



**LAUREA**  
UNIVERSITY OF APPLIED SCIENCES  
*Together we are stronger*

# REASONS TO ENTER VIETNAMESE MARKET - CASE: IKEA

Nguyen, Thi Thanh Nhan

2016 Laurea





Laurea University of Applied Sciences

**LAUREA**  
UNIVERSITY OF APPLIED SCIENCES  
*Together we are stronger*

## Reasons to enter Vietnamese market - Case: IKEA

Nguyen Thi Thanh Nhan  
Degree Programme in  
Bachelor's/Master's Thesis  
March, 2016

Nguyen, Thi Thanh Nhan

**Reasons to enter Vietnamese market- Case: IKEA**

Year	2016	Pages	28
------	------	-------	----

---

The purpose of this thesis is to analyze why IKEA, biggest Swedish furniture brand, should enter to Vietnam. Based on research and interviews, the study provides an overview of Vietnamese economy, reasons for the company to open its first branch in Vietnam and suggest how IKEA adapt their strategies to expand and become profitable in Viet Nam.

The idea of this literature started after the author's first visited IKEA store in Finland, in 2013. By realized the promising development of IKEA in Vietnamese market, this thesis is conducted to explain the issue in depth. The thesis firstly discusses about the trend of global furniture market in general and IKEA Company background in brief as well as Vietnamese economic overview in order to reveal research motivations and introduce the research topic. Furthermore, by analyzing the IKEA case study and Vietnamese furniture market, the writing describes products and services offering suit the demands and expectations of local target customers. Moreover, based on the studies and interviews, the thesis also provides suggestions about how does IKEA adapt its strategies to expand and become profitable in Vietnam. Furthermore, the literature discussed the method which IKEA would choose to enter the potential market such as franchising.

Besides, because of difficulties within the system and the society which are challenges for the Vietnam's Statistical System (VSS) to increase data quantity, quality and timeliness, the thesis analyzes different resources and data in order to presents a holistic view of Vietnamese economy.

For the purpose of the market and consumer research, an interview with 5 questions was conducted. The aim of the interviews was to measure the satisfaction of the customers with existing service providers, and to inquire about the needs of customers for services and delve into the customer's buying behavior. Therefore, based on the interview results, the trends of customer expectations, the author suggest that IKEA have to have willingness to change and adapt their process and system will be concluded.

Keywords: Furniture market, entering a market, Consumers 'expectations, IKEA, Vietnam.

## Table of Contents

1	Introduction .....	5
1.1	Background of study .....	5
1.1.1	Brief IKEA company background .....	5
1.1.2	Global furniture industry .....	6
1.1.3	Vietnamese economic overview .....	6
1.2	Research method .....	7
1.3	Research limitation .....	7
2	Vietnamese furniture industry .....	8
2.1	Overview .....	8
2.2	Furniture industry .....	9
2.3	Vietnamese customers` expectation .....	11
3	IKEA case study .....	11
3.1	Company outline .....	12
3.2	IKEA products and services .....	13
3.2.1	IKEA products .....	14
3.2.2	IKEA services .....	15
3.3	Development plan in Asian .....	16
4	Reason for opening first branch in Viet Nam .....	16
4.1	Products .....	16
4.2	Services .....	19
4.3	Goodwill when entering Vietnamese market.....	20
5	How does IKEA adapt its strategies to expand and become profitable in Viet Nam .	22
5.1	Challenges .....	22
5.1.1	Fast expansion makes bad affect to the quality .....	22
5.1.2	The products could not impact from China.....	22
5.2	Overcome challenges to enter the market .....	23
5.2.1	Adapting lifestyle and culture of Vietnamese people .....	23
5.2.2	Overcome external challenges.....	23
6	Discussions .....	24
	References .....	25
	Figures .....	27
	Appendix.....	28

## 1 Introduction

Being a country which has large population, strong purchasing power and developing economy, Vietnam becomes a potential market with plenty of opportunities for foreign companies, especially those coming from Western countries. From 2013, many big brands such as McDonald`s, Starbucks, Zara have been started to enter the market. It demonstrated that the world now is quite excited about Vietnam.

Because of rising living standard, Vietnamese people have more demands than ever before, especially with furniture market. People started to spend more time, energy and money to decorate their home and office with modern designed products. However, there are just a few choices in the market, either to purchase domestic products or Chinese products as well as importing products with high price being available. The limited sources in furniture industry make it fall short customers` demands. The needs of having a supplier like IKEA where people can buy Western designed products with best price is increasing. That is the reason why the thesis presents how does IKEA, a Swedish giant furniture retailer which provides products with reasonable prices, good quality, well-designed and sustainable, best suit Vietnamese`s expectations. Moreover, it also suggests the strategies which IKEA can apply to adapt to the new market. Furthermore, it is discussed about the method by which IKEA could choose to enter Vietnam.

### 1.1 Background of study

#### 1.1.1 Brief IKEA company background

Swedish furniture giant IKEA was founded by entrepreneur Ingvar Kamprad in 1943. He began by selling pens, wallets and watches by going door to door to his customers. When he started selling his low-priced furniture, his rivals did everything to stop him. Local suppliers were banned from providing raw material and furniture to IKEA, and the company was not allowed to showcase its furniture in industry exhibitions. They innovated to stay in business, designed its own furniture, bought raw material from suppliers in Poland, and created its own exhibitions. Today, IKEA is the world's largest furniture retail chain and has more than 300 stores globally (Chu, et al., 2013).

Until 2015, IKEA owns and operates 373 stores in 47 countries. In fiscal year 2010, US\$23.1 billion worth of goods were sold, a total that represented a 7.7 percent increase over 2009. The IKEA website contains about 12,000 products and is the closest representation of the entire IKEA range. The company is responsible for approximately 1% of world commercial-product wood consumption, making it one of the largest users of wood in the retail sector (Chu, et al., 2013).

### 1.1.2 Global furniture industry

The furniture industry is a labour-intensive and dynamic sector dominated by small and medium-sized enterprises (SMEs) and micro firms. EU furniture manufacturers have good reputation worldwide thanks to their creative capacity for new designs, good quality level and responsiveness to new demands. New technologies and innovation have been combined with cultural heritage and style, and provides jobs for highly skilled workers (European Commission, n.d.).

People have the feeling of the great potential expressed by the Asian furniture market and a view to its future evolution, the South East Asian region as a dynamic and promising furniture market, made of different countries with specific features. They stressed the need of adopting a focused retailing strategy in each country, which is a key for success, together with a proper approach to design. Other emerging markets, even if at an early stage of development, are going to be attractive for Chinese export. In India, as illustrated by Rashmi Naicker (Editor, ITP Publishing India), over 200 million people will be added to the local urban and working population in the next 10 years. Consumers are exposed to information age and becoming more demanding in terms of product quality, usage and design (worldfurnitureonline.com, 2015)

It is time for the large corporations to pay attention on emerging markets with dynamic economic growth such as Southeast Asian countries.

### 1.1.3 Vietnamese economic overview

Recent years after economic crisis, early signals of recovering appear promising, the country achieved 6% growth in 2014 (Tan & Chang, 2015) and 6.3% during first half of 2015 (The World Bank, 2015). Moreover, Vietnam economy is projected to continuously increase up to 7% in 2016 in Outlook Conference by Mr. Nguyen Xuan Thanh, CEO of Fulbright; which is considerably outstanding in current global economic situation. Vietnamese government has managed to improve macroeconomic stability, inflation is at low of 1.04% in 2015 (The World Bank, 2015) keep going down in the future, and the consumer price index rising.

In addition, trade agreements promise to stretch the investment horizon further. Vietnam is involved in the Trans-Pacific Partnership, a major regional trade agreement involving the US; is in negotiations for a free trade pact with the EU; and the country concluded negotiations for a free trade agreement with the Customs Union (Russia, Belarus and Kazakhstan) in December, 2015 (Tan & Chang, 2015) . Based on researches and studies, the economic is seen as a very potential market for foreign investors. So many big brands has entered the Vietnamese market such as, McDonald's opened its first franchise in 2014, Starbuck has its first branch in

2013 in Ho Chi Minh city, and the country became Apple's fastest-growing market in the global. Furthermore, other big brand in fashion industry for instance Zara will open its first branch in July, 2016. Besides, because of cheap labour, these investors also agree that Vietnam is attractive for its law and order, political stability, the strong work ethic of a relatively young and well-educated population, a high savings rate, as well as a growing middle class and increasing consumer spending. These socioeconomic and cultural factors combine to make Vietnam ideal for foreign direct investment in a way not always seen in other manufacturing countries in South-East Asia. In brief, the economic is justified as a growing economic rapidly unlike other economies in Asia. It is a potential market which is going to explode in 2020 according to economic analysers.

## 1.2 Research method

Desk research is the main research method in this thesis. According to [businessdictionary.com](http://businessdictionary.com) desk research is gathering and analysing information, already available in print or published on the internet ([businessdictionary.com](http://businessdictionary.com), n.d.).

The report is compiled from various sources including publications, official data and statistics, newspapers, economic magazines, websites etc. Some information is based on interview with potential customers who are young well-educated people and family. The customers are divided into group as age according to the target of research. Interviews are organized via Skype, Viber and other Social Media channels by "one on one" interviews type. The analysed results and conclusion will be presented.

Secondary research offers several advantages for research gathering including: ease of access, low cost to acquire, save time and be economical. First, many conveniences are occurred by the Internet when it changed how secondary research is accessed such as (e.g., online access from many locations) and generally standardized usage methods for all data sources. Second, researchers are often attracted to secondary data because getting this information is much less expensive than if they do research themselves. Then, another advantage of secondary research is enormous saving in resource, in particular the time and money. The method also appropriates for this thesis. That is the reason it is chosen to be the main research method in this study.

## 1.3 Research limitation

The research focuses mainly on reasons why IKEA should enter Viet Nam and how it adapts to the culture. To make the study more convincing, it is also clarify the real situation of Vietnamese people living standard based on customers` interviews and writer`s knowledge.

During the time of collecting data, analysing the market and build strategy to take over the market share, it is important to have information about related field such as: GDP, economic growth, etc. However, what we have from the public of GDP or other related economic data do not show the real situation of the country. Therefore, investors who come from foreign countries like European countries or US do not really have a holistic view about the economic in overall.

Due to the ineffective General Statistics Office of Vietnam, the GDP and other numbers cannot describe the real speed up development of the economy. There are many difficulties within the system and the society which are challenges for the Vietnam's Statistical System (VSS) to increase data quantity, quality and timeliness. For example: Because of limited coordination and interaction between data producers and users, improper and insufficient legal frameworks, institutional and organizational structures have been posing difficulties in statistical activities. Besides that, the lack of official dissemination policies are making it difficult to access to data sources as well as raising confusions and suspicions among data users. On the data user side, there exist lacks of trust and under-uses of statistics by government leaders and policy makers. (Ministry of planning and investment, n.d).

## 2 Vietnamese furniture industry

This part offers a general view of insiders about the economic as well as a comprehensive picture of the furniture sector in Vietnam, providing trends in furniture production and consumption. The study is based on the questionnaire distributed to selected target group.

### 2.1 Overview

As data showed, Vietnam's economy has been growing rapidly in recent years. It is assumed that Vietnam may be the fastest growing of Southeast Asia's emerging economies by 2025. According to latest statistics in 2015, Gross Domestic Product (GDP) is almost 2400 USD comparing to that of 2014 which is 2250 USD. Vietnamese people's income has improved significantly. As a result, there are many new industry areas and urban, modern cities have been built in Vietnam. Nevertheless, the amount of middle income, which is the most important class in an economy, is also increasing (Ganne, 2015).

Even though the growth showing by numbers seem to be promising, the GDP and other numbers cannot describe the real speed up development of the economy because of the ineffective General Statistics Office of Vietnam. In recent years, demand for timely and accurate statistical information for policy formulation, monitoring and evaluation is increasing. Especially when Vietnam enters a new stage of socio-economic development with domestic and international fluctuations, the role of statistics becomes more important than ever. In recent



years, the Statistics sector has made significant improvements including increases of quality of data collection, improvements of the processing/analyzing tools, and diversification of data dissemination forms. However, there do exist many constraints within the system and the society which are making it challenging for the Vietnam's Statistical System (VSS) to increase data quantity, quality and timeliness. According to the assessments on various fields of the VSS conducted in 2013, limited coordination and interaction between data producers and users, improper and insufficient legal frameworks, institutional and organizational structures have been posing difficulties in statistical activities. The lack of official dissemination policies are making it difficult to access to data sources as well as raising confusions and suspicions among data users. On the data user side, there exist lacks of trust and under-uses of statistics by government leaders and policy makers. It's also noticeable that knowledge of statistics, data sources and methodologies is limited among data users causing misunderstanding, misuse, and misinterpretation of statistics (Ministry of Planning and Investment, n.d.).

In brief, official economic numbers providing by Statistic system still cannot provide a holistic view of the economy. One of the reasons is that a majority of people has several businesses; however, not all of them could be counted in statistic activities especially such as GDP, taxes. For example: besides that, people do not trade by credit card but cash. That is why; the cash flow in the market is totally different than what was showed in studies because of difficulties in statistic system. Therefore, to analyze the market; people need to have knowledge not only about Vietnam economic but also international experiences with the aim of giving a holistic view.

## 2.2 Furniture industry

According to a study in the beginning of 2015, The Vietnam furniture industry is characterized by an accelerated influx of foreign investment and the rapid expansion of existing companies. The speedy development and rapid market expansion enjoyed is projected to continue into the foreseeable future. In addition to traditional market in the Asia Pacific, Vietnam furniture has attracted great interest from new markets such as USA and Europe. The attraction is very much attributed to the low cost of products coming out of the country as well as the huge improvement in quality. Vietnam is said to be home to more than 2000 furniture manufacturers, with around 15% export-focused. The numbers are increasing. Even Chinese manufacturers are reported to be crossing the border to set up processing facilities in Vietnam. According to official statistics, there are over 1200 wood processing and manufacturing factories with capacity of around 2 million m<sup>3</sup> logs a year in Vietnam at the present moment. Of this figure, 374 are state-owned factory sharing 31% processing capacity. The remainders are privately-owned and foreign-owned (FDI) factory (Ho Chi Minh City Department of Industry and Trade, n.d.).

The Vietnamese furniture market can be divided into two main segments, the common and the high-end segments. The common furniture is products of carpenter's shop or of local small-enterprises, while the high-end furniture are mostly imported products and luxury traditional furniture of un-well-known local manufacturers, or products of well-known domestic goods. The biggest furniture markets concentrate in the two economic centers Hanoi and Ho Chi Minh City as well as in some other big cities. Wooden furniture occupies the major part of furniture products, followed by metal furniture, white rattan furniture and plastic furniture takes up only a few. The number of different kinds of furniture owned by citizens has changed dramatically and the furniture-consuming characteristics between cities and countryside are quite different. Based on the structure of houses and lifestyle, people choose different products` design and function.

For example, in the countryside which has large space for furniture, people usually choose traditional products. In other hands, in big cities with small apartments and studios people prefer to buy smart furniture which have more functions and occupied small space. Private consumers like to purchase furniture directly from local furniture outlets or showrooms. Furniture supermarkets in the class of Höffner or IKEA are not available in Vietnam. Classical furniture like bed, wardrobe or tea chest is still consumed strongly in rural areas. In different, citizens in urban are of great interest to kitchen and other functional designed furniture (German Industry and Commerce Vietnam (GIC), 2006).

Based on the cheap labor cost and available source material, domestic products gain a majority of market share following with imported furniture mainly from European countries as well as Chinese goods. Middle class usually chooses to buy domestic products which have reasonable prices; besides, they can also customized products following with designed as well materials. Furthermore, a furniture shop selling domestic can be found quite easily; that is why it helps customers to save time choosing what they are looking for. Nowadays, due to high standard of living, people have more choices than ever before. The style of Vietnamese people about wanted furniture are changing when they are tending to choose the simple, elegant and convenient in functions, which is well suit IKEA's Swedish designed. Moreover, because of being an aspirational brand in Vietnam, people like to purchase European design; however, there are no European furniture brands enter the market yet. So, the customers have to pay at least double prices than the original price to import it from outside of the country. Still, there are not variety choices.

It would be a missing point not to mention Chinese products. Actually, Chinese products are cheap and good looking; however, they are low quality and make by poison material. At the

beginning, people likely to purchase Chinese products; but, after so many cases were reported that the products have bad effect to consumers. Vietnamese people now have a bad impression on Chinese products that is why people tend to purchase either their domestic furniture or those imported from other countries except China.

### 2.3 Vietnamese customers` expectation

This part of the study has been conducted by different ways of direct interviews with the industry, field research to private consumers and companies distribution of questionnaire to selected target group.

As mentioned previously, Vietnamese people have limit choices in furniture purchasing. Besides, as rising of middle class when the living standard become higher, people start to look for products with have more functions, more quality and good design. Furthermore, based on statistics, products from China importing to Vietnam by many different ways are now take over the whole market. They made from low quality materials which cause safety problems with home furnishing and food products. For example, started in 2012 until now, there have been so many reports that using Chinese products which do not tested before have been caused injury and/or health risks or even cancers. This is also an alarm for Vietnamese people pay more attention on the quality and origins of the products.

Those goods also fake other brands in order to make people being mistaken that they do not come from China. Nowadays, consumers pay attention to sustainability and care more about the quality of what they intend to purchase. That is why; consumers would like to have experience on the European products which are already high quality products in people's mindset. Private consumers or even companies are now looking for products with good quality, durable, sustainability with reasonable prices (Millstone Trading, n.d.).

Besides, because of speedy development of economy especially in big cities like Ho Chi Minh or Da Nang city, people who used to live in other places come to those cities in order to work. That is why young middle class usually live in small apartments or studios; therefore, they require space saving, multiple functional, easy to assemble and un-assembled furniture.

## 3 IKEA case study

The following is an analysis of the IKEA case study focusing on their products and service as well as its development plan in Asian in order to give readers a basic information about how IKEA suitable with the market.

### 3.1 Company outline

Founded in 1943 in Älmhult, Sweden, IKEA is the world's largest furniture retailer. In the 2015 fiscal year, the company generated global revenue which exceeded 32 billion Euros. One of the key competitive advantages IKEA has is its extensive knowledge about the customers. The company understands the purchasing factors that influence customers to buy and implements the best practices to induce that decision and, as a result, has become one of the most popular companies worldwide. IKEA offers low prices and a huge range of products. Designers constantly introduce new design products that look stylish in the eyes of customers. All the products are designed so they are easy to transport and assemble. Moreover, the company offers the widest product range and positive shopping experience. All of these factors are aligned with what customers want and need and which results in higher sales. Without such extensive customer knowledge and best practices to benefit from that knowledge, IKEA would be unable to compete with its current competitors.

According to Millward Brown Optimor's "Brandz Top 100 Most Valuable Global Brands 2015", not only was IKEA the fifth most valuable retailer in the world, but it was also the most valuable furniture retailer brand in the world, valued at over 18 billion U.S. dollars. The business operates 375 stores and is present in 47 countries. More than 750 million customers visit IKEA stores every year (Statista, n.d.).

IKEA vision statement is: "To create a better everyday life for the many people".

Its business idea is "To offer 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".

Therefore, the firm targets to help as much as people can afford the price to purchase their products. One of the four cornerstones of the IKEA concept is low prices. This price advantage strategy is the combination of wide range of well-designed and functional products. In Western countries, IKEA's products cater for every life stage and lifestyle of customers who come from all groups and types of households. On the other hands, in Eastern countries, because of the purchasing power being lower than its original market, the company target to the middle class and family group. IKEA also applies international strategies to provide good quality products which reasonable prices which suit the living standard, particularly in Asian market. For example entered China in 1998 when it opened its first store in Shanghai, the main problem for IKEA was that its prices, considered low in Europe and the US, were higher than the average in China.

Then, by having a very good supply chain management system, the firm has lower the price comparing to that in other countries in order to gain bigger market share

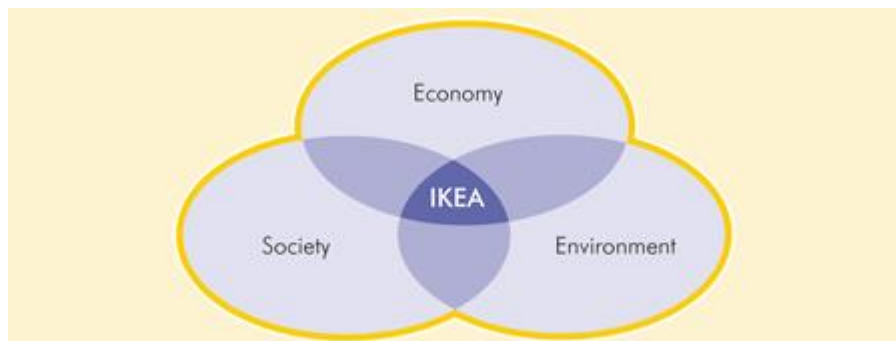


Figure 1: The cornerstones of IKEA

Furthermore, to sharpen its vision, IKEA always has concern for people and the environment. Due to the public's rising concern for sustainability, IKEA has responded to it by integrating the IKEA sustainability direction into everything they do such as considering the field in its choice of product range, suppliers, stores and communication. For instance, on 3 June 2015, Rome - FAO and IKEA of Sweden today agreed to begin working together on a forestry certification initiative aimed at promoting the sustainable management of forest plantations and empowering forest-reliant communities in Viet Nam (FAO: Food and Agriculture Organization of the United Nations, 2015). As a result, sustainability is one of the four cornerstones of the overall direction for the IKEA Group, "Growing IKEA - Together". It is a part of the business, which means that all business plans and strategies of IKEA must clearly and systematically integrate sustainability improvements and investments as part of everyday operations.

In brief, IKEA as a world renowned furnishing retailers reputed for selling Scandinavian-style furniture and other home-based goods sticks to its four cornerstones which are low price, good quality, functional and sustainability. Because of having clear vision and suitable concept, the company continues to expand to new market. Still, the strategies decisions also enable IKEA to maintain a competitive advantage, and earn above average returns due to leadership in the market.

### 3.2 IKEA products and services

IKEA is a privately-held, international home products retailer selling utilities furniture-pack, accessories, and bathroom and kitchen items in their retail store around the world. The com-

pany, which pioneered flat-pack design furniture at affordable prices, is now the world's largest furniture retailers. The part gives an overview about characteristic of products and services in IKEA.

### 3.2.1 IKEA products

The IKEA Concept starts with the idea of providing a range of home furnishing products that are affordable to the many people, not just the few. It is achieved by combining function, quality, design and value - always with sustainability in mind. The IKEA Concept exists in every part of our company, from design, sourcing, packing and distributing through to our business model. Our aim is to help more people live a better life at home (IKEA, n.d.).

In other word, IKEA provides their products by combining four cornerstones which are low price, functional, well-designed and sustainable. First of all, the firm stands out by offering products with Scandinavian design. Therefore, being stylist makes the company unique. It's all identified by single word names and most the name are Swedish in origin. Even though, there are some notable exceptions, most product names are based on a special naming system developed by IKEA in conjunction with Colin Edwards (international naming expert and furniture enthusiast). Second, the products with simple design but have well required functional. For instance: IKEA also has smart furniture which is multifunctional such as using to be a sofa and a bed. Then, with the aim of reaching the objective of produce cheap and affordable products for the public, the company has using cost effective strategy in order to reduce prices. The firm achieves the cost advantage by many ways such as offering wide range with a bunch of products, products being self-assembled, building a long-term relationship with retailers in order to get cheap retail price, etc.

For example, back to China case, entered China in 1998 when it opened its first store in Shanghai, high prices were one of the biggest barriers in China for people to purchase IKEA products. Prices of furniture made by local stores were lower as they had access to cheaper labor and raw materials, and because their design costs were usually nil. Therefore, IKEA built a number of factories in China and increased local sourcing of materials. While globally 30 per cent of IKEA's range comes from China, about 65 per cent of the volume sales in the country come from local sourcing. These local factories resolved the problem of high import taxes in China. The company also started performing local quality inspections closer to manufacturing to save on repair costs. Since 2000, IKEA has cut its prices by more than 60 per cent. For instance, the price of its "Lack" table has dropped to 39 yuan (less than five euros at current exchange rates) from 120 yuan when IKEA first came to the Chinese market. The company plans to reduce prices further, helped by mass production and trimming supply chain costs (Chu, et al., 2013)

Another example of reducing cost strategy (low cost leadership strategy) is provide self-assembled products. Almost of IKEA's furniture is designed to be assembled by the consumer rather than being sold pre-assembled. So that, it is allowed them to save cost and use of packaging by not shipping air; the volume of the package for instance, is considerably less if it is shipped unassembled rather than assembled. However, it requires that customers contribute to the economic price by collecting, taking home and assembling the products by them self. Then, the firm also manufactures a limited range of articles and big sale volume; hence, it possible for IKEA to keep cost and prices down. Besides that, as now people is getting more concern about sustainability. The company integrates the field in every business activities to make sure that sustainability is one of the four cornerstones which helps IKEA compete with competitors.

In short, there are so many reasons which help IKEA having a good brand image in consumer`s brains, such as, cooperating with suppliers from whole over the world, using” life system” to find what customer need, high- efficiently of logistics, etc. Follow the concept, IKEA try their best to give customers required products which are low price, well-design, creating a better everyday life for many people.

### 3.2.2 IKEA services

IKEA do their best to make shopping at IKEA as easy as possible. The firm has both inside and outside services. When customers go to stores, service co-workers have responsibility to encourage the satisfaction by ensuring every single visit to IKEA. The teams provide a high quality service by being available and being tuned in to the customers' needs - before, during and after. Then, the company also has their services when customers do not have enough time or energy after shopping. Therefore, IKEA has a menu of services which helps everything from putting it together to getting it home. For example: “Picking with delivery” which means helping the customers to pick and deliver their purchase, “ Assembly” which gives a helping hands on assembly the purchased products, “Online delivery”-placing an order online,...etc.

Besides the basic service, the company has also other treatments for their customers. One of that is children care center where they take care of the kids when their parents go shopping. Besides that, there is IKEA food services which including two elements- serving traditional Swedish dishes in the restaurant and selling Swedish food market. Both encourage people to visit the IKEA store and to spend more time there, and in this way they support the store's total home furnishing sales. For instance, some Asian countries, people likely to spend their day off in shopping center; so that, IKEA can also become their favorite place.

In short, the variety of the services actually help IKEA stand out from their competitors by being a key point to encourage customers come back.

### 3.3 Development plan in Asian

After the opening of its first pick-up and ordering point (PUP) in Asia yesterday in Phuket, Swedish furniture retailer Ikea has set its sights on having three large-format stores in Bangkok and five to six PUPs nationwide within five years. Meanwhile, Ikea is also looking for business partners in Vietnam and the Philippines to capitalize on the urbanization in Southeast Asia.

Mike King, retail manager of Ikea Singapore, Malaysia and Thailand, told The Nation yesterday that the company will have to go through the territory application process which could take years before the expansion starts.

The company is reportedly interested in opening branches in Manila and Ho Chi Minh City (The Nation, 2015).

As a world famous international company, IKEA is like a fresh air into new market such as Southern Asia like Vietnam, Thailand, Philippines, etc. when eastern products are seen as aspirational in Asian markets.

## 4 Reason for opening first branch in Viet Nam

After presenting in detail two main subjects which are Vietnamese market and IKEA, the part explains how IKEA products and services meet Vietnamese expectation as well as mentions goodwill when enter the market. Therefore, the literature sums up with the reasons for opening the first branch in Vietnam.

### 4.1 Products

In the big cities like Ho Chi Minh city, where is home of the majority of young middle class, people seem to stuck in the situation that they do not have much choices when purchasing furniture. They are mostly choosing to buy whether domestic goods or Chinese goods. Based on researches and studies, Chinese products are cheap, nice-looking, durable, bad health's affects. Domestic goods are good function but have basic design. Nowadays, because of the increasing of middle class and people's standard of living generally in Viet Nam, people have more highly requirements on products especially in the furniture industry. So that, the products is required to have good function, well-designed, reasonable price and safe to use.



As the IKEA is known globally for its low prices and innovatively designed furniture. IKEA home furnishes products being safe, from both a health and environment perspective. The company can target the young middle-class population like what they have done in other Asian countries like China, Malaysia, etc. This category of customers has relatively higher incomes, is better educated and is more aware of western styles. Targeting this segment would help IKEA project itself as an aspirational western brand. Therefore, their products create a new trend if entering the market and meet customers' needs.

Products with best price/ best deal: Low cost is the core business. Every year IKEA plan is to cut 3-5% of the cost by the products to provide goods with reasonable prices. It meets the middle class' expectation with the income from 400 USD per month. Besides that, Vietnam is a country with young population who stay in middle class with high income. The group looks for products having good brand's value. Young people who were born and grew up in Southern of Vietnam likely move to Ho Chi Minh City to study and work. That is why the needs of buying an apartment and then fulfill it with good furniture is very important for them. Besides that, other group combining of older people is having more attention by buying stuffs with good quality. Furthermore, in Viet Nam we have not had a big brand providing furniture from Scandinavian countries. It would be a huge success for IKEA when move to the market without any big competitors especially in pricing competition.

IKEA has products with well design. People in Viet Nam love the Western design and likely to buy products having European style. Besides that, products fit for use- for example: the right material like wood- the one almost Vietnamese people would like to buy. The products are good look, touch and feel. More than that, the vision of the company is integrated sustainable material in manufacturing. Also, the company makes sure that after using their products, it has to be easy to recycle.

IKEA has products with being safe to use. Nowadays, products from China with low quality caused bad affect in health are all around the market. Many cases being reported from customers about goods made from material with unknown original importing from China, is an alarm for Vietnamese people. That is the reason why, the existence of IKEA will be a huge stand out of the market and change people. With the mission of making furniture with no risk of injuries, free of harmful chemicals, hypoallergenic, low-emission, IKEA bring the value which meet consumers' needs. Moreover, based on many cases reported that playing with games which are imported from China for a long time might causes cancer. Therefore, by focusing on children's safety, the firm has a right reason to enter the market when children in Vietnam do not have many chances to play with safety products.

IKEA has products with customer friendly. Besides that, the products are protective, neat and clean packaging. The packaging is quite simple that people can carry home easy and can build the product themselves. Unlike in European countries, Vietnamese people rather ride motor-bike instead of taking public transportation. Public transport in Vietnam is not always comfortable but fares are reasonable. Buses and trains make it easy for people to travel around the country. In addition to the usual buses and trains, it is easy to realize that the locals love to travel on two wheels, using motorcycles or bicycles. Therefore, as what could see in the picture, a flat-packaging will be best suit for shipping than an assembled chair in Viet Nam. Besides, the goods are easy to assemble and install which will help consumers who are quite new with the concept of purchasing a self-assembled furniture. Also, the products are easy to use, clean and maintain.

IKEA has products with durable and functional. With reasonable cost, well designed and last long product, Vietnamese people who have not had opportunity to buy products with good value in reasonable price would have a new choice when looking for furniture. The furniture could fulfil functional expectations. The products can be disassembled and reassembled quite easily.



Figure 2: Characteristics of products

Besides, almost furniture shops in Vietnam provide only one type of products such as only bed or only table. There is not a store which fully supplies of furniture and household items. Those items are sold in separately stores. Therefore, it takes more time for people who have different demands gathering all the needed goods. That is the reason why having a very big and extremely well designed store like IKEA, where people can walk around and find everything they need, is a plus. It saves time and energy for customers as well as improves the consumption.

#### 4.2 Services

As mention in the previous part, the firm has before, during and after sale services. When customers go to stores, service co-workers have responsibility to encourage the satisfaction by ensuring every single visit to IKEA. The teams provide a high quality service wherever customers needed for example: IKEA stores open 24/24 in some countries. Besides, the company also has their services when customers do not have enough time, energy or skills in assembled products after purchasing. Therefore, IKEA has a menu of services which helps everything from putting it together to getting it home. For example: “Store delivery” which means helping the customers to deliver their purchase, “Kitchen service” which customizes the services to get the help you need. “Online planning”- making own design by planning tools, etc. More than that, because Vietnamese people do not familiar to self- assembled products; therefore, it may be a minus for the firm. Therefore, the services of helping to assemble products are quite important for the beginning time of entering the market.

Besides the basic service, the company has also other treatments for their customers. One of that is children care center where they take care of the kids when their parents go shopping. Scandinavian countries are well known of having good well-being. Therefore, it will be an advantage to stand out among those competitors in the market like Vietnam where the concept has not existed yet. IKEA store will not only a store to sell furniture and other home base products; but, it will be also a place for customers going with family or friends to spend their weekend or day-off. Furthermore, there are IKEA food services which serving traditional Swedish dishes in the restaurant and selling Swedish food market. Western products are seen as aspirational in Asian markets; that are the reason why people have to afford spending quite much money to import products with a small volume from Europe. Therefore, both services are reasons why people should visit the IKEA store and to spend more time there, and in this way they support the store’s total home furnishing sales.

In brief, the variety of the services help IKEA has variety of services which make sure that Vietnamese customers will be satisfied from the time when they step into the store until after using the products. Both products and services will make a new trend in the country that people could have opportunity to purchasing Western products with reasonable prices (IKEA, n.d.)

#### 4.3 Goodwill when entering Vietnamese market

Besides of having products and services which meet customers' expectation, there are also three more goodwill of IKEA when moves to the new potential market which are the first Scandinavian brand entering the market, long term relationship with suppliers in Vietnam, and target customer group increasing dramatically. First of all, IKEA is well known of cost effectiveness thanks to a very good supply chain management. The firm has factories and suppliers with local sources in Vietnam as well as other Asian country to reach the lowest retail cost objective. Therefore, they can also reduce the shipping cost by selling line of products are made in Vietnam.

Second, being the first Scandinavian brand providing furniture and products home base is a plus for IKEA. At the moment, Vietnamese furniture industry does not have any big competitors with powerful brand image who can provide wide range of products and styles from European. Therefore, the entering of IKEA is a new trend which people will spend more time and energy to go shopping and experience products.

Next, the rising of young middle class is also an advantage to IKEA gaining more market share. The company realized this and started targeting the young middle-class population. This category of customers has relatively higher incomes, is better educated and is more aware of western styles. Targeting this segment helped IKEA project itself as an aspirational western brand. This was a massive change in strategy, as IKEA was targeting the mass market in other parts of the world. However, in Asia, IKEA chose to target the middle-class who has ability to afford the price when purchasing products.

Below is the population pyramid which illustrates the age and sex structure of a country's population and may provide insights about political and social stability, as well as economic development. The population is distributed along the horizontal axis, with males shown on the left and females on the right. The male and female populations are broken down into 5-year age groups represented as horizontal bars along the vertical axis, with the youngest age groups at the bottom and the oldest at the top. The shape of the population pyramid gradually evolves over time based on fertility, mortality, and international migration trends.

Age structure (indexmundi, 2015):

0-14 years: 24.3% (male 11,946,656/female 10,800,602)

15-24 years: 17.8% (male 8,598,360/female 8,023,377)

25-54 years: 44.8% (male 20,983,638/female 20,861,243)

55-64 years: 7.4% (male 3,149,494/female 3,763,309)

65 years and over: 5.7% (male 2,034,721/female 3,260,435) (2014 est.)

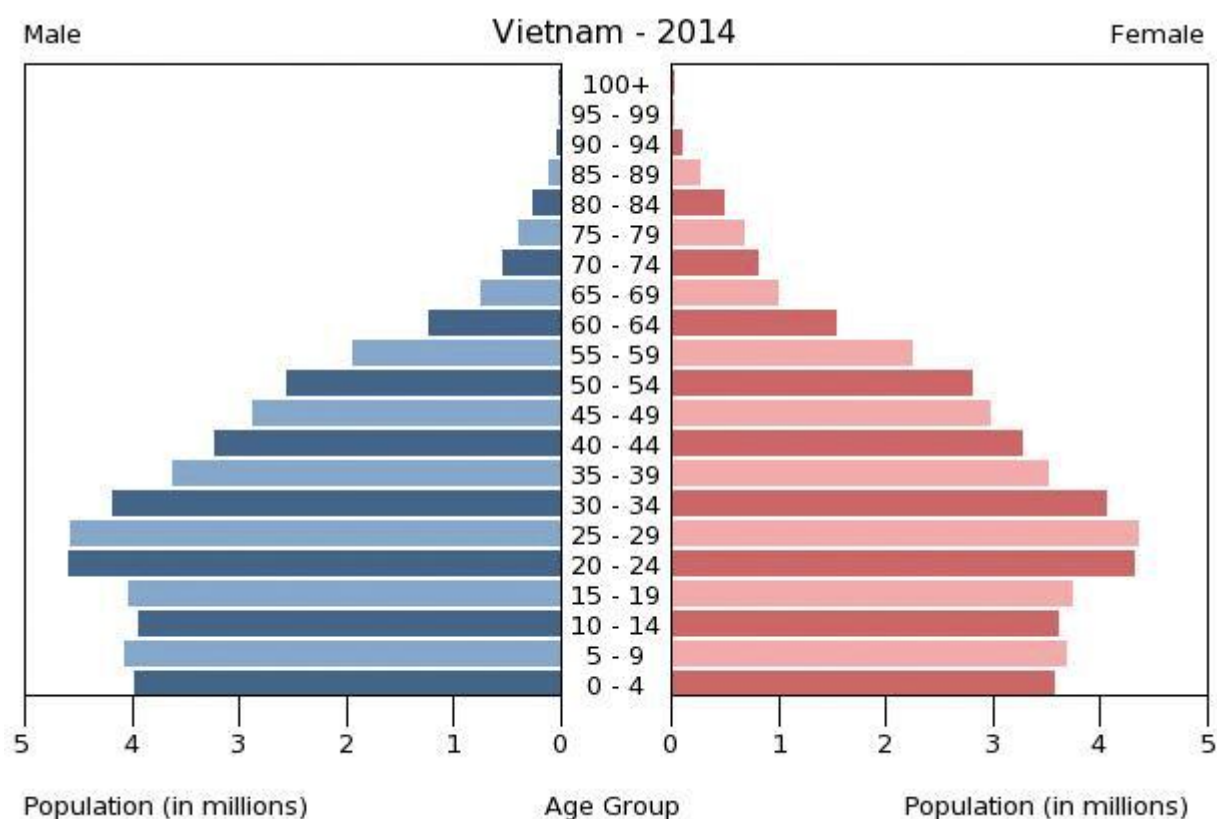


Figure 3: Population Pyramid (indexmundi, 2015)

Based on the chart, Vietnam's population is all about young people and part of people from 25 to 55 years old. It is also the targeting customers of IKEA. The store is considered as suitable prices for its target consumers-young, professional couples-and the company lowered its prices. The store's prices are now considered mid-range in Ho Chi Minh City who has high income, loves modern design, flexible services and Western lifestyle. Besides that, IKEA store has extremely design where customers could get inspire decorating their home by the room setting and displays at store. Therefore, it will increase demands and consumption in furniture market.

## 5 How does IKEA adapt its strategies to expand and become profitable in Viet Nam

Although there is goodwill when entering the market, IKEA still needs to face with challenges. Below this paragraph will point out two of the challenges and suggest the solutions to solve the problems. The very first challenge is that the company loses the trust of its customers. The problem is that some customers start to think IKEA cannot guarantee the quality of the products due to fast expansion. Then, the second challenge is based on the Vietnamese customers are sensitive to products “MADE IN CHINA”. Based on that, the literature suggests how IKEA overcome the challenges and adapt their strategies to the market with the aim of being profitable.

### 5.1 Challenges

The part presents challenges IKEA might face to when entering the market. There are two main issues which are fast expansion and products impact from China. The next parts will clarify the subjects in detail.

#### 5.1.1 Fast expansion makes bad affect to the quality

The analysis showed that the expansion of IKEA is fast enough to affect the quality of the products. There is a positive relationship between the quality and price. The rule is that the higher the price the better the quality. The data collected from the questionnaires shows that people think that the quality of IKEA’s products has decreased. IKEA expands too fast in the world and there are some problems with their products. The customers are not satisfied with IKEA as before. Suppliers are the most important problem because of the profit. They cannot guarantee the quality of the products.

#### 5.1.2 The products could not impact from China.

Vietnamese people think that Chinese products are low quality due to their own experiences with products in the market. In addition, because of many cases being reported recently about how many Chinese products could cause bad effect on consumers’ health, customers become very sensitive about origin of products. That is why it might cause a bad effect on company branding if they go to store and find products with “MADE IN CHINA” label. So, the firm should bring the products from others countries and European stores.

## 5.2 Overcome challenges to enter the market

The part presents the suggestions to overcome the challenges in order to expand into the market and be profitable. First, it provides solution for IKEA to adapt Vietnamese lifestyle. Next, it gives suggestion to IKEA in order to make it run productively when expanding fast in a new market.

### 5.2.1 Adapting lifestyle and culture of Vietnamese people

IKEA offers the same product range in all countries-8,000 to 10,000 products depending on the store's size. But the company adapts the layout of the store, presentation of the goods, home solutions offered, and prices according to national economic and cultural conditions. In China, the store layouts reflect the layout of many Vietnamese apartments.

Vietnamese tend to spend most on their living rooms, which he terms the heart of the home where many people "show off" and entertain. Many Vietnamese living rooms contain a dining table as well, so dining room purchases are also common. Because Vietnamese kitchens are generally small, customers spend less on them. At one time, bedroom furniture and decorations were the least popular purchases in Viet Nam, perhaps because the room is the most private and thus least visible place in the home.

Besides that, IKEA alters products to suit the needs of Vietnamese consumers. For example, \ Young Vietnamese people usually chose Hochiminh city to start their career; therefore, it has a quite a large population. The growing of population has been increasing the real estate price; so that, almost them live in a small apartment. Because of limited space, people prefer to choose smart furniture which has several functions and occupy little space. That is why IKEA should develop their products following to the multi-functional goal. Another example which IKEA should consider is how to travel in a big city where there is a big amount of vehicles. People would prefer to have a flat-package in order to carry it easily when driving than assembled furniture. Therefore, IKEA should focus more on design a small and flat package with the aim of carrying the products around.

### 5.2.2 Overcome external challenges

Firstly, slow down the expansion steps, and turn back to have a check; what have been done, what have not. Secondly, improve the corporate to suppliers. Test the quality in every single step. Don't leave this job to customers. Customers' feelings decided how far you can go forward and thirdly the board of directors should not give too much pressure to the company. Otherwise, the managers of the company only care about the target instead not caring about the success of the company. Adjust the policy from the

top manager in order to change the management pattern. Put the key point on not only the profit but also the quality (Chen, et al., 2013).

## 6 Discussions

The increasing of Vietnamese people's living standard put forward more demands in household items. However, the supply falls short of the expectations. Furthermore, there are quite limited choices in Vietnamese furniture market, especially young middle class who has high income and is interested in Western design. Moreover, IKEA provides products and services which suit the great demand in the market at the moment. Besides that, from 2013, so many big brands such as McDonald's, Starbucks, Zara have been entering Vietnam. It shows that the world is getting excited more and more about Vietnam. Therefore, the company should open its first branch in Vietnam, the country which has large population, strong purchasing power and developing economy. IKEA should choose the most efficient way to enter the potential market. There are usually two possible ways to get into the market. The company could choose to move by their own IKEA Group or by franchising. If they choosing franchising, IKEA should take time and considerate who is the best franchisee. The main risk of this method is the reputation because if the local partner does not develop the business as planned; then, it will damaged the brand. Therefore, it would be difficult for the company to enter new market in the future. One of the example is McDonald's who took 10 years to do the research and chosen the best partner. Then, the process looking for the best franchisee can be considered in three main conditions which are having great communication skill and strong relationship, great human resources and capital. Besides that, the retail skill will always be a big plus. For instance, the local partner can find a great location for the store in Ho Chi Minh city where the real estate is a difficult issue. More than that, if the candidates seem to have the same level in every field, the winner will be the one who has passionate about the business. Furthermore, in order to find a franchisee, IKEA can choose via its own website where participants can contact them directly, or by consultant companies, or by a third party. Usually, the big brand who care about their image choose the third party in Asian such as partners in Hong Kong, or Malaysia who already represented well in Asian and then passed the business to them. In brief, entering a new market takes time, human resources and money. However, the existing of IKEA in Vietnam market gives customers the satisfaction of their demands in furniture market and brings profit for the company.



## References

businessdictionary.com, n.d. *What is desk research? definition and meaning*. Accessed 20 January 2016.

<http://www.businessdictionary.com/definition/desk-research.html#ixzz433kCvK5i>

Chen, X., Zhang, J. & Yang, L., 2013. *Bachelor Thesis - The Future of IKEA - Watch your expansion steps*. Accessed 20 January 2016

Chu, V., Girdhar, A. & Sood, R., 2013. *How IKEA adapted its strategies to expand and become profitable in China*. Accessed 10 January 2016.

<http://www.businesstoday.in/magazine/lbs-case-study/how-ikea-adapted-its-strategies-to-expand-in-china/story/196322.html>

European Commission, n.d. *Furniture industry - European Commission*. Accessed 16 January 2016.

<http://ec.europa.eu/growth/sectors/raw-materials/industries/forest-based/furniture/>

FAO: Food and Agriculture Organization of the United Nations, 2015. *FAO - News Article: IKEA of Sweden and FAO to work together on sustainable forest management*. Accessed 15 January 2016.

<http://www.fao.org/news/story/en/item/289570/icode/>

Ganne, . E., 2015. *Could Vietnam become both the world's next factory and business frontier? - Trade Ready*. Accessed 2 February 2016.

<http://www.tradeready.ca/2015/trade-takeaways/vietnam-become-worlds-next-factory-next-business-frontier/>

German Industry and Commerce Vietnam (GIC), 2006. *THE VIETNAMESE FURNITURE INDUSTRY*, Hanoi: s.n.

Ho Chi Minh City Department of Industry and Trade, n.d. *Vietnam Furniture Industry*.

[http://www.hcmcexpo.com.vn/index.php?option=com\\_content&view=article&id=25:vietnam-furniture-industry&catid=33:industry-overview&Itemid=33](http://www.hcmcexpo.com.vn/index.php?option=com_content&view=article&id=25:vietnam-furniture-industry&catid=33:industry-overview&Itemid=33)

IKEA, n.d. *Product and materials - IKEA*. Accessed 10 February 2016.

[http://www.ikea.com/ms/en\\_GB/about\\_ikea/our\\_responsibility/products\\_and\\_materials/index.html](http://www.ikea.com/ms/en_GB/about_ikea/our_responsibility/products_and_materials/index.html)

IKEA, n.d. *The IKEA Concept - IKEA*. Accessed 10 January 2016.

[http://www.ikea.com/ms/en\\_GB/this-is-ikea/the-ikea-concept/index.html](http://www.ikea.com/ms/en_GB/this-is-ikea/the-ikea-concept/index.html)

indexmundi, 2015. *Vietnam Age structure - Demographics*. Accessed 16 February 2016.

[http://www.indexmundi.com/vietnam/age\\_structure.html](http://www.indexmundi.com/vietnam/age_structure.html)

Millstone Trading, n.d. *Vietnam Furniture Industry Country Report*. Accessed 17 February 2016.

<http://www.millstonetrading.com/content/industry-knowledge/47-country-profiles/69-vietnamfurnitureindustry>

Ministry of Planning and Investment, n.d. *Project "Support To Implementation Of Vietnam Statistical Development Strategy 2011- 2020, Vision To 2030"*, s.l.: United Nations Development Programme (UNDP). Accessed 10 March 2016

[https://info.undp.org/docs/pdc/Documents/VNM/30732\\_VSDS\\_Stat\\_DPO\\_final\\_E.pdf](https://info.undp.org/docs/pdc/Documents/VNM/30732_VSDS_Stat_DPO_final_E.pdf)

Statista, n.d. *IKEA - Statistics & Facts | Statista*. Accessed 10 February 2016.

<http://www.statista.com/topics/1961/ikea/>.

Tan, J. & Chang, E., 2015. *Vietnam: Potential sweet spot in 2015*. Accessed 16 January 2016.

<https://www.controlrisks.com/en/our-thinking/analysis/vietnam-potential-sweet-spot-in-2015>

The Nation, 2015. *Ikea has expansion plans in Thailand, Vietnam, Philippines- The Nation*. Accessed 10 January 2016

<http://www.nationmultimedia.com/business/Ikea-has-expansion-plans-in-Thailand-Vietnam-Phili-30273885.html>

The World Bank, 2015. *Vietnam Overview*. Accessed 1 February 2016

<http://www.worldbank.org/en/country/vietnam/overview>.

worldfurnitureonline.com, 2015. *Global Furniture Outlook Seminar 2015 | Post Event Release - NEWS by CSIL*. Accessed 16 January 2016.

<http://www.worldfurnitureonline.com/showPage.php?template=News&id=321>

## Figures

Figure 1: The cornerstones of IKEA .....	13
Figure 2: Characteristics of products.....	18
Figure 3: Population Pyramid (indexmundi, 2015).....	21

## Appendix

The purpose of this research is to have a holistic view of Vietnamese furniture market and find out the customers 'expectations. Therefore, based on the statistics, IKEA could understand more about the local market; and then, apply a correct strategy in order to adapt the new environment and be profitable.

### I. Knowledge about the furniture market.

1. Is there a "top of mind" brand when you look for furniture?
2. How do you think about Chinese products?

### II. Brand awareness:

1. How do you think about Scandinavian / Western products? Have you ever purchased their goods?
2. Have you ever heard about IKEA furniture retailer?

### III. Customers 'expectations

1. Does the supply of furniture market satisfy your demand?
2. Which subjects are you going to consider when looking for furniture?
3. Would you like to assemble the products by yourself with lower cost?
4. Would you like to purchase products with traditional design or modern design?