



# ICM

JUNE 2016

INTERNATIONAL MARKETING STRATEGY – PRE-ISSUED CASE STUDY & GUIDELINES

## **Important notes for candidates regarding the pre-issued case study**

The case study is designed to assess knowledge and understanding of the International Marketing Strategy syllabus in the context of the relevant case study. The examiners will be marking candidates' scripts on the basis of the questions set. Candidates are advised to pay particular attention to the mark allocation on the examination paper and to plan their time accordingly.

Candidates should acquaint themselves thoroughly with the case study and be prepared to follow closely the instructions given to them on the examination day. Candidates are advised not to waste valuable time collecting unnecessary data. The cases are based upon real-life situations and all the information about the chosen organisation is contained within the case study.

As the case represents a real-life situation, anomalies may be found in the information you have before you. Therefore, please state any assumptions you make that are reasonable when answering the questions. Remember, you are going to be tested on your overall understanding of the case issues and your ability to answer the questions that are set in the examination.

In order to prepare for the examination, candidates will need to carry out a detailed analysis of the case material ahead of the examination. Candidates will have sufficient time during the examination to answer all the questions, but this means that detailed analysis should have taken place before commencing the examination. The examiners are looking for clear evidence that candidates have a good understanding of the case and can use the relevant course ideas from the syllabus to answer the questions.

The copying of pre-prepared 'group' answers, including those written by other third parties, is strictly forbidden and will be penalised. Thus, questions will demand analysis in the examination itself and individually composed answers are required in order to pass.

**Candidates are only allowed to take their analysis into the examination room which should be no more than TWO pages (four sides) of A4. These notes should be attached to the answer script at the end of the examination and returned.**

**A copy of the pre-issued case study material will be available in the examination. Candidates are NOT permitted to take into the examination the downloaded case study or any other notes. Candidates should not attach any other additional information in any format to their answer script. Any attempt to introduce such additional material will result in the candidate's paper being declared null and void.**



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## INTERNATIONAL MARKETING STRATEGY CASE STUDY – IKEA IN CHINA

For IKEA the step into the Chinese market was an important one, maybe as significant as the first move onto foreign soil at Spreitenbach in Switzerland in 1973 (Torekull, 1999). IKEA, however, targets a different customer group in China than in other countries which are at a later stage in the IKEA 'life cycle'. The Chinese customer group is typically aged 25-35 (the core customer is around 30), and many are 'little emperors': the generation born into the One Child Policy (now between 15-27 years old). This segment of the population comprises 30 million people and is characterised as being impulsive, easy to influence, very social, and committed to foreign consumer brands (Gunnarsson, 1997). This group is well educated, lives in the large cities, and with increasing salaries, is growing every year.

The customer in China buys less when they visit the store than the average IKEA customer. But in Shanghai for example, the core customers visit IKEA more often than anywhere else in the world: 33% come to the store every month. This means, amongst other things, that there needs to be regular changes to the displays in the store. The Shanghai store, for example, rearranges the room settings at least seven times a year to display new products or to reflect different holidays and promotional campaigns etc.

IKEA's offer reflects the core mission – to supply affordable solutions to Chinese customers. However, the overall image of IKEA is different from this (see below), forcing IKEA to offer other forms of value to their Chinese customers. In the primary market area of the Shanghai store, the monthly household income of core customers is 6,000 RMB. This is high by Chinese standards but not in the IKEA world: IKEA compares different countries by using a typical IKEA basket of goods. A Swiss consumer only has to work for two months to purchase the basket, whereas a Chinese consumer would have to work for 18 months.

**Merchandise:** Some of the key challenges facing IKEA are summed up in the citation below:

"When Ian Duffy was first put in charge of IKEA's China stores four years ago, he spent hours at the checkout line observing customers. He didn't see many. Instead, he saw plenty of people crowding the Beijing store for freebies – air conditioning, clean toilets and even decorating ideas. Adding insult to injury, shops right outside were offering copies of IKEA's designs at a fraction of the cost. So, to lure shoppers, the Englishman launched what could be the cheapest IKEA non-sale item in the world: a scoop of vanilla ice cream in a cone for 12 cents. Thus began IKEA's strategy to beguile the finicky Chinese consumer by slashing prices in China to the lowest in the world – the opposite approach of many Western retailers." (The Wall Street Journal, March 3, 2006)

IKEA is used to being perceived as having low prices within the market, and as discussed above, this is one of the competitive cornerstones of the whole IKEA concept. However, this is not the case in China, where the perception of IKEA is that of a fairly exclusive western retailer and as a store for the higher middle class (Lewis, 2005). To the Chinese, Billy (the inexpensive, high selling book case) is perceived as a luxury item (Jungbluth, 2006).

In response, IKEA has accepted that to some extent the main approach must be to cut prices, and to do that, IKEA China has been allowed to 'break' some of the established operating codes in the organisation. China is a major sourcing country for the IKEA group, accounting for 20% of total company purchases. Yet, for many items, IKEA China initially sourced products from the same places as all the other IKEA countries, for example Poland. This centralised approach placed severe constraints on the low price policy and on service levels as products brought into the country were subject to import taxes (22%) and originally involved lead-times of 12 weeks (now down to 5 weeks). To be able to cut prices in the Chinese market, IKEA China has been allowed to expand the proportion of products sourced locally. Some commentators say that half of the products now found in an IKEA store in China are made in China (The Wall Street Journal, 2006), whilst IKEA claims that the figure is 30%, although the local trading office is now looking for Chinese suppliers for an additional 500 items. According to IKEA, these changes to the sourcing model have resulted in a real lowering of prices in the market.

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Prices have fallen by at least 30% since 2003, and for some products the price has dropped as much as 90%. IKEA's single-seat Ektorp armchair retails for \$112 in China, 67% lower than in the US (The Wall Street Journal, March 3, 2006).

IKEA, like many other companies doing business in China, is vulnerable to copying. One observer noticed that many Chinese shoppers in IKEA were drawing pictures of the furniture and scribbling down descriptions of the products but not necessarily buying them (Lewis, 2005). Copying is made easier by the presence of the catalogue and the in-store product line leaflets, which in many cases even provide measurements. IKEA style home furnishing has, in some areas, become a holistic concept in its own right, outside the control of the group. A search on baidu.com, a local Shanghai search engine, for 'IKEA style' will generate more than 39,000 hits. To counter this, IKEA has tried to focus on the broader concept of delivering help in home decoration, rather than on individual furnishing products as such. The company believes this is one way to achieve a market position that is not as easily copied, e.g. it is easy to copy the Karlanda, but less easy to replicate the home decorating ideas and skills provided by the company in the store, on the website, and in the catalogue.

As price will not, in the foreseeable future, be the main source of competitive advantage, IKEA China tries to position itself as a company with unique competences in interior design. Helping customers with interior design has become the core message, rather than selling individual products at low prices. The focus has also been on selected issues, like storage. Most Chinese live in small apartments and IKEA argues that it can help with smart solutions for storage that make life easier. IKEA's claim is very much about function, which contrasts with the traditional Chinese furniture manufacturers where everything is about tradition.

From experience IKEA managers know that markets run through some kind of life-cycle: when stores open in a new country most customers buy market hall products, i.e. everything but furniture. In established countries the proportion is said to be 65:35 between furniture and market hall products. Although the ratio varies across the IKEA stores in China, China has matured relatively fast with the furniture: market hall proportions fast approaching those found in older markets like Sweden and Germany.

The Chinese view IKEA products as innovative and non-traditional – for example square tables (as opposed to the usual round ones) and the colours used by IKEA.

According to the company, the 'IKEA' brand is well known – in Shanghai, 96% of the catchment area of the store are aware of the brand, and the first Fortune Cookies opinion poll in China showed that 75% of those with a monthly income of more than RMB 2,500, living in urban areas, and aged 15-55, knew of IKEA. (Dagens Industri, 05/05/2006). The meaning of 'IKEA' in Chinese has positive connotations: the Chinese translation means 'desirable for home living/comfortable home', and it is pronounced "Yi Jia", similar to the English pronunciation of IKEA.

The core assortment in an IKEA China store is very similar to elsewhere, although a few minor adaptations have been made to reflect local culture. In 1998 three products were introduced just for China – chopsticks, a wok with a lid, and a cleaver – but these items are now available in almost every store around the world. The IKEA China stores also have a special set of tea cups for the Chinese New Year, and 500,000 plastic placemats were produced to commemorate the year of the rooster (Business Week, 15/11/2005). Currently, in mainland China, as well as in Hong Kong, the beds sold are shorter (190cm) than standard-sized beds (200cm), although this is under review. Many Chinese live in apartments with balconies and this space is very important to the Chinese. Consequently, IKEA has provided a 'room' setting in the store which shows how a balcony can be furnished, and a special balcony section exists in the stores (Lewis, 2005).

**Location and store formats:** The big-box IKEA format is unusual in China where shopping is traditionally done locally and through specialist stores. The IKEA stores in China are located closer to the city centre than is normally the case in other parts of the world, although the location is not exactly down-town. Lower levels of car access in China make out-of-town locations unpractical. Instead stores have to be located close to public transportation hubs to ensure a high volume of customer traffic. A good example is the Shanghai store which is very close to several bus lines and one of the metro lines. However, as the Shanghai store also has 700 parking places under the store, IKEA is expecting Chinese shopping patterns to change in the future.

Customer reliance on public transport is a contributing factor to service levels: home delivery services are more common and more extensively used. Also, outside the stores in China local entrepreneurs can be found offering transportation and home assembly services.

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In the new Beijing store – the largest IKEA store after the Kungens Kurva store in Stockholm – a further adjustment to the store format can be found in the form of wider aisles, to cater for the fact that IKEA stores in China have up to three times the volume of visitors than IKEA stores elsewhere in the world (The Wall Street Journal, 2006).

**The selling and service environment:** Although the products available in the Chinese stores are basically the same as in any IKEA store in the world, the stores do not look the same inside. IKEA tries to create room settings that are relevant to Chinese customers with realistic room sizes and kitchens. The in-store room settings reflect those of Chinese apartments. One obvious example, mentioned earlier, is the incorporation of balconies (The China Business Review, July-August, 2004). So even with the same products, the room settings in the store in Shanghai look and feel very different from the store in Malmö. The outcome is basically the same product range – but adaptation in the store through the presentation of goods and types of home solutions offered.

The shopping experience is also different. As other customers are an important part of the shopping experience, the way the store is used by Chinese consumers – not only as a shop but also as a social area – is recognised and accepted. Initially, Chinese consumers came not to shop but to socialise in a pleasant atmosphere, which was much 'freer' than that found in other furniture shops in China, where you are not allowed to touch the merchandise. This is still true – people can still be found in the Shanghai store who appear to be asleep on the beds, having a nap on a sofa, or reading books with their feet on one of the tables in the room settings – but IKEA tolerates this 'being at home' behaviour as they hope that these people will return as customers. In-store communication is not just aimed at the younger target market. For example, one in-store sign portrays an older couple whose child has just moved away from home to attend college. The couple discuss how IKEA can help them to convert their son's bedroom into a new room for their own use.

The Beijing store expects to receive 20,000 visitors a day, and at weekends the crowds are so large that staff use megaphones to keep control. This equates to around 6 million visitors each year, compared to the IKEA store 'norm' of 2 million visitors a year. As staffing levels are the same as in other countries there are inevitable consequences for service. IKEA's own CSI shows that – except for service and the shopping experience – IKEA China scores below the IKEA average, although it still scores highly for product range and fashion. Given the number of people that visit the stores in China it is no surprise that the overall satisfaction levels are lower than normal. Today overall satisfaction in China is argued to be equal to the rest of the world, despite a lower score in some areas. For the criteria of inspiration, waiting times, and helpfulness of staff, IKEA China scores above average on the CSI.

Another element of the IKEA business concept which confuses Chinese customers is the added labour that the customer has to put in. As well as the self service concept throughout the store, including having to visit the warehouse to pick up products – the fact that the customer then has to assemble the products at home is alien to the Chinese. Although one does not need many tools to do this, as China does not have a DIY culture, few customers have even the most common tools at home. When the Chinese need something done in the house they employ someone, as labour is inexpensive. Explaining and justifying the DIY concept – which is at the heart of the IKEA business model – is hard work in China. IKEA provides home delivery, for both long and short distances, as well as an assembly service for a low fee (e.g. short haul home delivery for RMB 50, and assembly of a single item for RMB 40). IKEA has also created – although not intentionally – an industry of delivery drivers that help to assemble IKEA furniture: these pick-up trucks and their drivers are lined up outside the stores (Lewis, 2005). However, this service is already included in the purchase price at other stores. In Europe and in the US the product price is so low that consumers can see the benefit of doing these activities for themselves, but in China where the price of IKEA products is seen as high and then the customer is expected to do these things that no other retailer makes them do...this causes resentment and confusion. IKEA acknowledges this, and provides information in the stores, on the website, and in the catalogue to prepare the Chinese consumer for the IKEA store experience. They also employ shopping hostesses to walk around the store explaining how the concept works to customers. IKEA representatives argue that this aspect is progressing, but slowly.

As indicated above, consumers in China are very demanding when it comes to service. They expect, if not world class service, that there are at least people to help them with all kinds of tasks. The IKEA self service concept and the DIY concept in general is hard for the Chinese to accept. It is also difficult to gain an impression of the level of service orientation amongst staff in the IKEA store. IKEA uses mystery shoppers to gain some information, but taking into account 50 years of dictatorship, state rule, state owned enterprises with little scope for the individual etc – how service minded can one expect the Chinese to be? IKEA tries, as everywhere else in the world, to implement a staff strategy that regards everybody as co-workers rather than employees. However, this is theoretically at conflict with the established cultural behaviours, in a country regarded as having high power distance relationships. IKEA argue that service levels and the service mentality is improving as conversion rates – consumers visiting stores that buy something – are improving, and are now above 41%.

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IKEA also has another challenge that affects service. Many products – despite the increased level of sourcing in China – still have long lead times in terms of shipping from Europe and other markets. This has historically made it necessary for the Chinese stores to ‘push’ products, i.e. sell what they have available in the store, rather than what is in the catalogue but not necessarily in the store. A lot of effort has been put into improving this situation, e.g. increasing domestic production, a new warehouse in China etc – and it is claimed that availability in China is now almost the same as for the rest of the IKEA group.

**Market Communication:** One of the major differences when it comes to communication with the consumer in China compared to the rest of the world is the role of the catalogue. In China it is impossible, cost and reach wise, to distribute it in the same way as in other countries. The catalogue is distributed in the store and in some of the primary market areas, but there is a greater reliance on smaller brochures which are sent out several times during the year. These brochures are produced by the same people in Älmhult in Sweden that produce the catalogue in order to make sure that the brochures have the same layout and IKEA ‘feel’.

IKEA is known for its ‘out of the box’ thinking when it comes to creating an interest in IKEA and its products, and IKEA China is no exception. One example is a campaign which involved the transformation of 20 elevator interiors in less affluent residential districts in Beijing. The purpose was to create a nice environment in a dull place, to reach untapped markets, with the broad message that ‘change is easy’. Other PR activities include taking Chinese journalists to Sweden and Älmhult, to teach them about Sweden, IKEA, and the roots of the company, and IKEA is supposed to have started or sponsored a TV show in which viewers are offered lessons in home decorating.

IKEA has run many different advertising campaigns in China, through TV, newspaper and print media. The general theme in these campaigns is the same as everywhere in the world but with a Chinese twist (be different, break tradition). The IKEA advertising line in China may be viewed as being a little ‘softer’ than in other places – more humble advertising which does not stand out very much, with a friendly focus upon home furnishing solutions, education of the consumer, and the offer of a partnership for the future. The advertisement featured below is typical:

The message in this advert is ‘small changes, a refreshing new life’. Life can be made better, easier and nicer through small changes. ‘Small changes’ is a key phrase in IKEA advertisements and in-store communications. Other campaigns that IKEA have run use the theme ‘don’t be like your parents’, and are designed to speak directly to IKEA’s target group of younger women (Lewis, 2005).

The websites of the different stores in China are also viewed as an important communications vehicle, as the Internet is an important information source for the target group. The Internet is also used to educate customers about the IKEA concept and the shopping experience in particular before customers come into the stores. The IKEA Family Loyalty Scheme was introduced in China in 2007.