



IKEA SUCCESS IN CHINESE FURNITURE

Yihong Li

Bachelor's thesis

October 2007



**JYVÄSKYLÄN
AMMATTIKORKEAKOULU**

: School of Business

Author(s) YIHONG, Li	Type of Publication Bachelor's Thesis	
	Pages 50	Language English
	Confidential <input type="checkbox"/> Until _____	
Title IKEA SUCCESS IN CHINESE FURNITURE MARKET		
Degree Programme Degree Programme in International Business		
Tutor(s) HIEKKATAIPALE, Minna-Maaria		
Assigned by		
Abstract <p>This thesis will focus on the market exploiting and development of IKEA in China, analysis the characteristics of Chinese market and the supply-demand of the IKEA products in China. It also analyze the main Chinese consumers' behaviour and evaluating the furniture retail market in China.</p> <p>IKEA is a successful case to open the china market recent years. The main goal is to acquire this information in order to provide the overseas retailers with a good starting point for creating an effective business plan and operating successfully in the Chinese furniture market.</p> <p>All the research questions are solved by both qualitative and quantitative methods and the research questions are as following: What the unique characteristics of Chinese market and Chinese consumers' behaviour? What aspects have to be taken into consideration when entering the Chinese market? What is the most important point of Chinese furniture market for the overseas retailer? Which entry modes are most ideal for foreign furniture enterprises keen on penetrating the Chinese market? How to identify the most effective market distribution channels for foreign investors? I will analyze the corporation IKEA and the Chinese market firstly via the second resources and the internet information. In addition, I will also do some market research to get some information about the consumers' ideas and suggestions.</p> <p>China is a huge market for every business. It has its own unique culture differs from west countries. The culture shock and the different market characteristics are the key difficulties for foreign corporations. According to the results of the study, the reasons for Ikea's success in the Chinese market are related to the wide range of well-designed, functional home furnishing products the products' good quality, simple and functional design. Furthermore, the low price is also the focus successful factor. My thesis will summaries IKEA successful marketing operating and stratagemns entering China market. The thesis also defines some important characteristics of China's furniture industry, enabling investors to better appreciate the various investment regions and adopt the most ideal marketing techniques</p>		
Keywords IKEA, Chinese furniture market, home furniture, retailer, consumer behaviour, culture shock		
Miscellaneous		

Content of Table

Content of Table.....	2
1. INTRODUCTION	4
1.1 Background of Study.....	4
1.1.1 Chinese Economic Overview	4
1.1.2 Furniture Market	6
1.1.3 IKEA Brief Introduction	7
1.2 Motive and Purpose	7
1.3 Research Method.....	8
2. CHINESE FURNITURE MARKET.....	9
2.1 Overview	9
2.2 Characteristics of Chinese Furniture Market	11
2.3 Marketing Analysis	12
2.4 Advantages of Investment.....	16
2.5 Market Development Tendency	17
2.6 Market Research	17
3. THE POSSIBLE ENTRY MODES FOR FOREIGN ENTERPRISES IN CHINA.....	20
3.1 Foreign Market Entry Modes.....	20
3.2 The Decision of Entry Modes	23
4. CASE STUDY: IKEA.....	24
4.1 IKEA Background.....	24
4.2 IKEA's Operating Strategy.....	26
4.3 The IKEA Difference	28
4.4 Positive Factors for Investing China.....	29
4.5 Factors affect Ikea's Entry Model in China.....	29
4.5.1 Economic Environment.....	30
4.5.2 Country Specific Factor	31
4.5.3 Culture Environment.....	33
4.6 Low Price Strategy Applying	34
4.7 Opportunity and Challenges Analysis	36
4.8 SWOT Analysis.....	39
4.9 Expanding Investment in China.....	40
4.10 My Perspective On IKEA Case.....	41
5. CONCLUSION.....	43
5.1 Ikea's entry mode into China	44
5.2 Ikea's successful strategy for China market entry.....	44
Reference	47
Appendix.....	49

FIGURES

FIGURE 1. Progression of gross domestic product under economic reform..... 5

FIGURE 2. Ikea's global sales of turnover(1 Sept.2005--31 Aug.2006) 27

FIGURE 3. Ikea's strategy standard..... 44

TABLE 1. Furniture product import in year 2005..... 15

TABLE 2.Ikea's top five sales and purchasing countries in 2005.....36

1. INTRODUCTION

1.1 Background of Study

1.1.1 Chinese Economic Overview

In 1978, the People's Republic of China (PRC) started economic reform that transformed its command economy into a mixed economy. The PRC government also adheres to the openness to the foreign investments and international trades. China has the tremendous economic changes after almost thirty years till nowadays year 2007. The most outstanding feature of this change is the rise in overall economic productivity, which is based on the increased productivity of agricultural labor and resources. In the five decades following the founding of China, great advances have been made as a result of the tremendous efforts to develop the domestic economy, and to improve people's life standard.

The Chinese economy has developed greatly since China began to take the road of reform and opening in the late seventies. China has the unbelievable economic changes in the reformed more than twenty years. China, the world's largest developing country become the vast investment market for developed countries because of the cheap labor, abundant natural resources and the best potential business market nowadays.

China's annual GDP growth has averaged more than 8 percent in the past 25 years, and in 2003, its GDP grew by a record-breaking 9,1 percent despite the outbreak in the year 2003 in China SARS disease period. Foreign trade expanded significantly. Total import and export volume was US\$851.2 billion, 37.1 percent more than the precious year, rising China from fifth to fourth place in the world. Personal income increased. Urban per capita disposable income grew by 9 percent in real terms, and

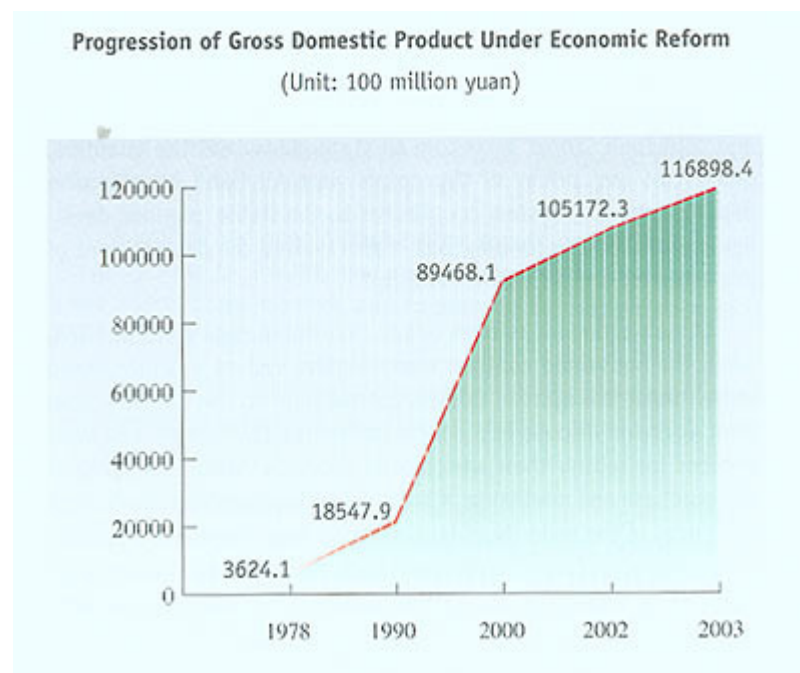
rural per capita net income rose by 4.3 percent in real terms.

(<http://www.china.org.cn/english/features/China2004/107000.htm>)

In the past three decades, Chinese people's living standard improved greatly with the growth of the national economy. Almost every Chinese have benefited from a rise in income levels and living standards. Per-capita income of urban families rose from 343.4 Yuan in 1978 to 5160.3 Yuan in 1997, nearly 20-fold increase in less than 20 years. The Chinese peasants achieved as a whole a four times increase in their income. In 1978, they had only a per-capita income of 134 Yuan. When it came to 1997, the figure grew to a per-capita average of 2090 Yuan.

(<http://english.peopledaily.com.cn/199812/09/index.htm>)

The Figure 1 shows the gross domestic products raise condition from 1978 to 2003.



(<http://www.china.org.cn/english/features/China2004/107000.htm>)

Nowadays, China's economic trend is better and better. China has become a huge FDI (Foreign Direct Investment) market. There is more than 13 billion population with the positive economic development. For many multinational enterprises, it means to get

much more profits to choose entering Chinese market.

1.1.2 Furniture Market

The furniture sector is a basic industry in most of countries, representing generally between 2% and 4% of the production value of the manufacturing sector. In this market, the upholstered furniture and kitchen furniture are the largest industry sector representing 14.5% and 13% respectively. Three other significant sub-sectors are office furniture, dining furniture and bedroom furniture.

The retail market for furniture is highly competitive nowadays. It is almost dominated by furnishing branding such as IKEA, DFS, MFI, HARVEY's etc, there are thousands of smaller independent retailers that make up a significant proportion of the overall market.

In the recent years, outdoor furniture market continues to grow. Figures for 2003 showed that the market grew by 10%. In most of western countries, People buy houses with garden more than apartments. They need garden furniture like wooden swing, table, and chair and BBQ equipments for family entertainment and relax use.

Furniture industry provides a potential market for developing countries. In the most of developing countries like China, the real estate is developed very quickly. The real estate companies construct many resident apartment buildings especially in the big cities in the recent year. More and more ordinary people with average income can afford the apartment for themselves. Get along with the real estate development; the home furniture will demand more in the developing countries.

1.1.3 IKEA Brief Introduction

IKEA is the biggest furnishing retailer in the world. Its simple design style and good quality products give the deep impression for many people. IKEA offers 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. This is the single idea at the heart of everything IKEA does, including the way IKEA develop and purchase products and the way which IKEA sell them in IKEA stores around the world. (http://www.ikea-group.ikea.com/corporate/about_ikea/index.html)

From 1943 when IKEA founder Ingvar Kamprad first open his company to 1991, IKEA numbers 53,000 co-workers across a global network of over 150 stores in 29 countries on four continents. The first IKEA store opens in China in 1998. It built its first store in Shanghai, its own local factories and raw material supplying foundations in China. It expands its market into China because IKEA knows how big potential market in China, it wants to share Chinese furniture market. It is an opportunity for IKEA to deep its internationalization, at the same time, it is also a chance for China to get more foreign investment. In the past eight years, IKEA really bring the home fashion and new furnishing idea to Chinese ordinary people.

1.2 Motive and Purpose

IKEA create an enterprise myth and become the biggest furniture retailer in the world. China is vast furniture demand market and manufacture foundation. IKEA's vision is this: To create a better everyday life for the many people. We do this 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. (http://www.ikea-group.ikea.com/corporate/about_ikea/index.html) But in the first

several years, IKEA means luxury and fashioned furnishing products for Chinese ordinary people. Only that called “white collar” which means people works in the qualified office and gets good salary can afford IKEA furnishing products. Common consumers can not afford it because it is too expensive.

Nevertheless, IKEA is a popular brand in western countries, its target group is people with average or low income. Most of people including students can afford it. But when Ikea enters into Chinese market, it becomes luxury products even Ikea keeps its low strategy in China. What is the wrong with IKEA in China? What make IKEA out of its real business orientation in China?

In my thesis, I want to study how the biggest furniture retailer enters Chinese furniture market, what the challenges and opportunities are for IKEA when it enters China firstly. According to research IKEA case, I want to get an ideal entry modes for that foreign enterprises which are keen to invest China but afraid of consumer behavior and culture shock.

1.3 Research Method

The main research method is desk research: most of the information and data have been gathered from secondary data sources such as literature, survey reports, journals, newspapers, magazines and the Internet. (Saunders 2000, 244.) Another method I also used in this research is qualitative interviews. I select some customers divided them into groups as my interview target, and I had “one to one” interview by telephone and internet.

For many research questions and objectives, the main advantage of using secondary data is the enormous saving in resources, in particular the time and money. If you need your data quickly, secondary data may be the only viable alternative. In addition,

they are likely to be higher-quality data than could be obtained by collecting your own. (Saunders 2000, 244.)

2. CHINESE FURNITURE MARKET

2.1 Overview

China has enjoyed 20 years of rapid economic development ever since it opened its doors to the wider international market. In particular, the furniture industry has made vigorous and considerable progress, and the country is fast becoming an important export base and a world-class location for setting up furniture factories. Due to the economic reformation in China from 1978, Chinese furniture marketing expands very fast. In 1978, the production value of Chinese furniture industry is only 13 billions, in 1998, the production value increases to 870 billions, in 2004, it gets to 2650 billions. The furniture retailer value represents 110.6 billions that increases 13.3% compare with last year. China's furniture industry is fast becoming an important export base and a world-class location for setting up furniture factories. But its furniture industry is neither homogeneous nor easy to understand; Chinese consumer expectations and purchasing behaviors have marked regional variations. Although the industry is fast attracting foreign investors, business entry into China's market is, however, a slightly complicated process. (<http://www.ocn.com.cn/reports/2006058jjaju.htm>)

In recent years, China has become the main furniture manufacturing base in the world. Wooden furniture occupies the major part of furniture products, followed by metal furniture, while rattan furniture and plastic furniture takes up only a few in China. A survey made by National Bureau of Quality Control and Quarantine shows that one third of wood furniture has quality problem; large-scale enterprises enjoy a comparatively good reputation as to the quality of their furniture products, while the products from medium or small-scale enterprises have many quality problems. It is not optimistic in terms of environmental protection quality of the furniture. The issue

of environmental protection index, such as the excess release quota of formaldehyde of man-made panels, seriously affects the quality of our country's furniture products. Just as people are paying more attention to Green Consuming , the sense of green products in furniture industry is gradually enhanced. Product design is one of the weak points in China furniture industry. The current situation is that designers are in great need, and designs are simple imitated and lacks originality.

In 2000, the possessing amount of wardrobes, sofas and writing desks per hundred families in cities has decreased. The number of different kinds of furniture owned by citizens has changed dramatically. The furniture-consuming characteristics between cities and countryside are quite different. Furniture expenditure accounts for 1.20% of the total family expenditures. (<http://www.ocn.com.cn/reports/2006058jjaju.htm>)

The furniture price is declining. In 1999, people realized the fall of furniture prices for the first time. In 2000, it has become more distinct, and even spread the saying of "Furniture Price Campaign". The phenomenon of the fall of furniture price is the result of the development of furniture industry, the adjustment of market economy law and the change of people's consuming concepts. The total furniture output has shifted from less supply to excess supply, which shows some deviation in supply and demand structure. The current price situation means the coming of a competitive era of bigger scale, wider range and more sophisticated extent of furniture industry.

In 1999, the total demand of China furniture market is RMB 73.4 billion. Domestic market is still the main war field for China furniture manufacture enterprises. It is expected that the total future demand will be on the rise. From 1999 to 2000, two aspects in furniture market have achieved people's attention, one is Western China furniture market and the other is kitchen furniture market. The West Development of China will push the furniture demand, especially the demand of office furniture, hotel furniture and school furniture. According to the estimate, the annual demand of

kitchen furniture will be RMB 35 billion from 2000 to 2001.
(<http://www.ocn.com.cn/reports/2006058jiaju.htm>)

Various furniture-trading places in the country have covered over 2 million square meters. Such a big-scale circulation place is the main achievement of China furniture industry, but it also exhibits the problem of repetitive construction and blind following. At present, about 30% of furniture halls are set aside or have not been fully used. The main channels for selling furniture include large furniture market, selling hall of the urban furniture, and retail network of big furniture manufacture enterprises and furniture exhibitions. Group purchasing by the way of tendering is a new trading method. The wholesale and retail furniture business in Shanghai and Guangdong are most developed. Great loss now incur in furniture retail industry.

Whereas, because of the heavy populations, the average furniture expenditure is less than \$8, is the one third of expenditure of other developing countries such as Brazil, Philippine, and Thailand. From the gross, Chinese furniture market is still can be expand a lot. But now, China has joined WTO, most of furniture's import tax declined to 0% in 2005, this is a good opportunity for foreign furniture manufacturer, retailers and wholesalers. This kind of changes will focus on the furniture market and distribution, a tough competition is coming in China furniture market.

2.2 Characteristics of Chinese Furniture Market

Due to large differences in topographies, climates, cultures and business practices throughout the vast country, China's furniture industry is neither homogeneous nor easy to understand and predict. Chinese consumer expectations and purchasing behaviors have marked regional variations, particularly for products reflecting cultural and personal tastes. China's low labor cost, large consumer market and sharply

declining import tariff rates have attracted many foreign furniture enterprises. Business entry into China's market is, however, a slightly complicated process, and foreign investors sometimes find themselves face-to-face with some perplexing problems. With the gradual development of China furniture industry, furniture brands are becoming increasingly important. The famous brands nationwide are MeiKe Xinjiang, Guangming Heilongjiang, TianTan Beijing, Richman and Land Bond Guangdong and XiLinMen Zhejiang among which, MeiKe and Guangming are the only two listed enterprises in Shanghai and Shenzhen stock markets in China.

According to Vallin's report on furniture industry, there are several factors can be seen to influence the size and demand for furniture. 1) Population. 2) Number of households/new households (marriages) 3) Amount of disposable income 4) the amount of new resident space constructed.

In China, Domestic demand is the engine driving for the growth of Chinese furniture industry, while export is another pillar. China is the largest population country in the world, the ordinary people's living standard is better and better, Chinese people show the strong purchase power these years. Cheap labor and raw materials make up the country competitive advantage in both marketplace and the attracting foreign investment. Quite a number of multinational companies choose china as their manufacturing foundation. There also are signs that the multinational companies and the world-class retailers have moving their buying office or set their subsection in the big cities such as Shanghai, Beijing and Guangzhou in China.

2.3 Marketing Analysis

Along with rapid economic development in China, people's living standard gets much improvement. On the other hand, people's living conditions are getting through

distinct changes. These factors make Chinese inhabitants invest more and more money in their house or apartment in furnishing and decoration. Their purchasing power of furniture is getting stronger and stronger. The purchasing power is very potential and vast in the furniture market.

At the present time, there are many different style furniture products with different functions in the Chinese furniture market. The main types are household furniture, hotel furniture, office furniture and kitchen furniture.

Household furniture

Due to the dense population, there are more and more resident buildings constructed for local inhabitants. According to the latest governmental census report, there are 348,570,000 families in 31 provinces in China. If we imagine that every family changes his or her household furniture every ten years, this means that there are 3,480,000 families that will change their furniture every year. If every family spends 1000 Yuan on changing his or her household furniture, the market value is 348 billions Yuan. (<http://www.tdctrade.com/sme/chinese/chinamkt/chinafrn.htm>)

Hotel furniture

The Chinese government intends to develop the tourist industry these years. More and more hotels are constructed. Especially the Olympic Games that will be held in China in year 2008, result in more needs and changes for the hotel furniture.

Office furniture

Office furniture refers to the furniture special for the office use such as desk, swivel chairs and bookcases and so on. This kind of furniture will increase in demand along with more and more multinational enterprises establishing their subsidiaries in China.

According to the Chinese construction report of 2006, the demand of the office furniture was over 40 billion Yuan.

Kitchen furniture

During these years, The Chinese people, especially inhabitants of big cities, pay more attention to kitchen design when they buy their new apartment or house. Kitchen furniture becomes kind of fashion point in some people's mind. A big and comfortable kitchen, a set of functional and beautiful kitchen furniture bring more convenient home life for Chinese people, everyone knows Chinese people spend more time on cooking. Some experts forecast that there will be an increase in the demand of kitchen furniture in the next five years in China.

A survey which is from magazine 《Furniture and Decoration》 of year 2003 showed the Chinese consumers' expectations of furniture needs.

80 % of interviewees considered furniture design should be a functional emphasis based on people's needs. 44% of them would prefer buying assembled furniture which can be moved easily from one place to the other. The price is not the only important factor.(it is related to the power purchase), about 52% of interviewees hope the price can be lower, 48% of them ignore the price, they pay more attention to the furniture's function and design style. Environmental concept influences the consumers' behaviour too, 60% of interviewees required the furniture should be made of clear materials that is no poison and no damage for healthy, Only 6% of them considered this environment factor not important. Wooden furniture is the most popular in the consumer's mind.42% of interviewees prefer wood furniture, 38% of them like furniture made of glass, leather and fabric, other material accounted for 20%. 36% of interviewees normally change their furniture every 10 or 15 years, only 5% of them want to keep their furniture for 30 years.

Furniture imports is mainly middle or top grade quality furniture. The price is normally higher one time or twice than that of domestic furniture. The diagram below showed the furniture import situation in 2004 and 2005. We can see that metal furniture imports increased the fastest from 2004 to 2005, which is 49,5% and 43,2% respectively according to Table 1.

Table 1: Furniture Product Import In Year 2005 Unit : ten thousand USD

Product	Unit	Year2004 Amount	Year2005 Amount	Increase rate	Year2004 Sum	Year2005 Sum	Increase rate
Furniture totalize					72,608.7	68,441.4	-5.74
Wood furniture	Ten thousand	69.5	72.92	4.92	4.92	6,874.5	18.07
Metal furniture	tons	3,307.23	4,946.68	49.57	1,783.6	2,554.2	43.2
Plastic furniture	tons	3,554.55	3,448.09	-3	2,275.1	2,318.2	1.89
Other furniture	tons	70,186.9	71,600.08	2.01	59,734.1	53,117.4	-11.08
mattress	Ten thousand tons	1.96	2.06	5.1	144.8	188	29.83
Furniture accessories	tons	19,581.84	18,907.39	-3.44	2,848.8	3,389.1	18.97

(Chinese Furniture Association annual report,2005)

2.4 Advantages of Investment

China has become one of the biggest markets in the world. Dense population, improved people's living standard, low labor force and government policy are the factors to attract more and more multinational enterprises and foreign companies to invest in China to get much more market share and profits.

- Effect of labor force

Many Asian countries can provide low cost labor, but any cost of labor for one product shows the productivity and wage per hour. According to the report, Chinese furniture workers' productivity is one fourth of that of Americans'. For instance, Chinese wage standard is 0,64\$ per hour, Chinese labor force of wooden furniture cost only accounts for 5%, and American accounts for 25%, this makes Chinese wooden furniture get the competition benefit in price.

(<http://www.szfdi.com/newspaper/200610/zdqs/14002.htm>)

- Simple investment requirement

Building a furniture factory require simply

1. Investment of money 3,5~4\$ for per square inches, it would be 30~35\$ in American or European countries.
2. Less investment in expensive equipment, low cost for the labor force.
3. No strict rules or requirements for the constructing factories.
4. Chinese government provides cheap land rent fee.

Therefore, building a factory is 60%~65% cheaper than in America or most of the European countries. (<http://www.szfdi.com/newspaper/200610/zdqs/14002.htm>)

- Government encouragement

Chinese government heartily welcomes foreign investment in China since the economic reformation in 1978. Government also applied many policies in order to help foreign enterprises build factories or subsidiaries in China, such as reducing

taxes.

2.5 Market Development Tendency

The last ten years have witnessed the first high speed development period in China's furniture industry with focus on the increase of quantities. An industrial and trading system with considerable size and various categories has been established. Now China's furniture industry is in its second period, i.e. the growth period in its life cycle. In the next 5 to 10 years, with the rapid growth of China's economy, the steady improvement of people's living standard, the growing demand of the world market and the shift of the international furniture industry , China's furniture industry will use in its second high speed development period. It will be characterized by the improvement of product quality instead of the increase of product quantity.

The immense domestic market is the focus of furniture sales. In the recent five years, China's economic development will enter a new stage and people's consuming structure will be gradually upgraded. Industrial restructuring and urbanization process will be accelerated and people's living standard further improved. The Olympic Games 2008 in Beijing and the World Expo 2010 in Shanghai provide us with a vast market. In 2005 the total domestic furniture sales in China reached RMB 230 billion, with a USD 20 per capita. The world average level is USD 50 per capita while for the developed countries the per capita sales is 200 to 300 US dollars.

2.6 Market Research

I did a market research through interviewing people via internet and telephone call to get some feedbacks from customers concerning Chinese furniture market situation

and customers' psychology. I show the survey conclusion as following:

1. Furniture's fashion tendency and design style

I interviewed thirty-two persons who usually purchase furniture with low price. This kind of furniture sale accounts for big part of total furniture sale presently. These consumers require furniture with simple, functional and modern style, so that they can use their limited space of apartment fully. They hope they can buy the furniture with good design style and medium or low price. This is a big consumer group in China. I also inquired other eight persons with high education background and good income every month. They pay more attention to the furniture's design style, materials and brand position.

2. Fashion style

Bright and shining, alternative assembled (12 interviewees)

Mostly, we will choose the furniture can give us a piece feeling for our home, but now many customers especially young people prefer the colorful and unique design style to create a feel like active, sunny, and bright. The furniture can be assembled by yourself. Red, yellow and other sharp colour is used for inspire the eyes.

European style (5 interviewees)

This kind of furniture with either simple style or western romantic feature. The furniture use black, white or the original colour of wood, you can feel every chair, or dinnertable is so easy and artistic.

Original wood with natural feature (7 interviewees)

Original, natural feeling is more and more popular for city inhabitants. They yearn the countryside life to pursue the nature. They prefer create an environment for their home with the natural feeling. They will choose the furniture made of original wood, rattan, float grass and so on.

Childishness, dreamful(7 interviewees, among them four are mothers)

This kind of furniture is special for children. Due to the economic improvement and almost every Chinese family only has one child, the parents willing to pay more for their kids. A part of families decorate a room with personality, dreamful for their kids. They prefer pink and light color.

3. Value and price

My research showed that all interviewees choose the price range which is under 1000yuan (18 interviewees) or 1000 to 2000 yuan (12 interviewees) if they buy furniture. No other options are chosen by the interviewees.

Nowadays, there are more than thirty thousand furniture manufacturers and other many retailers in China. In this case, price is a key strategy but not the only way for manufacturers and retailers to get the market share. It is also important to focus on value of product. In fact, any brand has its own price in customers' mind. These price differences lie on the brand position, product design, service and communication with customers.

4. Conclusion

Marketing research is the function linking the consumer, customer and public to the marketer through information.(Philip Kotler 2002, 272) Through this market research, we can know customers decide on the market requirement. Chinese customers tend to buy the furniture with low or midium price. Price strategies still is a necessary factor for consideration if a furniture manufacture or retailer want to enter Chinese market. The design fashion tendency is simple and functional.Special design for kids can catch the parents' eyes.Furniture with natural materials accounts for part of furniture market.

Chinese furniture market is a real potential market. Furniture manufacturers and retailers want to enter Chinese furniture market should cater to the local customers' behaviour and their demands.The survey conclusion is also responding to the furniture

market tendency.

3. THE POSSIBLE ENTRY MODES FOR FOREIGN ENTERPRISES IN CHINA

China's absorption of foreign investment is an important content of China's fundamental principle of opening up to the outside world. From 1990 to the end of June 2003, there are actually 216.2 thousand foreign-invested enterprises across China, with a total investment of 1048.899 billion US dollars and the registered capital amounting to 577.83 billion US dollars and the investment amount paid by the foreign partners reaching 427.096 billion US dollars. China's FDI in 2006 is close to last year's level, US 60 billion, according to an official at the Ministry of Commerce. (<http://app.ccpit.org/vhosts/english/IV.htm>) The figures above show that FDI also plays an important role for accelerating Chinese economic development.

3.1 Foreign Market Entry Modes

A foreign company want to implement an international market diversification strategy involves the development of comprehensive product/market plan that includes choosing a foreign market entry mode (Rasheed,Howard S 2005). Foreign market entry mode is defined as institutional arrangements that allow firms to use their product or service in a country exchange(Calof 1993,99) or "an institutional arrangement that makes possible the entry of a company's products, technology, human skills, management, or other resources into a foreign country"(Root 1987, 5). In international market diversification, institutional arrangements with firms of different national origin involve complex factors such as host country risk and host government policy, which complicate the structural, transactional, and resource

dynamics of transnational activities (Rasheed,Howard S 2005).

Firms entering new foreign markets choose from a variety of different forms of entry, ranging from licensing and franchising, through exporting (directly or through independent channels), to foreign direct investment (FDI) (joint ventures, acquisitions, mergers, and wholly owned new ventures). Entry modes vary in the degree of control the firm has invested tangible and intangible resources and the transactions costs associated with that resource commitment (Rasheed,Howard S 2005; Domke-Damonte 2000). From another perspective, entry involves two interdependent decisions—location and mode of control. Exporting is located domestically and is controlled administratively; foreign licensing is foreign located and is controlled contractually; and FDI is foreign located and is controlled administratively. Transaction costs theory views each choice of entry mode as an individual transaction that involves a trade-off between control and resource commitment (Rasheed,Howard S 2005).

Nowadays, the direct investment which is widely adopted includes Sino-foreign joint ventures, joint exploitation and exclusively foreign-owned enterprises, foreign-funded share-holding companies and joint development. The other means of investment such as indirect investment including exporting are not main entry modes in Chinese market due to the high cost operation and inconvenient management etc. In my thesis, I will put emphasis on analyzing the direct investment to enter Chinese market.

1. Foreign joint ventures

Foreign joint ventures are also known as share-holding corporations. They are formed in China with joint capitals by foreign companies, enterprises, other economic organizations and individuals with Chinese companies, enterprises, other economic organizations and individuals. The main feature is that the joint parties invest together, operate together, take risk according to the ratio of their capitals and take responsibility of losses and profits. The capitals from different parties are translated

into the ratios of capitals, and in general the capital from foreign party should not be lower than 25%.

The foreign joint ventures are among the first forms of China's absorption of foreign direct investment and they account for the biggest part. At present they are still a great part in the absorption of foreign investments.

2. Cooperative businesses

Cooperative business is also called contractual cooperation businesses. They are formed in China with joint capitals or terms of cooperation by foreign companies, enterprises, other economic organizations and individuals with Chinese companies, enterprises, other economic organizations and individuals. The rights and obligations of different parties are embedded in the contract. To establish a cooperative business, the foreign party, generally speaking, supplies all or most of the capital while Chinese party supplies land, factory buildings, and useful facilities, and also some supply a certain amount of capital, too.

3. Exclusively foreign-owned enterprises

Exclusively foreign-owned enterprises, which are totally invested by foreign party in China by foreign companies, enterprises, other economic organizations and individuals in accordance with laws of China. According to the law of foreign-funded enterprises, the establishment of foreign enterprises should benefit the development of our national economy and agree with at least one of the following criteria: the enterprises must adopt international advanced technology and facility; all or most of the products must be export-oriented. The foreign funded enterprises often take the form of limited liability.

4. Joint exploitation

Joint exploitation is the abbreviation of maritime and overland oil joint exploitation. It is a widely adopted measure of economic cooperation in the international natural

resources field. The striking features are high risk, high investment and high reward. The joint development is often divided into three steps: exploitation, development and production. Compared with the other three means mentioned above, joint cooperation accounts for a small ratio.

5. Foreign-funded share-holding companies' foreign companies, enterprises, other economic organizations and individuals can form foreign funded share-holding companies in China with Chinese companies, enterprises, and other economic organizations. The total capital of the share-holding company is formed by equal shares ,shareholders will take due responsibilities for the company according to shares purchased; Company will take responsibilities for all its debts through all its assets and the Chinese and foreign shareholders will hold the shares of the company. Among them, the shares purchased and held by foreign investors account for more than 25% of the total registered capital of the company. Limited company can be founded either by means of starting-up or raising, and the limited liability company invested by the foreigners can also apply to turn into share-holding companies. The qualified enterprises can also apply to issue A & B share and list abroad.

(<http://www.shandongbusiness.gov.cn/english/php/show.php?id=765>)

3.2 The Decision of Entry Modes

A matched market entry modes decision attempt to analyze determinants of successful entries into defferent markets around the World. The choice of appropriate entry modes to a right country and at a right time with right entry mode is the main concern for a company. Environmental factors in host and home countries, target country market factors, target country production factors, company product factors, and company resource(Root 1994,67) are the most important variables.

Root introduced foreign market entry decision model that considers decision-making as a function of external and internal company factors. To make a decision on foreign market entry one must: (1) assess products and foreign markets; (2) choose the target product/market; (3) set objectives and goals; (4) choose the entry mode: export, contractual arrangements, or investment; (5) design the marketing plan: price, promotion, distribution, etc.; (6) conduct entry operations (a moderator variable); and (7) conduct target market activities. Control system (monitoring operations/revising entry strategy) influences the first four elements and gets feedback from the 'target market' element (Root 1994, 108). Besides the decision phase, it includes entry operations and the target market activities, structural arrangements and control systems to fit strategy. Root's model is the most attractive because it includes all the stages of formulating foreign market entry strategies and implementation. This model has not been tested empirically. In this study the Root's model serves as the basis for new empirically testable model development. (Root 1994, 96)

IKEA is a successful model reference to foreign enterprises which want to enter Chinese market. My thesis also want to analyze IKEA to get a ideal entry mode for foreign enterprises.

4. CASE STUDY: IKEA

4.1 IKEA Background

It is been six decades since IKEA began in a small farming village in Sweden and become the biggest furniture retailer in the world with business from the woods of southern Sweden to thirty-four countries around the world.

IKEA is an acronym for the initials of the founder, Ingvar Kamprad, his farm Elamaryd, and his county, Agunnaryd, in Småland, south Sweden. In 1943, at the age

of 17, Kamprad began his entrepreneurial career by selling fish, Christmas magazines, and seeds. Within a few years, he had established a mail-order business featuring products as diverse as the new ballpoint pens and furniture. It was in furniture, however, that he saw the greatest opportunity.

The IKEA range focused to home furnishing products in the early 1950s. In 1953, the first IKEA furniture showroom is opened in Älmhult, the opening of the showroom was an important moment in the development of the IKEA concept. For the first time, customers could see and touch the furnishings before ordering at that time. This came about as a solution to problem. IKEA found itself in a price war with its main competitor. As both companies lowered prices, quality came at risk. By opening the showroom, IKEA could in three dimensions present its products with function, quality and low price. And people did just what IKEA had hoped: they wisely chose the products with the best value for the money.

The IKEA store in Stockholm was opened in 1965. Thousands of people queued for the opening of its flagship store. The 45,800 square meter store has a circular design, inspired by New York's Guggenheim Museum. The success created huge capacity problems in serving the customers. By opening the warehouse and letting people serve themselves, an important part of the IKEA concept born. The first store outside Scandinavia was opened outside Zurich, Switzerland in 1973. Its success paved the way for a quick expansion for IKEA expand its business internationally in four continents worldwide until nowadays.

Unlike other retailers which sell many brands for different manufacturer. IKEA is either retailer or manufacturer. In IKEA store, you only find its own products which are finished by IKEA people from designing to manufacturing. IKEA began designing its own furniture in 1955. There were several reasons for IKEA to start designing its own furniture. But what actually led to this possibly its best move ever was quite ironic. Pressure from its competitors caused suppliers to resist IKEA because IKEA

kept lower its products' price.

In 1951, when the company was explicitly forbidden from selling directly to customers at the fairs, they responded by only taking orders. In 1952, such order taking was banned at the fair, so IKEA had to take down the names of potential customers and contact them after the fair. Subsequently, IKEA was forbidden from showing prices on its furniture. Finally, the retail cartel members pressured the manufacturers' cartel not to sell to IKEA. This reaction required IKEA to change its business concept to begin designing its own furniture, and find sources out of Sweden. This became the basis for Ikea's future growth. Nowadays, IKEA has created its own stylish, comfortable, functional and low-priced furniture and home furnishing products to win the customers all over the world.

IKEA entered China to open its first store in Shanghai in 1998. Nowadays, in the past eight years, IKEA get success in marketing and branding itself in China. IKEA plans to add 10 stores to its existing sales network on China's mainland in the next six years. The new stores will be located in Beijing, Shanghai, Guangzhou, Shenzhen, Chengdu, Nanjing and Wuhan. The Beijing-based store will start operation by the end of 2005. It will cover an area of 43,000 sq. meters and will be the second largest IKEA store in the world. The cost of each new store will be between 40 to 80 million US dollars

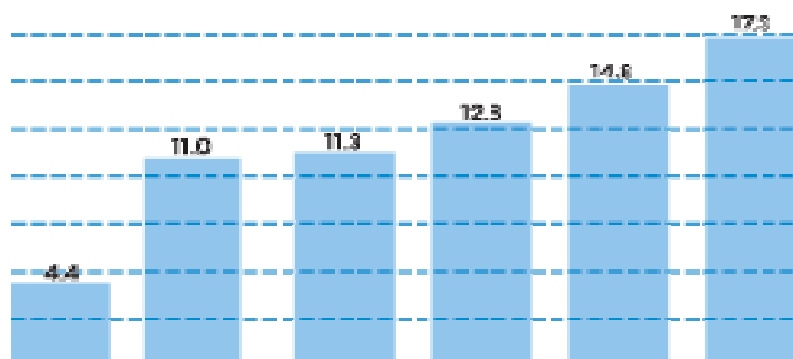
IKEA statistics show the company's current turnover in China accounts for less than 1 percent of its global total. However, growth of the profit margin and market potential in China are greater than anywhere else. It is estimated China will become IKEA's largest market in 10 to 15 years.

4.2 IKEA's Operating Strategy

IKEA does not have its own manufacturing facilities. Instead, it is using subcontracted manufacturers all over the world for supplies. All research and development activities are, however, centralized in Sweden. In order to maintain low cost, IKEA shoppers are Pro-sumers-half producers, and half consumers (Norman 1993, 70). In other words, they have to assemble the products themselves.

To facilitate shopping, IKEA provides catalogs, tape measures, shopping lists and pencils for writing notes and measurements. Car roof racks are available for purchase at cost and IKEA pick-up vans/mini trucks are available for rental (Economist 1994, 101). IKEA's success is based on the relatively simple idea of keeping the cost between manufacturers and customers down. According to Ingvar Kamprad, the founder of IKEA, "To design a desk which may cost \$1000 is easy for a furniture designer, but to design a functional and good desk which shall cost \$50 can only be done by the very best. Expensive solutions to all kinds of problems are often signs of mediocrity." (Chandler 1993, 12) Costs are kept under control starting at the design level of the value-added chain. IKEA also keeps costs down by packing items compactly in flat standardized emblazes and stacking as much as possible to reduce storage space during and after distribution in the logistics process (Economist 1994, 101).

Figure 2 shows IKEA's Global Sales of Turnover (1 September 2005---31 August 2006) totalled 17,3 billion euros



(http://www.ikea-group.ikea.com/corporate/about_ikea/figures.html)

4.3 The IKEA Difference

In order to survive in the global marketplace, a company must offer its customers something that the competition simply can not offer. IKEA offers to its customers a unique and new way of doing business. Rather than what most people might think a furniture company as being, IKEA things and operates in a much different way than the competition and sets itself apart from the competition time and time again. The well established business plans and operating models that IKEA employs at all levels of the organization serves as the reason as to the overall success of the company.

Another way in which IKEA has determined that it would set itself apart from the competition is in its outsourcing of final construction costs onto the consumer. “Half a century ago, the European furniture retailer identified an opening to introduce quality products at an affordable price. But seizing the opportunity to disrupt the market status quo obviously meant keeping costs to an absolute minimum. How did the company manage this? With a business model that combines the simple design with a heavy dependence on outsourcing. Uniquely, this involves outsourcing final assembly of the product to the customer, in addition to more routine subcontracting of production and delivery.” (Anonymous 2005, 15)

What this ultimately means is that when a consumer purchases an item from IKEA, they are fully aware of the fact that the item is not going to be built when they purchase the item. Unlike a traditional furniture retailer from which a consumer might be able to sit on a couch, purchase the couch, and have the same exact couch they sat in delivered to their home, IKEA provides the consumer with all of the necessary parts and tools to build the item that the consumer is purchasing.

Another important fact that separates IKEA from the competition is the fact that IKEA utilizes a very direct and methodical approach to management. “The aim if IKEA is to

eliminate excessive levels of management with a very flat organization. It has the effect of giving more responsibility to each “co-worker” who “learns by doing” and who is instilled with a sense of pride and purpose. Responsibility is also assumed earlier and most managers are in their mid-30s. Open management characterizes IKEA.” (Arnold, 565) As the furniture industry represents a very cut-throat industry in which attempting to save costs wherever possible is of utmost importance, the fact that IKEA seeks to cut out middle management and instead empower employees is one of the reasons as to what makes IKEA so successful.

4.4 Positive Factors for Investing China

The rationale for foreign furniture companies for direct investments in China is two-folds: (a) to produce furniture for the export market and (b) to produce furniture for the huge domestic Chinese market. The business potential in China has been further boosted with the country to entry into the WTO. The inherent risks can be greatly reduced if the investments are carefully planned and based on a sound knowledge of the Chinese market. The purpose of this report is to contribute to this knowledge base. (<http://www.furniture-info.com/1117.htm>)

4.5 Factors affect Ikea’s Entry Model in China

The Swedish furniture retail giant brings its unique style and sales model to China. IKEA entered China in 1998. Its first store was opened in Shanghai and now operates stores in Beijing, Shanghai, Shenzhen, Guangzhou and Chengdu. Its turnover in China totals 1 billion Yuan (121 millions US dollars) in the 2004 fiscal year. It also had some difficulties and problems when it entered Chinese market in the first several

years. The difficulties and problems are concerning with some factors for an international enterprise which want to enter a foreign market.

There exist three main factors which are economical environment, country specific factors and culture environment influencing to choose the operation models to expand business internationally.

4.5.1 Economic Environment

When IKEA entered Chinese market, the Chinese economic environment affected its price position. It was not success in the beginning of IKEA entering Chinese market. Ikea's business idea is offering a wide range of well-designed, good-quality and functional home furnishing products at prices so low that as many people as possible will be able to afford them. This is the single idea at the heart of everything IKEA does, including the way IKEA develop and purchase products and the way it sell products in IKEA stores around the world.

http://www.ikea-group.ikea.com/corporate/about_ikea/business_idea.html

In Europe or other countries, IKEA keeps this core business idea to do its business. Almost every ordinary people including students can afford IKEA products. But because of Chinese economic environment, at the beginning of IKEA entering China, it became a luxury furniture brand in Chinese consumers' mind.

Most of Chinese customers went to IKEA stores just wander around there. They can not afford it. For Chinese customers especially young people, IKEA'S unique and functional design style indeed attract them. But at that time, every product although including one small chair must be imported from Sweden, the price was impossible to be low down. Most of die-hard IKEA fans can not afford it. Chinese people can buy a

good quality sofa in other furniture stores; with the same price they only buy a small table in IKEA. The price is the Ikea's advantage for long time, but in the first several years, it became an obstacle for IKEA to win more customers in China.

Who buy Ikea's products in China when IKEA entered China initially? Most of Ikea's Chinese customers are 20 to 35 years old, many customers are families with children or are double-income, well-educated couples with no children. Ikea's customers are generally better educated, earn higher incomes, and travel more than the average Chinese. This means that IKEA just get a small part of customers in China at first because of its high price.

In fact, Ikea's price is comparatively low and IKEA also made great efforts in cutting down its price so many years. But because of the economic factor, it is still high for ordinary Chinese people. This forced IKEA reconsider its market orientation in order to solve this price problem. The effective strategy which IKEA has made is manufacturing products and collecting raw materials locally. Nowadays, IKEA has built manufacturing factories in China, and get some materials suppliers in China too.

IKEA repositioned its image in China now, it cut down its price again and again. The store's prices are now considered as mid-range in Shanghai, Beijing and Guanzhou. A typical Ikea's customer earns about 3,300 Yuan (\$399) per month—the national average salary is 1,000 Yuan (\$121)—and one customer buys 300 Yuan (\$36) of products per visit. This means that IKEA is not only the rich people's brand, it also get customer group with medium income in China.

4.5.2 Country Specific Factor

Ikea's mainland stores belong to IKEA group and operate as joined ventures. But in

IKEA Hong Kong and IKEA Taiwan are separate franchisees. IKEA chose different investment methods in China mainland due to the country specific environment. It is better to operate its business with joint ventures in mainland.

If retailers are to succeed in an overseas market, they must not only master the traditional skills of market segment cultural and economic traditions of the host country. (Ingvar Kamprad, quoted in IKEA Annual Report 1993).

IKEA has explored joint venture and strategic alliances strategies according to the political environment of its local market. Furthermore, strategic networking links only exists between suppliers and retail outlets, with the headquarters as a centralized agent. The current centralized system suppresses creativity and freedom on the individual store level. A joint venture approach could replace Ikea's franchising concept and increase culture sensitivity and operational controls through the establishment of strategic networks. By finding an appropriate partner, Ikea can further expand into other market segments in which the competitor has established it well. In return, Ikea, on the other hand could provide the partner with the access to reliable suppliers.

Chinese government encourages foreign companies to join with Chinese companies, enterprise or other economic organizations in establishing joint ventures in China in accordance with the principle of equality and mutual benefit. Ikea entered Chinese market as a joint-venture can minimize the risk and get the cooperative suppliers in the soonest time.

In particular, Ikea's insensitivity to individual market needs represents another obstacle to increasing market share. It is easier for Ikea to understand the local customer needs and satisfy all of them better than the local competition. Local joint venture partners could develop products with their experience. Joint venture design is the better choice for expanding a new market with unfamiliar and totally different culture.

4.5.3 Culture Environment

The culture differences impact the product sale. China has its own unique culture totally different with the Nordic culture. This kind of culture also affects customers' purchasing behavior. Only adapting the culture environment and catering to the local customers can expand the business locally. Ikea also makes much effort on it.

Satisfied Chinese customers "show off" psychology

Chinese tend to spend most on their living rooms, which he terms the heart of the home where many people "show off" and entertain. Many Chinese living rooms contain a dining table as well, so dining room purchases are also common. Because Chinese kitchens are generally small, customers spend less on them. At one time, bedroom furniture and decorations were the least popular purchases in China, perhaps because the room is the most private and thus least visible place in the home. According to this show off psychology, Ikea provides more living room furniture in its China mainland stores. But IKEA has recently witnessed an enormous increase in bedroom sales--especially in Shanghai. Next year, the company plans to launch a global campaign that targets the complete bedroom.

Assembling service

IKEA also had to adapt its location and do-it-yourself (DIY) assembly concept to China. IKEA has built its PRC stores near public transportation lines, offers local home delivery and long-distance delivery to major cities in China for a fee, maintains taxi lanes, and offers fee-based assembly services. Usually IKEA stores open relatively far out in the suburbs, but IKEA knew China had to be different since, for example, only 20 percent of visitors in Shanghai have cars. But the stores also need ample parking so that people can visit with their own cars in the future. The Shanghai

store has almost 1,000 parking places. IKEA Chinese functionaries also commented that Ikea's DIY products are appreciated in the West, because customers know they save money by assembling products themselves and because many customers actually enjoy assembling the furniture. But in China, where labor is cheap, the DIY notion has not taken hold, so Chinese customers use Ikea's assembly services more than customers in other countries.

4.6 Low Price Strategy Applying

Keeping prices low takes a concentrated effort at every stage of production and sales. IKEA is persistent in finding ways to use the economies of scale, better production methods and smart design to keep costs low without affecting the quality of IKEA products. This way of working applies to:

- IKEA stores
- Distribution
- Purchasing
- Developing the product range

IKEA stores

IKEA stores sell the IKEA product range in room settings and self-service areas and inspire customers with ideas, hints and tips for smart new home furnishing solutions. To keep prices low, the stores buy and transport products in bulk. They're also located in less expensive areas of their market area. IKEA customers help to keep prices low by picking their furniture up at their store's warehouse, transporting it home and assembling it themselves.

Distribution

IKEA has 28 distribution centers in 16 countries. These centers supply goods to IKEA stores, and they ensure that the route from supplier to customer is as direct, cost-effective and environmentally friendly as possible. Efficient distribution plays a key role in the work of creating the low price.

Purchasing

IKEA has 46 trading service offices in 32 countries. Being close to its 1,300 suppliers means IKEA can develop long-term relationships with them, observe production and work with manufacturers on the shop floor to make improvements and reduce costs. Sometimes a design decision at this stage or a slight change to the process can make a difference in price that, when multiplied by millions of items, results in big savings.

The Table 2 is IKEA top five sales and purchasing countries in 2005.

Top five sales countries	Top five purchasing countries
Germany 19%	China 18%
USA 11%	Poland 12%
United Kingdom 11%	Sweden 9%
France 9%	Italy 7%
Sweden 8%	Germany 6%

(<http://www.ikea-group.ikea.com>)

Developing the product range

IKEA designs the price tag first, and that is the principle behind all Ikea's product

development. IKEA of Sweden, located in Älmhult in the south of Sweden, develops the IKEA range and gives each product its name. There are about 9,500 products in the range, and the basic thinking behind all of them is the same: to make well-designed, functional home furnishings available to as many people as possible.

4.7 Opportunity and Challenges Analysis

Opportunities

Although IKEA has seen measured successes upon its entry into the American business market, there are clearly still several opportunities that IKEA can still take advantage of to further ensure the continued success of IKEA in China.

IKEA planed for entering Chinese furniture market involved testing the waters in metropolitan areas like Beijing and Shang where firstly open its stores there. It is a wise decision for IKEA to seek out more markets in China before entering more city locations. Because foreign product brand always impress Chinese customers as expensive and luxury. It is easier to win customers from big cities to small cities.

Nowadays IKEA knows that more and more Chinese will purchase the products that IKEA offers in their stores; IKEA has an enormous opportunity to seek out as many locations, both in the suburbs and metropolis locations, as possible to establish stores in. With many Chinese locations still without an IKEA store, the company is presented with an enormous opportunity to grow its Chinese locations. In addition, providing the good quality furniture with low price is a good opportunity for expanding Ikea's business in China too.

Challenges

Price, quality and service can no longer guarantee success - or even survival... The age of total competition has now reached China. On the one hand, competitors adapt and copy technologies, products; products names' whole business models are assessed, adapted and implemented at astonishing speeds. On the other hand, customers' subjective perceptions and feelings have become essential for profitability, making many of the traditional marketing and communications strategies obsolete.

IKEA is an enterprise myth in 20 century. It has expanded its market worldwide now. Although IKEA is the successor in world furnishings industry, it is not too easy get the Chinese market share very soon.

Latercomer

IKEA is a latercomer in Chinese furniture market. Although IKEA has entered China for nine years, IKEA still missed the best time to enter China market. According to above part Chinese furniere market analysis, there are more than 100,000 domestic furniture markets in China when IKEA entered China. There are more than 40 furniture markets just in Beijing. When IKEA entered China is the rapidest development period in China. Competition is the first factor IKEA should have to face.

Misunderstand

IKEA truth was understood by Chinese consumers in the first several years. Whatever in Sweden, Europe, or North American, IKEA is a typical“Furnishing supermarket”. Every IKEA products’ advantage is good quality and low price. This is the real IKEA. When IKEA came to China, it was positioned as a luxury furshings brand by Chinese consumers. IKEA’s market orientation totally changed in China.

Couterfeit

What about Ikea's competition in China? UK-based B&Q, the largest DIY retailer in Europe and the third-largest in world, has several stores in China. But Ikea's biggest worries may be the many international and Chinese chains and companies that counterfeit IKEA products. The more popular IKEA becomes the more competition IKEA has. Of course healthy competition is good--it makes home furnishings more popular. But it's bad that increasingly more companies copy Ikea's products. More products are copied now because more IKEA products are made in China, and some of their suppliers also supply other furniture and home design companies.

Ikea's online catalogue also makes products easy to view and copy. Some furniture stores keep IKEA catalogues in their store and tell customers that they can reproduce the furniture at a lower price. Stores try to copy the IKEA concept and products, slightly change the name, slightly lower the price, and suddenly, home furnishing stores in China are blue and yellow as well. In fact, the big threaten is not Ikea's strong competition companies, but the small factory which copy Ikea's style.

Price, High Duty Rate and PRC Bureaucracy

IKEA faces three other challenges in China: pricing, high duty rates, and the PRC bureaucracy. It has been difficult for the company to set prices at a level that is good for both customers and the company. IKEA has been hit with heavy import taxes in China, though the company aims to relocate production of many items to China to solve this problem. The country already supplies glass, timber, textiles, hardware, plastic, and almost anything else the store needs. IKEA faces strict quotas and has difficulties importing food to its Swedish restaurant. The company now has a food-import agent that handles all related issues, including label in

4.8 SWOT Analysis

As the successful case of my study, IKEA shows its unique features for open the global market. I analyze SWOT of IKEA shows what are the successful reason to open Chinese furniture market from my perspective.

Strengths

It is no surprise that the success of IKEA is firmly based on its ability to utilize its strengths in such a way tht it is both beneficial to the customer and the company. Several of strengths of IKEA are directly lined to the company's ability to save on costs while at the same time be able to provide both products and service at levels that will keep thier customers coming back for more.

Any company tht is focused on succeeding must focus its attention on costs. IKEA's success is attributed to the fact tht the company has redefined a number of organizational pratices in the furniture business. Its use of global product sourcing and customer self-service results inlow costs. IKEA has a tendency to choose the cheapest suppliers, and customers pick up, transport and assemble most furniture purchases from IKEA themselves. (Barthelemy 2006, 81)

IKEA's strength today comes from their mastery of three key aspects of the value chain: unique design capabilities, unique sourcing, and tightly controlled logistics. This means that they are able to produce products that are distinctive enough to provide market recognition, secure sourcing for long runs at profitable levels, and reduce inventory costs through regional warehouses which work very closely with stores. In this way they have been able to buck industry trends and steadily increase their share of slow growing, sometimes shrinking markets. (Grol & Schoch 1998)

Weakness

IKEA products largely come from Europe—a major priority is to develop

relationships with more Asian suppliers. IKEA should establish a large chain of Chinese suppliers to reduce the manufacture cost. An increase in the amount of Chinese suppliers could potentially drive down delivery expenses from suppliers to stores and thus increased savings could be reaped by both IKEA and their customers.

Opportunities

IKEA succeeded in the metropolitan cities like Beijing and Shanghai. Nowadays, IKEA plans to expand its business in other cities in China. They will open more 10 stores respectively in Chengdu, Guangzhou and Wuhan which are main second level cities in China. New locations to place stores in other cities are new opportunity for IKEA in China.

Threats

The major threat for IKEA is the distinct demands for different location. China is a vast country, from south to north, west to east, there are different customs, living style and so on. IKEA maybe can cater to North residents, also possible fail to win west part residents.

In addition, IKEA is something new, exciting and fresh to the Chinese customers. Even though Ikea's grasp on opening new markets seems strong and its global buying and distribution network highly efficient. In the long run, IKEA is just too far out of the mainstream Chinese culture, and self-service is something that only the most discount-minded Chinese will accept.

4.9 Expanding Investment in China

IKEA gets business success in China. In the next future years, it will keep expanding its business in China. IKEA plans to add 10 stores to its existing sales network on

China's mainland in the next six years. The stores will be located in Beijing, Shanghai, Guangzhou, Shenzhen, Chengdu, Nanjing and Wuhan.

The Beijing-based store has started operation in the end of 2005. It covers an area of 43,000 sq.meters and will be the second largest IKEA store in the world. The cost of each new store will be between 40 to 80 million US dollars.

IKEA statistics show the company's current turnover in China accounts for less than 1 percent of its global total. However, growth of the profit margin and market potential in China are greater than anywhere else. According to the IKEA fiscal year recent years, it is estimated China will become IKEA's largest market in 10 to 15 years.

4.10 My Perspective On IKEA Case

Since the initiation of entering Chinese furniture market in 1998, IKEA has showed its competitive advantage to Chinese consumers. As the implementation of a set of tailored strategies for Chinese market in the past nine years, IKEA was aware that the only way to open a new market was to adapt the local culture and cater to the local customers' behaviour. IKEA finds its suitable entering model and its successful global strategy for an foreign market and gets success.

Entering Model for Big China

According to analysis IKEA case from its marketing perspective, I show some two different ways for IKEA to enter the big China including China mainland, HongKong and Taiwan. IKEA applies different model to open Chinese furniture market due to there are different political policies, economic levels and people's income in China mainland, HongKong and Taiwan.

1. Joint-Ventures

IKEA has applied an advanced policy that is joint-ventures for its internationalization since the firm enters a new potential market—China mainland by opening a retail outlet. In the past, IKEA always use the supplier link with the host nation as its policy for internationalization. In fact, this is a strategic risk reducing approach in which local suppliers can provide valuable input on political and legal, cultural, financial and other issues which provides for opportunities and threats to IKEA concept. But this kind of model is not suitable for entering Chinese market. IKEA explore joint-ventures as an entering model to minimize the political risk and get the competitive advantages through getting the local suppliers as its alliance.

2. Company-owned subsidiaries

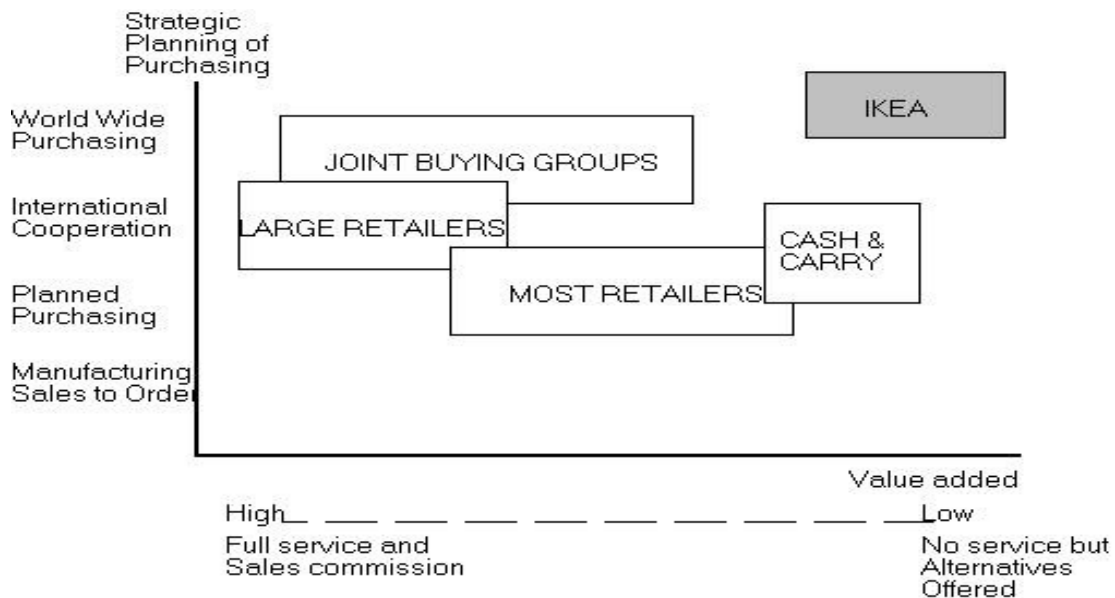
IKEA establishes subsidiaries in HongKong and Taiwan due to their stable economic markets which are identical to the Scandinavian market. These subsidiaries are set-up by an expansion team from the central expansion group located in Sweden. This group is responsible team from the central expansion group located in Sweden. This group is responsible for store location and layout, training, logistics and marketing. All capital requirements are sourced from the headquarters. The primary purpose of the expansion group is to ensure standardization, operational control and provide a smooth entry into a new market. When everything is properly set up and functioning, the local operational team will take over the responsibility for running the store. The expansion team, on the other hand, will move on towards new expansion projects.

Global Strategy

IKEA has its own unique global strategy to open the new market. In order to maintain cost leadership in the market, internal production efficiencies must be greater than that of competitors. Under Ikea's global strategy, suppliers are usually located in

low-cost nations, with close proximity to raw-materials and reliable access to distribution channels. These suppliers produce highly standardized products intended for the global market, which size provides the firm with the opportunity take the advantage of economies of scale factors. Ikea's role is not only to globally integrate operations and centrally design products, but also to find an effective combination of low cost, standardization, technology, and quality.

In the case of Ikea, a standardized product strategy does not mean complete cultural insensitivity. The company is rather responding to globally emerging consumer tastes and preferences. Retail outlets all over the world carry the basic product range which is universally accepted, but also places great emphasis on the product lines that appeal to local customer preferences (Retail Business 1994, 78) The Figure 3 below shows the Ikea's strategy standard.



5. CONCLUSION

The study showed the characteristics of Chinese furniture market, IKEA as a home furnishing retailer how to open Chinese furniture market and the ideal entry models for foreign enterprises to enter Chinese market. I take IKEA case as example to deeply analyze Chinese business environment and customer's behavior, give some ideas for other foreign enterprises about what kind of points should be considered when they want to invest in China.

5.1 Ikea's entry mode into China

Although Ikea's early entry in China was marked with mistakes involves its price, local culture understanding and entry model decision. IKEA is still successful to enter Chinese furniture market and win the market share. Its success involves many factors as following.

Joint venture entry model

IKEA entered Chinese furniture market with joint venture entry model in 1998. This kind of entry model makes IKEA easily to adapt local business environment and the partner from host country could reduce the local competitive and political risk for IKEA.

5.2 Ikea's successful strategy for China market entry

Low price strategy

Ikea's objective 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. (Arnold 2005, 567-8) This belief of low price with the opportunity that IKEA is

presented with in terms of the ability of the company to continually expand into more and more markets and locations. Ikea's goal of being able to place their products in as many Chinese homes as possible

IKEA with Chinese characteristics

IKEA alters products to suit the needs of Chinese consumers, when IKEA first began operations in China. IKEA also had to adapt its location and do-it-yourself (DIY) assembly concept to China. IKEA has built its PRC stores near public transportation lines, offers local home delivery and long-distance delivery to major cities in China for a fee, maintains taxi lanes, and offers fee-based assembly services.

If one is to measure the success of a company, one need not look any further than the numbers. The success of IKEA is able to be weighed, at this time, based upon the significant financial gains the company has been able to reap since it had decided to no longer serve solely as a mail order company and instead become the global company it is today with stores in 33 countries across the globe. With significant increases in both sales and profits coupled with the fact that additional IKEA stores are being aggressively constructed especially here in China, it should come as no surprise that IKEA is capitalizing upon its strengths and turning it opportunities into realities. With a continued push to focus on its opportunities and attempt to ward off its threats and weaknesses, it appears as though IKEA is well positioned to continue operations well into this century in a manner focused upon growth, increased profits, and overall success.

Nowadays Ikea has embarked on a "low price strategy." This can be a reasonable strategy for Ikea in China. But let us remember that low price is relative, since in most of Ikea's Chinese customer's eyes, Ikea's furniture is not cheap at all for Chinese income standard. Together with the low price strategy, Ikea's fashion, neat, reliable and comfortable design let Chinese customers feel this not low price for him can

match it quality and fame. It is worthy.

So, together with lowering the price, ensuring quality and brand image is just as important. I believe Ikea's presence in Chinese market will also bring these ideas to the local players in the market, who were originally only concerned about economies of scale and a price-war strategy. I remember in 1998, when Ikea first entered Chinese market, its price was lower than the international level, though, still people tended to classify it as closer to premium, if not luxury, according to the income level of that time. Though Ikea's customer levels were initially small, its brand message was gradually infused into people's minds.

The successful elements for Ikea's "low"-price strategy in China now consist of:

- 1) demand for the product should be huge (new homes & more income)
- 2) the quality and brand image of the product is superior
- 3) the cost of products can be significantly reduced by localization of production and distribution.

China's low labor cost, large consumer market and sharply declining import tariff rates have attracted many foreign furniture enterprises. Business entry into China's market is, however, a slightly complicated process, and foreign investors sometimes find themselves face-to-face with some problems. Due to large differences in topographies, climates, cultures and business practices throughout the vast country, Chinese consumer expectations and purchasing behaviors have marked regional taste.

Chinese market is not easy to enter successfully, Ikea's market share of 43% - largely achieved thanks to their original premium position strategy. Ikea really gets its success in China after it enters into Chinese market almost ten years. So Ikea's entry mode into China strategy is benefit for other foreign companies which want to take Chinese market as their next target markets.

Reference

Book source:

Mark N.K.Saunders, Philip Lewis, Adrian Thornhill, 2000. Research Methods for Business Students. Harlow: Prentice Hall Company.

Philip Kotler 2002. Principles of Marketing.

Normann R. Ramirez R. 1993. From Value Chain to Value Constellation: Designing Interactive Strategy. Harvard Business Review

Anonymous, 1997. Self-managed learning at IKEA. International Journal of Retail & Distribution Management.

Arnold, Stephen J., 2002. Lessons Learned From the World's Best Retailers. International Journal of Retail & Distribution Management.

Retail Business, March 1995: Retail Trade Reviews

Furnishing the world. The Economist, Nov. 19, 1994

Rashed, Howard S. Foreign entry Mode and performance: the moderating effects of environment. Journal of small Business Management. 01, Jan 2005

Barthelemy, Jerome, 2006 The Experimental Roots of Revolutionary Vision. MIT Sloan Management Review

Grol, P.C.; Schoch, C., 1998 IKEA: Culture as Competitive. Cases in International Organizational Behavior. Malden, MA: Blackwell

Calof, J.L. 1993, "The mode choice and change decision process and its impact on international performance", *International Business Review*, Vol. 2 pp.97-120.

Furniture and Decoration, 2003 (Magzine)

Chinese Furniture Association annual report, 2005

Internet source:

China through a Lens:Overview, China development gateway, November 2005,
URL:<http://www.china.org.cn/english/features/China2004/107000.htm>

Chinese furniture market analysis of 2006,Zhou Jimin, 10,May 2006,
URL: <http://www.ocn.com.cn/2006058jiaju.htm>

Why can China be a big furniture manufacturing base, Wu Chunfang, March 2004,
URL:<http://www.szfdi.com/newspaper/200610/zdqs/14002.htm>

Foreign furniture companies investing in China, published by AKTRIN, 2002,
URL:<http://www.furniture-info.com/1117.htm>

Foreign Investment, China promoting Growth. September 15, 2003,
URL:<http://app.ccpit.org/vhosts/english/IV.htm>

Overview of FDI in China [online]. Mofcom Sort:Foreign Investment,28,Oct 2004,
URL:<http://www.shandongbusiness.gov.cn/english/php/show.php?id=765>

IKEA Group corporate site URL:<http://www.ikea-group.ikea.com>

Chinese furniture market overview, published by Hong Kong Trade Development Council, URL:<http://www.tdctrade.com/sme/chinese/chinamkt/chinafrm.htm>

Appendix

Survey for Chinese furniture market research

1. What occupation do you engage?
A. worker B. white-collar C. manager D. unemployee E. Others
2. How do you think Chinese furniture market?
A. good perspective and fast development B. Good perspective and slow development
C. small market D. It is difficult to say
3. What is the reason to inspire furniture market?
A. more and more people buy furniture B. more and more furniture manufacturers
C. dwelling house constructed D. Related regulations
4. How do you get information about furniture brands?
A. commercials B. TV advertisement C. Newspaper D. Internet E. Friends' recommendation F. Furniture stores
5. What kind of factors can influence you buying behavior?
A. quality B. brand C. service D. recommendations from experts E. Others
6. What kind of brand do you prefer?
A. Guang Ming B. Lin Xing C. IKEA D. Zhao Chen E. Others
7. Do you think that customers must know more about furniture maintenance knowledge?
A. Yes, manufacturer or retailer provides training programme
B. Not needed, manufacturer provides the maintenance service after selling.
C. others

8. Do you or your company need buy furniture recently?

A. yes B. no

9. What range of price do you prefer, if you want to buy furniture

A. under 1000 Yuan B. 1000—2000 C. 2000—2500 D. 2500—3000

E. over 3000

10. What kind of furniture style do you like?

A. Shining and bright B. classical and graceful C. European style D. natural or original wooden E. Childishness and dreamful

11. What kind of aspect are you not satisfied to furniture?

A. function B. material C. colour D. technical E. others

12. What is the key feature of furniture can attract you?

A. good quality B. reasonable price C. functional. E. others

13. Are you satisfied for furniture manufacturers?

A. Yes B. No