be able to afford them."(Our vision and business idea, [http://www.ikea.com/ms/en\\_US/about\\_ikea/the\\_ikea\\_way/our\\_business\\_idea/index.html](http://www.ikea.com/ms/en_US/about_ikea/the_ikea_way/our_business_idea/index.html)) It seems not achieved in China market yet. Firstly, IKEA should have greater cooperation with local suppliers to get more competitive advantage of cost leadership. Secondly, according

to the specialty of China market, IKEA should have some more adjustment to satisfy so many China picky customers. Thirdly, IKEA should intensify propaganda work to let more customers understand and accommodate the IKEA model. As an outcomer, there is a long way to be the winner in this huge and potential market. After a long time to research the China market, IKEA already understand the China market more than before. With accelerating the speed of expand, the success of IKEA in China market is only the problem of time.

**Key words:** IKEA, competitive advantage, IKEA model, China market

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# 1. Introduction

The purpose of this chapter is introduction the background of IKEA, the purpose, the research questions.

## 1.1. Background

“The IKEA Concept is based on offering a wide range of well designed, functional home furnishing products at prices so low that as many people as possible will be able to afford them. Rather than selling expensive home furnishings that only a few can buy, the IKEA Concept makes it possible to serve the many by providing low-priced products that contribute to helping more people live a better life at home.”(<http://franchisor.ikea.com/showContent.asp?swfId=concept2>). The IKEA Concept guides the way IKEA products are designed, manufactured, transported, sold and assembled. All of these factors contribute to transforming the IKEA Concept into a reality.

In the booklet “the future is filled with opportunities”, Ingvar Kamprad, the founder of IKEA, says that:” IKEA does not just want to win your brain. IKEA also wants to win your heart.” No matter whom you are, formal education or informal education, a worker or a manager, you can find IKEA is a place which is full of opportunities. “It is up to you” is a common expression in IKEA. (Salzer, 1994)

IKEA starts the furniture business in the 1940s. From a small company become to a world famous transnational corporation, the development speed of IKEA is very fast. According to the “IKEA at a glance- financial year 2009”, the IKEA trademark represents the leading home furnishings brand in the world with more than 300 stores in more than 35 countries, more than 15,000 co-workers and 46 production units. They sold totaled 21.5 billion Euros at 2009. ([http://www.ikea.com/ms/en\\_US/about\\_ikea/pdf/FF09\\_GB.pdf](http://www.ikea.com/ms/en_US/about_ikea/pdf/FF09_GB.pdf), 2010-5-29). How does IKEA develop quickly and keep strong competition in the furniture industry? That makes me have strong interesting about IKEA. With China join the WTO, more and more foreign companies entered China market. IKEA entered the China market in 1998. Recently the biggest IKEA store in Asia opened in Shenyang. But there are only 12 stores in China now. Compared with other foreign furniture companies, the development speed of IKEA is seems too slow in China. On the other hand, China is already become to the biggest purchasing country which is about 20%. But the sales per region are only 5% in Asia and Australia. What is the problem IKEA have in China? What should IKEA change in China?

I will use theory of competitive advantage to find the reason why IKEA can get the success. Because the IKEA is not a public company, I cannot find too much data. So I

have to research the model of IKEA. I tried to have an interview with the manager of IKEA store in China to know the situation and the future plan of IKEA. Unfortunately, they did not have time. I tried to connect with the manager of IKEA in Gave. Luckily, the logics manager Hans Karlsson gave me a chance to have the interview. So we meet at 2010-05-21. He introduced the logics process of IKEA and answered some questions I have. But he cannot give me the data either. I browsed the website of IKEA, and read many books, journeys, even newspaper report to find the data, the introduction of IKEA model, and the opinions of foreign and Chinese scholar about IKEA. The research of this thesis contains the history of IKEA in Sweden, the IKEA concept, international expansion periods. Then I find out what IKEA should change in the future to adapt the China market better.

## **1.2. Purpose**

The purpose of this thesis is to describe the IKEA concept and discuss the application in China. After research the history of IKEA, interview with the manager of IKEA store, and find the data from the web and the thesis, using the theory of competitive advantage explain the advantage, disadvantage, and situation of IKEA. According to the special situation of China market and Analysis the different opinions of IKEA, discuss how to develop the concept of IKEA to keep the competitive advantage of IKEA in China market. Finally, get the experience to these foreign companies which want to enter China market and these Chinese foreign companies which are still in the early stage.

## **1.3. Research question**

As the topics of this thesis are competitive advantage of IKEA and IKEA in China. After collect and analysis the information I got, these research questions will be solved.

A, what is the competitive advantage of IKEA?

B, what is the problem that IKEA have in China market?

C, what is the next step IKEA should do to increase the competitive advantage in China market?

## **1.4. Structure of the thesis**

The structure of this thesis is as the follow steps:

#### Chapter 1- introduction

This chapter is to introduce the background of IKEA, the research purpose, the research question and the structure of this thesis

#### Chapter 2- theoretical framework

This chapter is to introduce the theory of competitive advantage which we will be used. There are including “the five competitive forces that determine industry profitability” and “generic competitive strategies”.

#### Chapter 3- methodology

This chapter is to describe the process that I find the question and use the methodology to solve the question.

#### Chapter 4- finding

This chapter is to introduce the information I collected. There are including the history of IKEA, the data from the web of IKEA, the information from interview and the opinions from other thesis.

#### Chapter 5- discussion

This chapter is use the theory and the finding to analysis the competitive advantage model of IKEA and discuss the three ways used to increase the competitive advantage. Then, finds out the reason that helps IKEA get success.

#### Chapter 6- conclusion

According to the situation of China market, finds out the disadvantage of IKEA in China and gets the suggestions.

## **2. Theoretical framework**

The purpose of this chapter is to do the literature review of the five competitive forces the determine industry profitability and the generic competitive strategies.

### **2.1. The five competitive forces that determine industry profitability**

“The first fundamental determinant of a firm’s profitability is industry attractiveness. In any industry, whether it is domestic or international or produces a product or a service, the rules of competition are embodied in five competitive forces: the entry of new competitors, the threat of substitutes, the bargaining power of buyers, the bargaining power of suppliers, and the rivalry among the existing competitors.”(Porter, 2008) The collective strength of these five competitive forces determines industry

profitability.



**Figure 1: the five forces that shape industry competition**

<http://sites.google.com/site/greenlightgocoaching/news>

### **2.1.1. Bargaining power of suppliers**

The bargaining power of suppliers is also described as the market of inputs. The suppliers influence the profitability and product competitiveness by increasing the price of inputs elements and reducing the unit quality value. The bargaining power of suppliers is depend on the inputs elements. When the inputs elements is big part of total cost, the inputs elements is very important in the product process or influence the quality of buyer product, the suppliers have strong bargaining power. (Porter, 2008)

### **2.1.2. Bargaining power of customers**

The bargaining power of customers is also described as the market of outputs: the ability of customers put the firm under pressure, which also affects the customer's

sensitivity to price changes. The customers influence the profitability by asking for low price, good quality and service. (Porter, 2008)

### **2.1.3. Threat of new entrants**

When the balance of supply and demand is imbalance, the new entrants will be attracted by high returns of the profitable market. New entrants not only bring new technology and resource, but also reduce the profitability of all companies in this industry. (Porter, 2008)

### **2.1.4. Threat of substitute products**

Because the products could substitute, two companies which are in same industry or in different industries may compete with each other. Firstly, the profitability could be reduced by the substitute products. Secondly, because of the substitute products, companies have to improve the quality, reduce the cost and price, or make product more features. (Porter, 2008)

### **2.1.5. Competitive rivalries within an industry**

For most industries, the intensity of competitive rivalry is the major determinant of the competitiveness of the industry. Competitive rivalry is likely to be based on dimensions such as price, quality, and innovation. Technological advances protect companies from competition. This applies to products and services. Companies that are successful with introducing new technology are able to charge higher prices and achieve higher profits, until competitors imitate them. (Porter, 2008)

## **2.2. Generic competitive strategies**

“Though a firm can have a myriad of strengths and weaknesses compared with its competitors, there are two basic types of competitive advantage a firm can possess: low cost or differentiation. “(Porter, 1985) The two basic types of competitive advantage influence the five competitive forces that determine industry profitability. “The two basic types of competitive advantage combined with the scope of activities for which a firm seeks to achieve them lead to three generic strategies for achieving above-average performance in an industry: cost leadership, differentiation, and focus. The focus strategy has two variants, cost focus and differentiation focus. “(Porter, 1985)

		COMPETITIVE ADVANTAGE	
		Lower Cost	Differentiation
COMPETITIVE SCOPE	Broad target	1. Cost Leadership	2. Differentiation  The Company
	Narrow target	3A. Cost Focus	3B. Differentiation Focus

**Source:** Porter (1985)

**Figure 2: three generic competitive strategies**

Each of the generic strategies involves different route and target to competitive advantage, “The cost leadership and differentiation strategies seek competitive advantage in a broad range of industry segments, while focus strategies aim at cost advantage (cost focus) or differentiation (differentiation focus) in a narrow segment.” (Porter, 1985)

**2.2.1. Cost leadership**

Cost leadership is the clearest of the three generic strategies. In this strategy, firm should try their best to reduce the cost. “If a firm can achieve and sustain overall cost leadership, then it will be an above-average performer in its industry provided it can command prices at or near the industry average. At equivalent or lower prices than its rivals, a cost leader’ low-cost position translates in to higher returns. A cost leader, however, cannot ignore the bases of differentiation. If its product is not perceived as comparable of acceptable by buyers, a cost leader will be forced to discount prices well below competitors’ to gain sales. This may nullify the benefits of its favorable cost position. ” (Porter, 1985) if customers think the product is not good as the product of competitor, the firm has to reduce the price. The firm can get high profitability until a cost leader gets the cost leadership parity in the bases of differentiation.

### **2.2.2. Differentiation**

The second generic strategy is differentiation. “In a differentiation strategy, a firm seeks to be unique in its industry along some dimensions that are widely valued by buyers. It selects one or more attributes that many buyers in an industry perceive as important, and uniquely positions itself to meet those needs. It is rewarded for its uniqueness with a premium price. The means for differentiation is peculiar to each industry. Differentiation is based on the product itself, the delivery system by which it is sold, the marketing approach, and a broad range of other factors.” (Porter, 1985)

If the extra cost for differentiation is less than the premium price, the firm which has the competitive advantage of differentiation can get better profitability than other firms in the industry. Because the extra cost for differentiation is the disadvantage of the differentiation, the firm cannot ignore the cost position. So, only based on the price is almost the same as competitor, the differentiator could get the high profitability.

### **2.2.3. Focus**

The third generic strategy is focus. “This strategy is quite different from the others because it rests on the choice of a narrow competitive scope within an industry. The focuser selects a segment or group of segment in the industry and tailors its strategy to serving them to the exclusion of others. By optimizing its strategy for the target segments, the focuser seeks to achieve a competitive advantage in its target segments even though it does not possess a competitive advantage overall. The focus strategy has two variants. In cost focus a firm seeks a cost advantage in its target segment, while in differentiation focus a firm seeks differentiation in its target segment.” (Porter, 1985)

The firm can focus the time, the resource and the money on the segment to get the competitive advantage. If the firm can get the competitive advantage of cost leadership or differentiation in its target segment, the firm could provide customer the better service and meet the special requirement. Because of the different requirements of customer, there are always many segments in one industry.

### **2.2.4. Pursuit of more than one generic strategy**

Each generic strategy is different way to create and sustain competitive advantage. Usually a firm has to choose one of them or it will become stuck in the middle. “The benefits of optimizing the firm’s strategy for a particular target segment (focus) cannot be gained if a firm is simultaneously serving a broad range of segments (cost

leadership or differentiation). Achieving cost leadership and differentiation are also usually inconsistent, because differentiation is usually costly. Conversely, cost leadership often requires a firm to forego some differentiation by standardizing its product, reducing marketing overhead, and the like.” (Porter, 1985)

If a firm can use the strategies flexible, like use more than one strategy at the same time, this firm will get a great competitive advantage and market share.

### **3. Methodology**

Before I went abroad, I know many worlds' Fortune 500 companies. All of them have the secret of success, like Coca-Cola have the unique recipe, the Volvo famous for the safety of the car and so on. But I never heard the IKEA before. When I started to study in Gavle, I want to buy some cheap articles for daily use, everyone told me to IKEA. Not only that, when I travelled in Europe, I found I can find the IKEA store almost in every city. Why IKEA is so popular? What is the secret of success? And why I never saw IKEA store in China? Does IKEA do not want have the market of China or IKEA is in a dilemma in China market? These questions attracted me so deeply.

After I browsed the web of IKEA, I got some information of IKEA. The concept of IKEA is based on a wide range of well designed, functional home furnishing products at prices so low that as many people as possible will be able to afford them and to helping more people live a better life at home. Simply, the target customer is everyone. The strategy is low price. And they use many ways to achieve the aim of low price like flat packs and self-assembly furniture. I noticed that the China had already become the biggest purchasing country which is about 20%. On the contrary, the sale per region in Asia and Australia is only 5%. IKEA have 192 stores in Europe, 12 stores in Russia, 48 stores in North America, but only 12 stores in China & Japan. (Source: financial year 2009 of IKEA) From the first IKEA store opened in China in 1998 to now, IKEA only open 8 stores in 10 years. The speed is much slower than other foreign furniture companies like British B&Q which already had 38 stores in China. The strategy of IKEA is low price, but the China is already became the world factory and the logo “made in China” is became to the synonymous with low price. After read some thesis and report about IKEA written by Chinese scholar, I find the price is too high to Chinese people because of the exchange rate. The concept of IKEA is providing most people low price furniture to help them have a better life at home, but most Chinese people cannot afford the price now. So I think IKEA must be in a dilemma in China. Then I wrote a these named “the dilemma of IKEA in China and ‘made in China’”. I wanted to analysis the situation of IKEA and suggest IKEA increase the number of purchasing from China to reduce the cost of goods.

When I discussed with my professor Lars Steiner, he have a different opinion. He asked me maybe IKEA do not want let most Chinese people afford the price, and maybe IKEA just want China to be a good purchasing base. That question really puzzled me a long time. Indeed, IKEA could treat China as a good purchasing base. Because the situation of China market is special, the change to adapt the China market may affect the global strategy of IKEA, even affect the earning performance.

“Data observed, experienced or recorded closest to the event, are the nearest one can get to the truth, distortions inevitably occur as the proximity to the event decreases” (Walliman,2005) So I want to have an interview with the manager of IKEA to get the further understanding. Because I want to research the China market of IKEA, I wrote e-mail to the customer service of IKEA store in Beijing and Shanghai. They replied me that thank me write the letter to them; they already send my e-mail to the manager and let me wait the reply of manager. After two month waiting, I received nothing. So I have to give up. After that, I try to write e-mail to the customer service of IKEA store in Gavle. Similarly, they replied me that thank me write the letter to them and let me to wait for the reply. Fortunately, Hans Karlsson which is the logics manager of IKEA store in Gavle told me I can get a chance to have an interview with him and he is very glad to help me. So I hurried to prepared the interview questions and get suggestions from my professor Lars Steiner. We meet each other in staff office of Gavle IKEA store on 2010-05-21. The first sentence of Mr. Karlsson is very sorry he cannot tell me too much data about IKEA because IKEA is not a public company. He introduced the history of IKEA, the concept of IKEA, the competitive strategy of logistics which is the most important way to keep the low price, the strategy of market segmentation, the situation of IKEA in China, explaining some good examples according to the model of competitive advantage, analyzing the next step which IKEA will do to adapt the problem of China market.

IKEA is a world famous company and an example of success, but there are not too much theses and books to research IKEA, especially about IKEA in China market. Even I have a further understanding about IKEA though this interview, I still think it is not enough to explain the situation of IKEA in China. Because Mr. karlsson is the manager of IKEA and China market is not one part of his job, he maybe just tell me the good side of IKEA and the opinion about China market is too one-sided. I think I also should refer to other people’s opinions which have suggestions to IKEA and deeper understanding of China market. That will be having a complete understanding about IKEA in China. So I ask help to my friend Guanying Liu which is studying the master of international economics in Shenzhen University. Unfortunately, she does not know too much about IKEA, but she provided me some theses and reports from the data library of her university. I collected the data, opinions and suggestions from these materials. After that, I found even these materials is not too much, I can get a general idea about the situation, the problem and the suggestions of IKEA in China. That make me have a more complete knowledge about the questions I want to research.

After the data-gathering process, I read the “The Five Competitive Forces that Shape Strategy” and “Competitive advantage” written by Michael Porter who is one of the most influential management experts in the world today. These theories in these books are very good tools to help a company to get the competitive advantage to extending volume growth. I use these theories in these books to analysis these data I collected. I find the success of IKEA is not got by lucky. The model of IKEA is a very good example to improve Michael Porter’s theories. These methods of IKEA used could learn by other companies, especially these Chinese companies which are still at an early stage.

## 4. Findings

In this chapter, I will introduce the findings from the web, the history of IKEA, the information from interview.

### 4.1. The introduction of IKEA



**Figure 3**(<http://cache.gizmodo.com/assets/images/gizmodo/2008/08/ikea.jpg>)

IKEA is one of the world famous furniture companies. It was founded in 1943. As a

band which is one of Sweden band which have good unique style and brand image, IKEA band constantly strives to provide customers with the furniture which is pyretic, beautiful and practical, people can afford the household articles for use.

## 4.2. The history of IKEA from the web of IKEA

The IKEA story begins in 1926 when founder Ingvar Kamprad is born in Småland in southern Sweden. He is raised on 'Elmtaryd', a farm near the small village of Agunnaryd. Even as a young boy Ingvar knows he wants to develop a business.

### 4.2.1. 1920

At the age of five Ingvar Kamprad starts selling matches to his nearby neighbors and by the time he is seven, he starts selling further afield, using his bicycle. He finds that he can buy matches in bulk cheaply in Stockholm and re-sell them individually at a very low price but still make a good profit. From matches he expands to selling flower seeds, greeting cards, Christmas tree decorations, and later pencils and ball-point pens.

### 4.2.2. 1940s-1950s

The root of a furniture dealer Ingvar Kamprad is entrepreneurial in developing IKEA into a furniture retailer. This period sees the exploration of furniture design, self assembly, advertising, the use of a catalog and a showroom to reach the many people.

**Table 1: 1940s-1950s**

In 1951	IKEA founder sees the opportunity to sell furniture on a larger scale using a catalog. The IKEA catalog that we know today is born.
In 1953	Furniture showroom opens in Älmhult, Sweden, This is an important moment in the development of the IKEA concept - for the first time customers can see and touch IKEA home furnishings before ordering them. The innovation is a success; people wisely choose the products with the best value for money.
In 1955	They start to think about the flat package

### 4.2.3. 1960s-1970s

The IKEA concept starts to take shape.

**Table 2:1960s-1970**

In 1960	The first IKEA restaurant opens in the IKEA store in Älmhult, Sweden.
In 1961	IKEA begins quality testing its products using Swedish testing standards.
In 1962	Marian Grabinski designs the MTP bookcase. Developing this and other wooden products develops strong relationships between IKEA and Polish suppliers during the 1960s. These relationships continue today and are an important reason for IKEA maintaining low prices so that the many people can afford them.
In 1965	The store's success leads to the opening of a self-serve warehouse - an important part of the IKEA concept is born. Additionally, Accenten is opened, where customers can buy quality cooking items at a low price.
In 1976	Ingvar Kamprad writes The Testament of a Furniture Dealer and in 1976 it is published - it documents IKEA's vision and business idea and has a strong influence on the development and vitality of IKEA's culture.

### 4.2.4. 1980s

IKEA expands dramatically into new markets such as USA, Italy, France and the UK. More IKEA classics arrive such as KLIPPAN, LACK and MOMENT. IKEA begins to take the form of today's modern IKEA.

**Table 3:1980s**

In 1982	The IKEA Group is formed and its owner is a foundation, the Stichting INGKA Foundation, which is based in the Netherlands.
In 1984	IKEA FAMILY, the new customer club, is launched. Today, IKEA FAMILY is in 16 countries (over 167 stores) and has about 15 million members.
	The IKEA catalog print run expands to 45 million copies, in nine languages.
In 1985	IKEA now has 10,000 co-workers and 60 stores in the IKEA Group.

### 4.2.5. 1990s

IKEA grows even more. Children's IKEA is introduced and the focus is on home

furnishing solutions to meet the needs of families with children. The IKEA Group is formed and responsibility for people and the environment is seen as a prerequisite for doing good business.

**Table 4: 1990s**

In 1991	IKEA acquires its own sawmills and production plants and establishes the industrial group Swedwood to produce wood-based furniture and wooden components.
In 1997	Children's IKEA is launched. IKEA decides to develop a range specifically for children.
In 1998	IKEA arrives in China. The first IKEA store opens in Shanghai.
In 1999	The IKEA group grows to 50,000 co-workers and has 158 stores in 29 countries.
On October 9, 1999	IKEA have the Big Thank You event. The total of all sales on this special day, worldwide, is divided among all co-workers - in total about 84.85 million Euros. It is a great way to thank hard-working IKEA co-workers for contributing to the company's ongoing success.

#### 4.2.6. 2000s

IKEA expands into even more markets such as Japan and Russia. Everything for the bedroom and kitchen is explored and presented in co-ordinate furnishing solutions. This period also sees the successes of several partnerships regarding social and environmental projects.

**Table 5:2000s**

In 2000	The code of conduct called The IKEA Way on Purchasing Home Furnishing Products (IWAY) is launched. It defines what suppliers can expect from IKEA and specifies what IKEA expects from its suppliers in terms of legal requirements, working conditions, active prevention of child labor, external environment and forestry management. In addition to this, IKEA also introduces The IKEA Way on Preventing Child Labor to ensure that no child labor is used by suppliers or their sub-contractors.
	Child rights project in India.
	E-shopping is launched in Sweden and Denmark. Since then many other markets have started offering online shopping at IKEA.
In 2001	The IKEA Group trials running its own rail operations through IKEA Rail AB. The use of rail continues to be an important part of the IKEA strategy to promote sustainable transportation of IKEA material and products.
In 2002	A new product-recovery concept is implemented in more than 100 IKEA stores in Europe to ensure that returned products are, where possible,

	repaired instead of being wasted.
In 2005	Everything for the bedroom under one roof. IKEA customers help children in need
In 2006	The IKEA Group exceeds 100,000 co-workers and operates in 44 countries.

### 4.3. The data from the web of IKEA

The IKEA opened 15 new stores at 2008 and in august 2009 had 267 stores, which welcomed a total of 590 million visitors during the year. A further 34 stores are owned and run by franchisees outside the IKEA group. IKEA group sales totaled 21.5 billion Euros. IKEA food services reported sales of 1.03 billion Euros. The IKEA group had 31 trading service offices in 26 countries, and 28 distribution centres and 11 customer distribution centres in 16 countries. The swedwood group, the IKEA industrial group had 15,000 co-workers and 46 production units.(source: IKEA at a glance- financial year 2009)

**Table 6: the top 5 selling and supplier countries**

IKEA selling TOP 5 countries	Germany (16%)	The United States (10%)	Britain ( 9% )	France (9% )	Sweden ( 7% )
IKEA TOP 5 supplier countries	China (22% )	Poland (16% )	Italy (8%)	Sweden ( 6 % )	Germany ( 6% )

([http://www.cnstock.com/paper\\_new/html/2007-07/20/content\\_57549571.htm](http://www.cnstock.com/paper_new/html/2007-07/20/content_57549571.htm))

### 4.4. The information from interview

In this chapter, I will introduce the information from the interview with Mr.Karlsson on 2010-05-21 at Gavle IKEA store.

#### 4.4.1. The logics process of IKEA

Mr. Karlsson introduced the logics process of IKEA. The following pictures show the process. There are four main parts in the logics process: supplier (factory), distribution centre (warehouse), store, the customer.

Supplier (factory): IKEA focus their force to the design. At this step, they consider the low price when they design new product. And then IKEA try to find the supplier all over the world according to many factor like the geographic position, the price, the quality and so on.

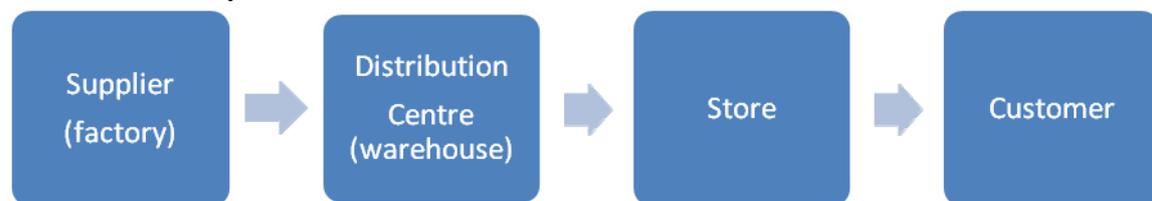
Distribution centre (warehouse): IKEA has 28 distribution centres in 16 countries. These distribution centres use the same computer system. They collect the information about the sales volume of every product, the quantity of inventory, and so on. The distribution centre control the goods between factory and store, even sometime they package the goods which from different factories. The distribution centre also is the warehouse of this area. For example, the distribution centre in shanghai is the biggest distribution centre in Asia. They always gather the goods from all over the world to here. And then they send the different number of goods to every store in Asia according to the sales volume. The high efficiency of logics is the biggest strategy is a good way to keep the low price.

Store: there are two part of IKEA store: open hall and warehouse. In the display hall, customer can get the complete information about the product. Through the open hall, IKEA show its function of products, quality and low price to customer furniture with the three-dimensional way. After the customer decided the product they want to buy, they can go to the warehouse to take the unopened product. There are not too much shop assistants in the store, which is a good way to reduce the operating expenses of store and keep the low price.

Customer: after the customer brought the goods, they transport the goods by themselves. That is a way to reduce the cost of transport and keep the low price.

There are 3 ways which IKEA used in logics process:

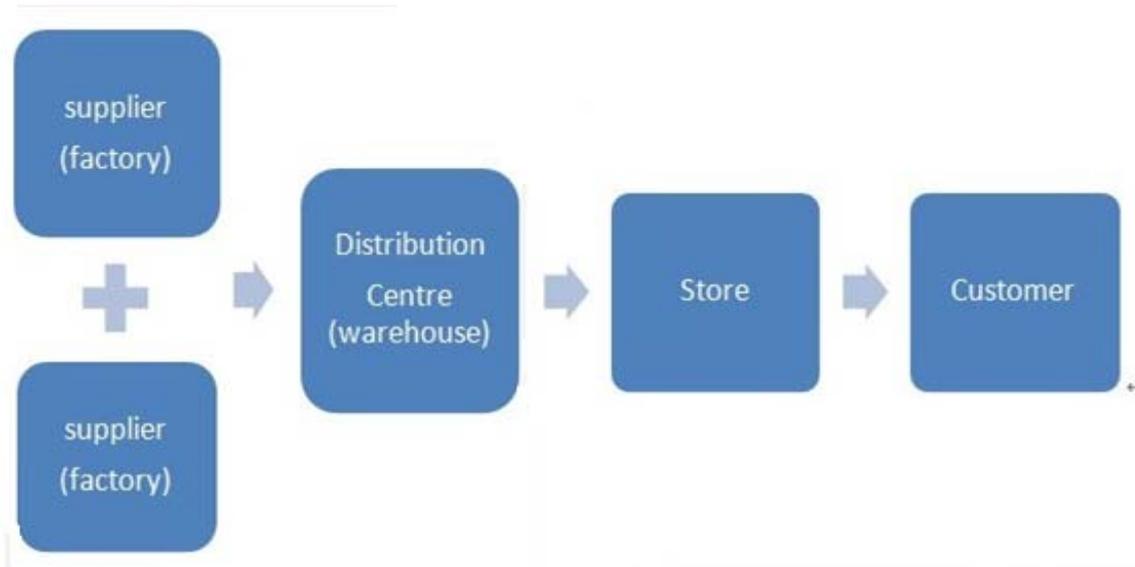
1, the DC delivery



**Figure 4: the DC delivery process**

In this process, they transport the goods from the factory to the distribution centre all over the world. Then according the condition of demand, they transport the goods to different stores. After the customers buy goods from the store, the store collect the information and send the information to the distribution centre. After analysis the information, IKEA send the new order to the factory. That is a loop. This way is the most common way IKEA used now.

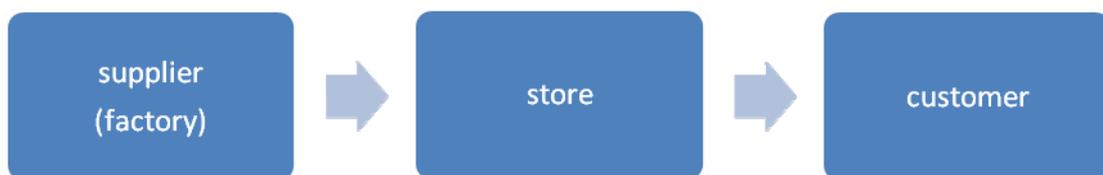
2, the transit delivery



**Figure 5: the transit delivery process**

Sometime, the goods are not produced by one factory. These goods need produced different parts by more than two factories and maybe these factories are in different countries. At this situation, they transport all parts of the goods from these factories to the distribution centre. They package these parts to a complete one in the distribution centre and then transport the goods to the store. The rest logics process is same like the normal way.

### 3, the direct delivery



**Figure 6: the direct delivery process**

This way is a special and high efficiency way. In this process, the goods do not need to transport to the distribution centre. The goods are directly delivered to the stores. So, they can save the cost of one time transport. And also this way can increase the use ratio of the warehouse. Mr. Karlsson told me this way of direct delivery is less than 50% in the total logics process and IKEA wish to increase the rate of this way to reduce the cost of transport.

Actually, there are so many kinds of goods in IKEA and there are so many suppliers

and stores in all over the world. The process of logics is much more complicated than these pictures.

#### **4.4.2. The market segment**

The target customer of IKEA is everybody. So the market segment is a very important part of IKEA strategy. After visited the IKEA store, I think the market segment of IKEA is the different part of house, like the kitchen, the bedroom, the bathroom. Actually, the market segment is according to the “life situation”. The life situation creates the need of the home furniture. IKEA do not select the customer, IKEA just select the offer from the life situation. For example, I am a student. I need the bookshelf, desk and I do not need the kitchen because I do not live in my own place now. But after 10 years, the need of life situation will change. I will need other things. The most important point is that I am always the target customer even in different ages. And IKEA always provide customers the things they need. I think that is a good method that IKEA used to service the customers and win the hearts of the customers.

Even there are so many products in IKEA. Not all of the stores have the same goods. According to the local situation, IKEA adjust the goods in IKEA store. For example, there are not too much students in Gavel, so there will be less products for students than other IKEA store like the IKEA store in Stockholm or Linköping. That is a good way to increase the use ratio of the store and the warehouse, and also minimize the cargo backlog.

#### **4.4.3. The logistics strategy all over the world**

When I start to research the IKEA, I have a question whether the goods in IKEA store are the same price. So I compare the price of the same kind of good on the web of IKEA store in different countries. I found the price is almost the same. So I thought IKEA use the same logistics strategy all over the world. The exchange rate between RMB with Euro is the biggest reason that Chinese customer cannot afford the price of IKEA goods. But Mr. Karlsson told me that the logistics strategy of IKEA have difference between different country. The price of goods is decided by the cost of all of the process. The different place has the different cost, just like the big deal of McDonald, it will changed by different request of customer.

#### **4.4.4. The China market**

Mr. Karlsson thinks the China market is huge potential. At the moment and in the future, IKEA will find more business opportunities include the supplier and the

market. IKEA is always changing. So the situation of IKEA in China will be better.

For the question “do you think increase the purchasing quantity in China can reduce the cost and increase the competitive advantage?” Mr. Karlsson has the different opinion: he thinks the price is decided by the cost in the total produce and transport process. With the development of the China economy, China market seems not the cheapest place any more.

#### **4.4.5. The next step that IKEA can do to increase the competitive advantage especially in logistics**

Mr. Karlsson think IKEA will continue to use and work with the concept of IKEA. There still have many places they can do to increase the competitive advantage, like increase the direct delivery, use more train and so on.

#### **4.4.6. The competitor of IKEA**

Mr. Karlsson thinks the IKEA is already an international company and IKEA is growing. So at the present time, the competitor of IKEA is not the international competitor. With the development of IKEA, the competitor of IKEA is the local competitor. Sometimes, the local competitors copy the good idea or counterfeit the goods of IKEA. To this situation, the important way IKEA used is the low price. IKEA get the lower price though the large-scale procurement. Low price, good quality, knight service and new design methodology or technology help IKEA occupied the market quickly.

#### **4.4.7. The uniform of IKEA**

When I have the interview with Mr. Karlsson, I noticed that everybody ware the same uniform in the office. So you cannot distinguish who is the manager and who is the normal employee. And Mr. Karlsson told me IKEA not only service the customer but also provide a comfortable environment for their employees.

#### **4.5. The compare with the competitor of IKEA**

After I research the data from the internet, I get a form about the competitor of IKEA

**Table 7**

The foreign furniture company	The time and the place of the first store in China	The number of store now
Sweden IKEA	1998 shanghai	8
British “B&Q”	1999 shanghai	50
American Home Depot	At the end of 2006 successfully purchased 12 stores in China.	12

#### **4.6. The situation of IKEA in China at this stage**

This chapter is to introduce some Chinese scholars’ opinions about the situation of IKEA. Chinese scholars could understand China market more clearly. So, I think their opinions could let me get deeper understand about IKEA in China at this stage.

##### **4.6.1. The reason of the price problem**

There are 3 reasons that make the concept of IKEA change: a, the competitive advantage of low price is not clear and the price is always too high to customer. B, the challenge of high exchange rate make IKEA cannot have the same price in global. C, IKEA seems have the strategy of the high-grade brand positioning in China. (Sa Wang and Licheng zhang, 2008)

##### **4.6.2. The substance of the IKEA dilemma in China**

The substance of the IKEA dilemma in China is which one is more important between localization and standardization. One side, IKEA use the standardization to run the China market. On the other side, IKEA the strategy of IKEA in China does not give full consideration to standardization. That makes strategy of IKEA do not have a good effect in China market. (Xiaofei Zhao, 2005)

##### **4.6.3. The reason that the speed of IKEA develop slower than the competitor**

The IKEA stores in China are just the image shops. From 1998 to 2005, IKEA open 2 stores in China. These stores are used to collect the information and cultivate customer spending habits. From 2005 to now, IKEA enters to the acceleration stage. IKEA is developing in its own rhythm. (Chunhua He, 2009)

#### **4.6.4. The challenge and the innovation of IKEA in China**

The challenge:

A, IKEA is the “later comer”. Compared with other competitor, the speed of development is later.

B, IKEA is the “Mr. Misunderstanding”. Because of the high price, the paradise of wage earners becomes to the place of high income bracket.

C, IKEA is the “outcomer”. The Chinese customers still do not adapt the management style of Northern Europe.

The innovation:

A, IKEA changes the place of store from suburbs to prosperous areas.

B, increase the number of service staffs

C, increase the way of advertising (Benshun Cui 2003)

#### **4.6.5. The disadvantage of IKEA in China**

A, do not provide the free transport service and free install service

B, IKEA always buy land and build the store by them. This way is not only need a long time but also need too much money. (Xiaofei Zhao, 2005)

#### **4.6.6. The model of IKEA**

The model of IKEA could be generalized as a whole: one core, two strategies, three marketing, and four fulcrums

One core: insist on “Recreational Shopping”

Two strategies: a, low price b, the model of chain operating

Three marketing: a, transparent promotion b, Catalog c, one-stop shop for marketing

Four fulcrums: a, cost control b, brand control c, management control d, and image control (Daqian Li, 2005)

## **5. Discussion**

### **5.1. The competitive advantage model of IKEA**

After the long time research, there is so much knowledge about IKEA. From the web, the interview, and especially follow the history of IKEA, we can find many methods which IKEA used to improve the competitive advantage. According to the theory of “competitive advantage”, I summarize these methods in to the table 8.

**Table 8: the competitive advantage model of IKEA**

The five competitive forces that determine industry profitability	The methods IKEA used
Bargaining power of suppliers	1, looking for the suppliers from all over the world 2, cooperating with more than one suppliers 3, "IWAY" defines what suppliers can expect from IKEA and specifies what IKEA requires from its suppliers.
Bargaining power of customers	1, low price 2, good quality 3, good service 4, high quality of design 5, wide varieties
Threat of new entrants	1, "Catalog" is a good way to advertise 2, the scale effect 3, high-efficiently of logics 4, develop new products
Threat of substitute products	A special team develops new products, updating technology, promoting technological development
Competitive rivalry within an industry	1, using the scale effect to get the low price 2, improving the public image 3, the model of chain operating

## **5.2. The three ways used to increase the competitive advantage**

As a world famous furniture company, the secret of success behind IKEA is the strategy.

### **5.2.1. Overall cost leadership**

The strategy of overall cost leadership is always the IKEA's biggest aim. We can find the history of IKEA is also the history of looking for low price. We can find IKEA try to find the low price at every part of the process. For example, before they design a product, they already confirm the price. They use "flat-package" to reduce the cost of transport. They reduce the staff in store to reduce the cost of store. They also use the scale effect to purchase goods from all over the world.

### **5.2.2. Differentiation**

Today's IKEA range consists of 9,500 home furnishing articles, designed to be functional and good looking but at a low price. You can find almost everything you need in IKEA. Both romantics and liberals can find the style they like. Customers need the goods low price and good quality. Low price or good quality is easy to achieve, but it is not easy to get both of them. At start, IKEA chose a different way which is stand on the side of everybody. IKEA also take children to their customer, and the spirit of care for children really wins many customers' heart. IKEA also does a good job in environment protection.

### **5.2.3. Focus**

There are three main part of IKEA: IKEA office, home storage, Children's IKEA. The target customer is everybody. According to the "life system", they segment the market to many parts. That will be better meet the requirement of different customers. Especially the new design for child, it helps IKEA win many hearts from the customers.

### **5.2.4. Pursuit of more than one generic strategy**

Even these 3 strategies are interacting and affect to each other, IKEA use these strategies flexibly. That is the reason that IKEA can get much more competitive advantage than other competitors.

#### **A, cost leadership and differentiation**

Differentiation always needs the extra cost, and cost leadership always need company forego some differentiation by standardizing its product. The method IKEA used to solve this problem is design the price tag before design the product. They can seek the differentiation inside the price tag. The "flat-package" and "self-assembly" not only save the cost of transport but also give the designer more room to seek the differentiation.

#### **B, cost leadership and focus**

If a firm services too much segment markets, it will not get the profitability of focus. IKEA use the "life system" to find out what the customer really need at different age. The people at different age need different furniture. After the segment though "life system", the designer could understand the need of customer. So the designer could design the product which is low price and useful to the customer. This method not only segment markets very well but also can focus the resource to the cost leadership. It makes sure everything they produced is useful to people. After the research of the

local situation, IKEA could find out the need of local customers and change the goods in IKEA store. That could improve the use ratio of store and prevent the waste of transport.

### **5.3.The suggestion for IKEA in China**

According to different situation, IKEA should change the strategy flexibly.

#### **5.3.1. The advertisement**

The normal way IKEA used to advertise is the “Catalog”. If IKEA wants to get a good effect in China, IKEA should not only use the “catalog”. Because of the number population in China IKEA will find out the “Catalog” may spend a lot of money in the future. Because there are still a little stores in China, IKEA still a new name in China. If IKEA wants to open more stores in new city, IKEA should take the advertisement to the city before the store opened.

#### **5.3.2. The company culture**

IKEA is already 60 years in Sweden. The customer already understands the company culture and the model of IKEA. Even IKEA already entered China about 11 years, Chinese customers still do not understand the model and company culture of IKEA. In the shadow of the high price, the concept which wants to improve the quality of life seems like an empty talk. IKEA need time to achieve the concept in China. But if the customer do not trust and support IKEA, the future of IKEA will not look good. So, the mission of IKEA right now is to advertise the spirit of IKEA to customer. Only after get the trust of customer, IKEA could have a better future in China.

#### **5.3.3. The cooperation of local supplier**

There are 3 logics process that IKEA used. In the future, IKEA should increase the direct delivery to get more competitive advantage of cost leadership. Because China is a developing country, every technology and environmental awareness is still not complete. If IKEA want to find more cooperators in China, IKEA could provide more help to the cooperator. So IKEA can get more cooperation with the suppliers which fit the requirement of “IWAY”. Only increase the number of purchasing in China and get the scale effect, IKEA could achieve the aim that everybody can afford.

#### **5.3.4. The environment-friendly products**

IKEA is a company which focuses on the environmental protection. In China, the environmental awareness of people is not good as the Sweden people. Sometime, people will not choose the environment-friendly products because they think these products must be more expensive than normal product. If IKEA add the advantage of technology into the introduction, it will be easy to accept. SPARSAM low energy bulbs is a good example. They told customer that even is more expensive to buy than incandescent bulbs, but the low energy consumption saves you money in the long run. Less energy need, long time can be used and environmental protection that will be easier to be accepted.

#### **5.3.5. Flexible strategies**

The situation of China is special. The different culture and history is the reason that IKEA cannot adapt the market well. As a foreign company which has so many differentiations, it not only needs a long time to win the heart of customers, but also need flexible strategies to adapt the market. Service is also a product. IKEA already does some innovations like provide the transport, build stores in prosperous areas and so on. These innovations help IKEA get more market share in China. With the flexible strategies, IKEA could do better in China market.

### **6. Conclusions**

The main purpose of this thesis is to find out the competitive model of IKEA. Just only one method could not bring IKEA the success. Like table 8 shows that, there are so many reasons that make IKEA so popular, for example, cooperating with the suppliers from all over the world, high-efficiently of logics, using “life system” to find what customer need, and so on. Follow the concept, IKEA try their best to give the customers what they promised: low price, well-design, creating a better everyday life for many people.

As a world famous international company, IKEA is like a fresh air in to China market. It not only brings new strategy and model to their competitors, but also brings the new life style and service to the customers.

For the dilemma of IKEA in China market right now, IKEA should try to change the supply base to “supply- product- sale” base. Though the centralized procurement, flat-package, and more cooperation with local suppliers, IKEA can get more cost leadership. So IKEA can reduce the price and get the virtuous circle of “reduce price-

increase demand- scale effect- reduce price”.

After a long time to research the China market, IKEA already understand the China market more than before. With accelerating the speed of expand, IKEA will get more customers in China. The success of IKEA in China market is only the problem of time.

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## Appendix

### Interview questions of IKEA

First of all, thank you very much for your help.

1, As a world famous company of furnishing, what is the competitive strategy of logistics?

2, Is the logistics strategy a part of the IKEA cost leadership strategy?  
What is the strategy IKEA used in differentiation?

3, Does IKEA consider market segmentation?

4, Does IKEA use the same logistics strategy all over the world or has the different strategies in different countries? (What is the different strategy between Sweden with China?)

5, How do you think about the market in China? Do you know anything about IKEA business in China?

6, Do you think increase the purchasing quantity in China can reduce the cost and increase the competitive advantage?

7, What is the next step that IKEA can do to increase the competitive advantage especially in logistics?

Please give me some data or examples, so I can understand the logistics strategy more clearly.



This is the base model of competitive advantage:” The five competitive forces that determine industry profitability”. Could you explain the situation of IKEA? Are there any problems the IKEA have? Is there any model or way IKEA always used to solve these problems?

There are three way used to increase the competitive advantage:

- A, overall cost leadership
- B, differentiation
- C, Focus.

I know there are many successful examples that IKEA used, like flat packaging which help to reduce the transport cost. Could you give me more successful examples? I think a great company would use all of these ways to help them. It will be better if you could compare the data before the innovation with after the innovation.

Thank you so much for your help~~~