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The Possibilities for Differentiation in the Chinese Furniture Industry

Case Company: IKEA China

Business Economics and Tourism

2012

ACKNOWLEDGEMENT

I would like to give great gratitude to my thesis supervisor, Ms. Satu Lautamäki. She really encouraged and helped me all the way. All her comments and guidance were so helpful and inspiring – I could not even possibly have finished this thesis without her help. I really appreciate her quick replies when I encountered problems and asked her for help, so that I could find a solution and move on.

Then I want to thank Mira Valkjärvi and Weimu You in helping me translate the abstract into Finnish. I also thank my dear friends in China who gave me great help in finding more target respondents to fill in the questionnaire.

Another big thank you goes to Tefu Lin and Jiahuan He who gave me valuable suggestions. Also thank my dear friends Xueying Quan, Wen Cao and Yu Zhang who were always there for me.

Finally, I would also like to say thanks to my dear parents who are so supportive of me.

Vaasa, Finland

21.05.2012

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TIIVISTELMÄ

Tekijä	He Mengdi
Opinnäytetyön nimi	Kiinalaisen huonekalualan erikoistumismahdollisuudet
Vuosi	2012
Kieli	Englanti
Sivumäärä	86
Ohjaaja	Satu Lautamäki

Nykyään kiinalainen huonekaluala pitää yllä kiihtyvää vauhtia. Toisaalta kireä kilpailu kehittyi, kun huonekaluyritykset alkoivat tuottaa samanlaisia tuotteita. Tilanteen kireyden takia erikoistuminen toisiin yrityksiin näiden voi auttaa yritystä erottumaan.

Tämä opinnäytetyö tutkii yritysten mahdollisuuksia erikoistua Kiinan huonekalualalla. Erityisesti on keskitytty paikallisten asiakkaiden näkemyksiin huonekalualasta. Tukeakseen tutkimuksen tarkoitusta erikoistumista on tutkittu teoreettisesti, jotta saataisiin selville mitä ja miten ja miksi se toimii. Tämän jälkeen on toteutettu empiirinen analysointi paikallisten kiinalaisten asiakkaiden käsityksistä Ikean erikoistumista kohtaan. Lopussa on ehdotuksia kohdeyrityksen johdolle ja lisätutkimusehdotuksia tulevaisuutta varten.

Teoreettisessa osassa esitellään yhdeksän erikoistumisaluetta, jotka ovat tuotteen ainutlaatuisuus, jakelu, tuotteen markkinointi, asiakaspalvelu ja jälkipalvelu, tarjonnan laajuus, tavaramerkki, koko/hallitsevuus markkinoilla, alhainen hinta ja käyttäytyminen. Sen lisäksi jotta ymmärtäisimme paremmin erikoistumisen teoriaa käytännössä on valittu Ikea Kiinassa kohderyhmäksi. Kiinan Ikeaa tarkastellaan ottaen huomioon aiemmin mainitut yhdeksän erikoistumisaluetta.

Empiirisessä osassa käytettiin kvantitatiivista tutkimusmenetelmää luotiin kyselykaavake ja kerättiin 155 vastausta. Empiiriset tulokset osoittavat että asiakkaat arvostavat viittä Ikean erikoistumisaluetta kiinalaisessa huonekalualassa, jotka ovat tuotteiden ainutlaatuisuus, tavaramerkki, laajat tarjonnat, halvat hinnat ja tuotteiden jakelu. Toisaalta asiakkaat ajattelevat negatiivisesti Ikean asiakaspalvelusta, myynnin jälkeispalvelusta, käyttäytymisestä ja tuotteen markkinoinnista. Myös Ikean hallitseva asema vaikuttaa negatiivisesti Ikean erikoistumiseen.

ABSTRACT

Author	He Mengdi
Title	The Possibilities for Differentiation in the Chinese Furniture Industry
Year	2012
Language	English
Pages	86
Name of Supervisor	Satu Lautamäki

At the moment, Chinese furniture industry is maintaining a steadily increasing momentum. However, tight competition began to occur when all furniture companies started to produce similar products. Therefore, differentiation can be adopted by companies as a way for them to be distinguished.

This thesis examined the possibilities for differentiation in the Chinese furniture industry. A special focus was on the local customers' perspectives on furniture industry. To support the aim of this study, a theoretical discussion was presented about what differentiation is as well as how and why it functions. Next an empirical analysis the perceptions of the local customers on IKEA's differentiation in the Chinese furniture market was illustrated. By the end, some managerial implications for the case company and further research were given.

In the theoretical study, the nine domains of differentiation were presented, namely product uniqueness, distribution, product marketing segmentation, customer service/after-sales service, width of offering, brand, size/market dominance, low price and behavior. Furthermore, in order to understand the link from the theory of differentiation to practice, IKEA China was examined as a case company with the previously described domains of differentiation used.

In the empirical study, quantitative method was used. A structured questionnaire was organized and 155 responses were collected. Empirical findings show that the customers value five domains of differentiation of IKEA, namely product uniqueness, brand, width of offerings, low price and distribution of products. However, customers thought that customer service/after-sales services, behavior, product market segmentation and size/market dominance of IKEA negatively contributed to its differentiation.

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1 INTRODUCTION

The last 30 years have seen China's booming economy since the reform and its opening to the wider international market. Particularly, the Chinese furniture industry has made powerful and considerable progress, and China is fast becoming a crucial export base and a world-class location for fitting up furniture factories. (see ChinaMarketResearch 2004; China Knowledge Press 2004)

Today, the Chinese furniture industry is maintaining a steady increasing momentum. Due to China's large potential consumer market, low labor costs and sharply declining import tariff rates, a lot of foreign furniture companies have decided to explore them Chinese market, and as a result, intensify the competition in Chinese furniture industry. (see ChinaMarketResearch 2004; China Knowledge Press 2004)

Like other industries in the Chinese market, the products and services which are provided by the furniture companies are becoming alike and it becomes harder and harder for the customers to choose their ideal products or services. Due to this, companies have realized that they need find some way of setting strategies to distinguish themselves from their competitors in the marketplace. Differentiation means innovation, and innovation is considered the ultimate drive for business success.

In addition, a stable relationship with customers and customer loyalty are very important for a company or an organization. Marketers try their best to attract and hold the relationships as well as achieve customer loyalty. One of the reasons for hold a stable relationship with customers is positive word-of-mouth advertising (Schiffman, Bednall, Cowley, O'Cass, Watson & Kanuk 2001). What is more, it is quite different to maintain a loyal customer from finding a new one, and satisfaction is the foundation of customer loyalty and long-time relationships.

In this study, the focus is on examining the possibilities for differentiation in the Chinese furniture industry. In this subchapter, the economic overview of Chinese

furniture industry and background information on case company IKEA China will be presented.

1.1 Overview of the Chinese Economy

During the past thirty years, the growth of the Chinese economy has been one of the miracles of the development of modern economies due to the nation's reforms, a huge workforce and massive investments in the 1990s. The US economy grew quite well while the Chinese economy remained relatively stagnant until the year 1979 (see Figure 1). China has grown with an unbelievable rate during the past few decades with GDP rising on average by 9.5% per year (ChinaOrbit.com 2012). According to the data listed by the International Monetary Fund (2011), China ranked 2nd in GDP with 11,299,967 million dollars right behind United States (International Monetary Fund 2012).

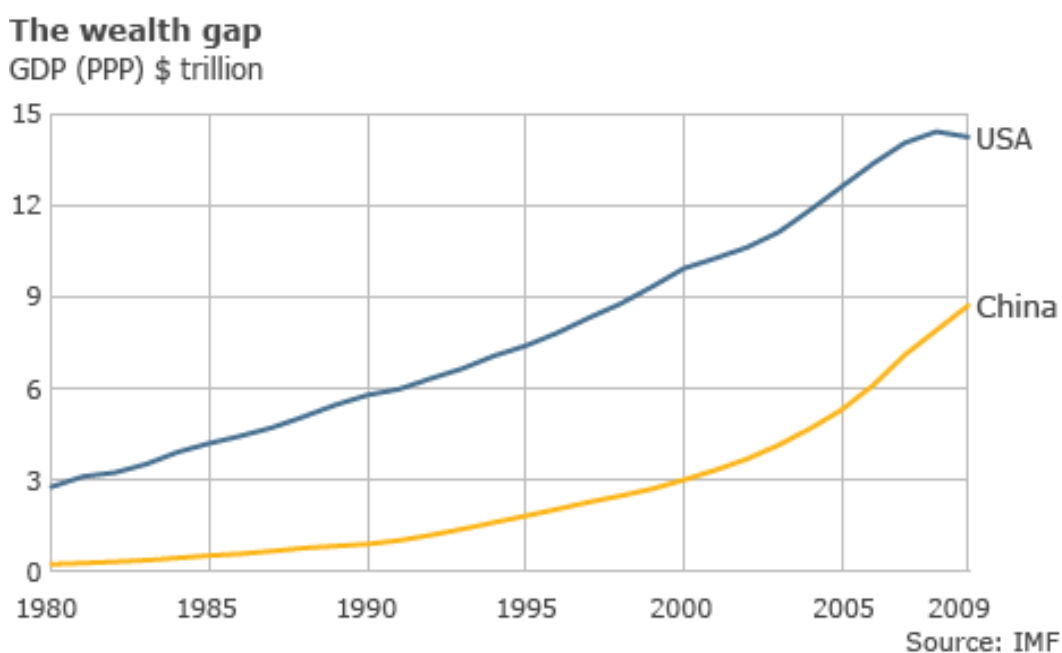


Figure 1. China GDP from 1980 to 2009 (BBC NEWS 2009).

The latest data shows that at the beginning of this year, 2012, China's economic growth lost more impetus, but there are other signs which are showing the slowdown will not continue for a long period (Censky 2012).

Chinese market is regarded as the ultimate investment opportunity. On one hand, China offers a market of up to 1,300 million potential customers. On the other hand, during the last 30 years, the Chinese economy has grown at such a stunning and wild pace that most other countries around the world even have not considered such a rate. In addition, the Chinese government has kept trying their best to create an investment environment for foreign companies to launch their brands in China. (ChinaOrbit 2012)

1.2 Overview of the Chinese Furniture Market

After China started its market-oriented economic reform and opening towards the world in the 1990s, its economy began to grow at a strong pace. So did China's furniture industry, especially in the last 10 years. (Aspin 2010)

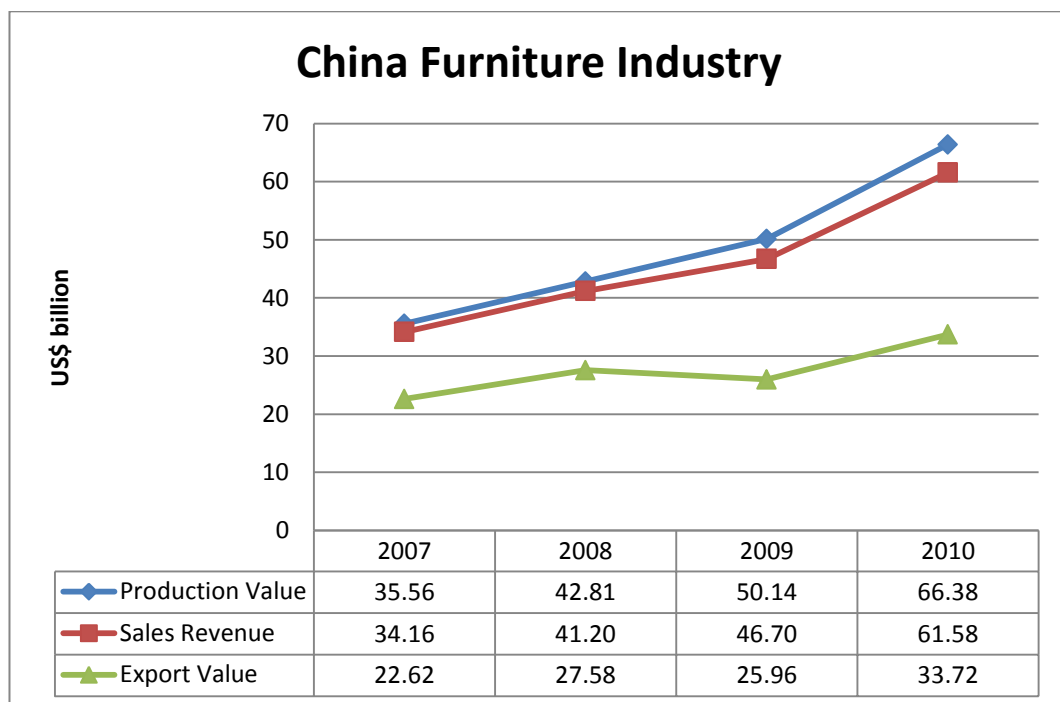


Figure 2. Chinese furniture Industry of year 2007-2010 (Aspin 2010; Italian Trade Commission 2011).

From the database of China National Furniture Association (CNFA), a comparison of the production value, the total sales revenue and the total export value of the Chinese furniture industry can be made between the years 2007 to

2010 (see Figure 2). The international trade and domestic analysts began to notice China's furniture industry due to the high level of its growth rate (Castaño 2002).

Castaño (2002) states that as many as 50,000 different types of Chinese furniture enterprises (predominantly small and medium sized) have been established in China during the last few decades with a total of nearly 5 million employees all over China. The Chinese furniture industry were developing at a rapid pace over the past years, which results from foreign investment, especially from the US, Taiwan and other Asian countries. Moreover, the increasing domestic demand along with the rapid economic growth, the low wages, the adequate raw materials, the competitive export tariffs and other incentives for exports and productions attracts more and more joint ventures. In 2002, China's entry to the World Trade Organization (WTO) also contributed to the progress, foreign investment in the Chinese furniture industry maintained its strong growth and played a more important role in development as was expected. (see Castaño 2002)

Furniture production can cover a wide range of raw materials, including wood, plastic, rattan and metal. Furniture made of wood used to be the major production and exports of furniture industry while today, people have turned to preferring the ones made of metal. According to the database of China National Furniture Association (2009), the total production for wooden furniture was 189.5 million pieces while the total production for metal furniture was 264.4 million pieces in 2008.

In Chinese furniture industry, there exist thousands of enterprises which produce furniture and they focus on different areas, some concentrate on furniture for offices, some for houses, and some for children. Among all those enterprises of different types, Quan You (QY), Qu Mei (QM), IKEA, Hua Ri (HR), ROYAL are the leading ones. Among the top ten furniture companies in China, IKEA is the only one founded overseas (see Maigoo 2012).

The residential and hotel furniture, as well as some other higher-end products, is inspired by the increasing consumption power of the Chinese people and the booming property market along with the promising tourist industry. Moreover,

according to official statistics, each year about 5 million families would like to replace their furniture at home, excluding the growing demands for other places such as office and public facilities. (see Aspin 2010)

Attracted by the huge potential market, lots of foreign furniture companies are positively seeking for opportunities to enter the Chinese furniture market. Some big international cities, such as Beijing, Shanghai, become their first choice as platforms for them to enter the mainland market, so that they could take advantage of their long-time experience in production and distribution network, as well as the good reputation for their quality, integrity, delivery and management. (Aspin 2010)

1.3 Introduction to IKEA

IKEA is one of the biggest furniture retailers in the world. Their vision is “To create a better everyday life for the many people” as well as their 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.” The core value of the IKEA business is their product range, which is developed to inspire everyday home furnishing and to provide solutions to the needs. The key to the success of IKEA is its understanding and concern about the differences of living situations and needs of people from all over the world. (IKEA 2011, 6-7)

IKEA was founded in 1943 by Ingvar Kamprad when he was 17 years old in Elmtaryd, Sweden. At the very beginning, Kamprad sold many kinds of products such as pens, wallets, and nylon stockings via mail orders. In 1948, IKEA started to sell furniture, and three years later, in the year 1951, IKEA published its first edition of the IKEA catalogue. The first IKEA store settled in Älmhult, Sweden, in 1953. Since then, IKEA has expanded at an unprecedented rate, till October 2011, IKEA has 332 stores in 38 countries around the world. By the year 2010, IKEA had 127,000 employees. (IKEA 2011)

IKEA entered Chinese furniture market in 1998 and opened the first store in Shanghai, mainland China. However, at the initial phase after its launch, IKEA

China was barely known to the majority of customers and it was somehow regarded as a high-end brand, sometimes even luxuries.

To achieve success, IKEA had to adapt itself to the Chinese local market. Firstly, IKEA altered products to meet the needs of Chinese consumers. Secondly, IKEA also had to modify its store location and do-it-yourself (DIY) assembly concept to Chinese market. IKEA had to build its stores near public transportation lines in China, offer local home delivery and long-distance delivery to the major cities in China even with charge, and fee-based assembly service.(see U88 2005; Miller 2004)

On one hand, to better understand Chinese customers' need on furniture, IKEA conducts home visits, surveys, annual "Market Capital" tracking study and focus groups to learn more about the target consumer groups. On the other hand, IKEA posts in-store instructions and design advice, publishes brochures and catalogues, and operates a detailed website to help Chinese customer understand IKEA concept better. (Miller 2004)

According to the financial report of IKEA in China for the financial year 2010 (09.2009-09.2010), the annual sales increased 23% from the financial year 2009 (09.2008-09.2009), more than 3.7 billion RMB, that is to say, for the financial year 2009, IKEA China's sales revenue is US\$ 587.7 million. (see Baidu 2012)

1.4 Research Problems and Objectives

The purpose of this research is to examine and understand the possibilities for differentiation in the furniture industry, especially in the Chinese market. A special focus will be on the local customers' perspectives on furniture industry.

To reach the main goal, the following sub-objectives are set:

- ✚ To theoretically describe what differentiation is as well as how and why it functions.
- ✚ To empirically analyze perceptions of the local customers on IKEA's differentiation in the Chinese furniture market.

- ✚ To summarize the possibilities of differentiation in the furniture industry in China

1.5 Structure of the Thesis

This thesis is divided into several parts. Generally, it consists of five main sections which are introduction, theoretical concepts, analysis of case company, empirical research, and recommendations.

The introduction states some background information about the Chinese economy and the Chinese furniture industry. Then the theoretical study discusses the concepts of the topic of this thesis. Based on the theoretical concepts and the analysis of case company, a well-organized empirical research can be conducted. After analyzing the data collected in the empirical study, further recommendation will be given. The thesis has been structured as shown in Figure 3.

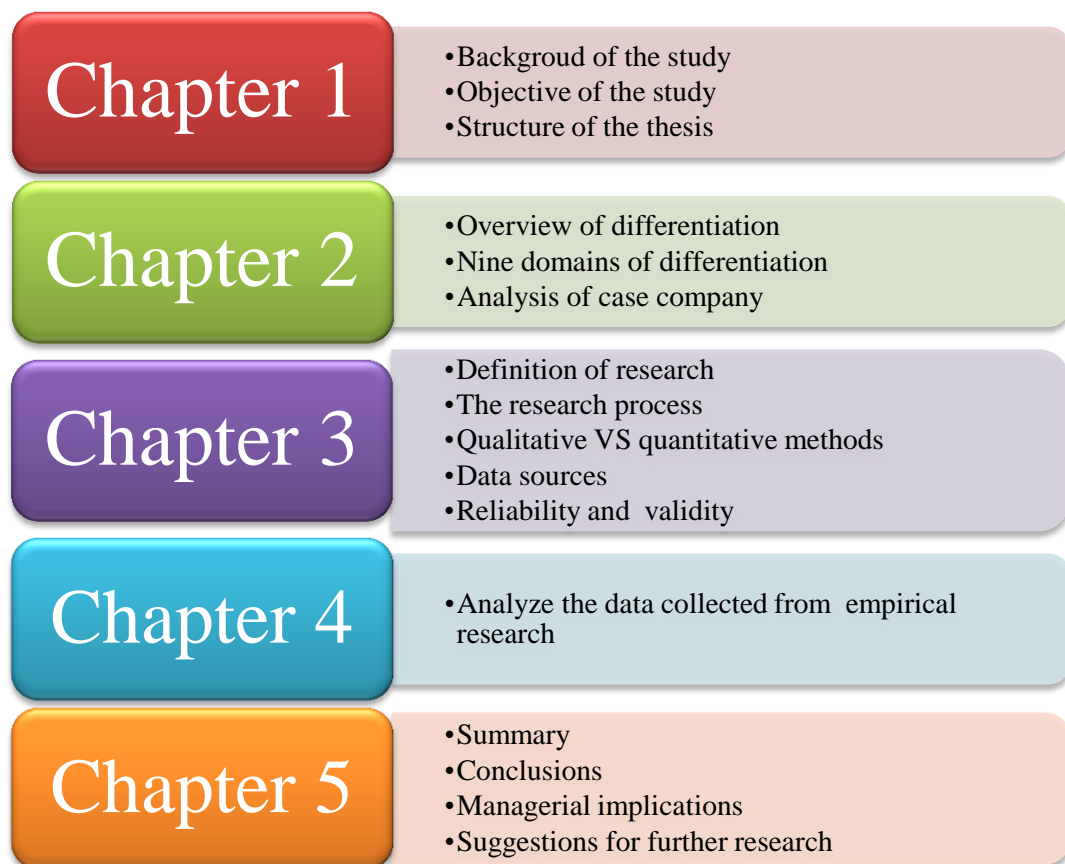


Figure 3. The structure of the thesis.

Chapter 1: The background of this study is shortly introduced. The research problems and objectives along with the flow chart of this thesis are presented.

Chapter 2: This chapter describes what differentiation is as well as how and why it functions. The analysis of the case company IKEA China is also discussed at the end of this chapter.

Chapter 3: This chapter explains the methodology and the data sources used in this thesis. It opens up with the discussion of the definition of research, research process, qualitative versus quantitative methods and data sources. In addition, the validity and reliability of this thesis are discussed.

Chapter 4: This chapter focuses on discussing the results of the empirical study.

Chapter 5: In this chapter, the summary and conclusion are drawn on the basis of theoretical framework and empirical findings. Managerial implications and implications for both the case company IKEA China and future researches are presented.

2 THE NATURE OF DIFFERENTIATION

In this chapter, an overview of differentiation will be presented, including what differentiation is and why and how it works. After that, nine domains of differentiation will be examined. By the end of this chapter, an analysis of the case company IKEA China and its differentiation strategy will be discussed.

2.1 Overview of Differentiation

Hill & Jones (2008) discussed differentiation in their book *Strategic Management an Integrated Approach*, “A differentiation business model is based on pursuing a business-level strategy that allows a company to achieve a competitive advantage by creating a product that customers perceive as different or distinct in some important way.” (Hill & Jones 2008, 166)

Differentiation is an approach by which a company or an organization aims to develop and market unique products or services for different customer segments as well as to make itself unique in the minds of its customers. Moreover, differentiation strategy can lead to creation of brand loyalty, which in turn can create opportunities for price inelasticity. (The SBCourse 2011)

That is to say, a differentiated company must have some special skills or abilities to meet the customers’ demands and needs in specific ways while its competitors cannot. Moreover, these special skills and abilities allow the differentiated company to reach the value frontier and achieve superior profitability since customers are always willing to pay extra money when purchasing products if they value the products’ or services’ differentiated qualities. (Hill & Jones 2008, 166)

Today, even the best products can be easily and quickly counterfeited, which leads every enterprise to pursuing new methods to outstrip their competitors. Leading companies make themselves different and outstanding in many ways, such as distinctive products and the way they behave toward their customers in every section, including service, product development, marketing, branding, bids and proposals, presentations, negotiations, etc. (AMACOM 2003)

When suitable differentiation domains for a company are chosen, it is more much important to focus on the customer perspective in order to find out what exactly the customers need and then figure out the best way or method to meet these needs via different form of differentiations.

Differentiation occurs in every interaction with customers, form every section in the selling and buying process. Based on former studies and researches about differentiation, differentiation has some common characteristics (see Figure 5).

The differentiation must be unique for the company

- The competitors do not behave the same way as the company
- Or the competitors do not as skilled as the company
- Customers perceive the differences

The customer must value the differentiation

- The company's differentiation must somehow enhance the customer's experience with the company.

The differentiation must reflect the company's value proposition

- The behaviors should related to what you are selling
- Or the behaviors should emblematic of the customer's experience of you and your products or services.

Figure 4. The same characteristics of competitive differentiation (see Bacon & Pugh 2003, 7).

“Markets are inherently entropic.” said Bacon & Pugh (1998). That means that at the very beginning, every company may have its unique products or services. Sometime later, some of the products are warmly welcomed by the customers while the others may not have a good sales record. Then, other companies may copy the successful products or services to gain further profit. (see Figure 5)

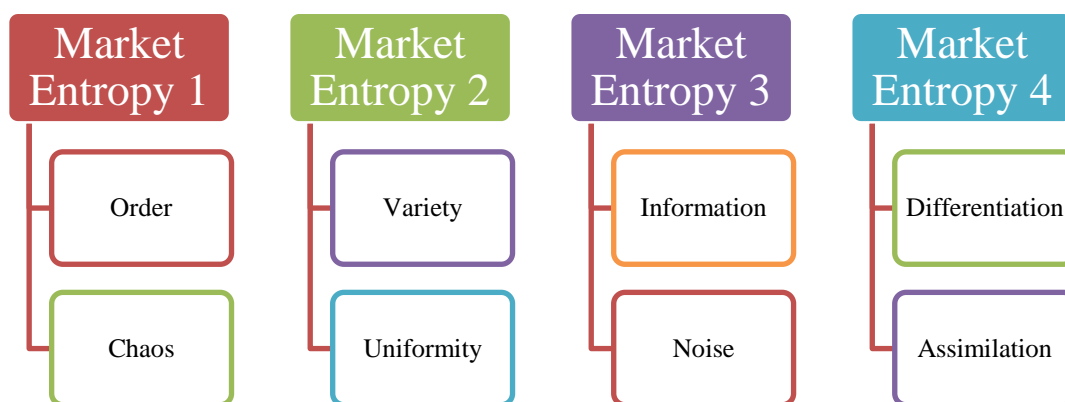


Figure 5. Market Entropy (Bacon & Pugh 2003, 14).

The market force then slowly assimilate the differences between companies as well as their products or services, resulting in reducing differentiation and increasing noise over time. As a result, it becomes harder and harder for customers to distinguish among the available choices. (see Bacon & Pugh 2003, 14)

2.2 The Nine Domains of Differentiation

Although differentiation is quite difficult to achieve and seems quite ephemeral, companies still try their best to find a variety of new ways to distinguish themselves in the marketplace. Bacon & Pugh (2003) epitomized the following nine domains of differentiation: product uniqueness, distribution, product market segmentation, customer service/ after-sales service, breadth of offerings, brand, size/ market dominance, low price and behavior.

In the following subchapters, these nine domains of differentiation will discussed one by one.

2.2.1 Product Uniqueness

The most common format of differentiation is based on unique product features and functions, innovations, a series of products or services being provided. Product uniqueness mainly focuses on the launch of products or services and put every effort to meet the customers' needs. The companies create a strong distinguish among all the market competitors by developing a unique proposition, aiming at attracting more consumers and achieving a better positioning in the competitive market. Among all those nine domains of differentiations, product uniqueness is the most transient form of differentiation because it is easiest to reproduce a similar product or service unless the product or the service has some form of copyright, trademark, or patent protection. (see Pomoni 2011; Bacon & Pugh 2003)

In today's competitive market environment, customers come up with various needs and wants, which need to be met and satisfied by numbers of companies from different industries. To gain more market share, companies try their every effort to remain viable and competitive in the marketplace. (see Pomoni 2010)

Companies satisfy the unmet customer needs by creating product uniqueness to differentiate themselves from the other rivals, as well as to attract more customers, eventually to achieve a better positioning in the marketplace (Pomoni 2010). Pomoni (2010) pointed that "The value proposition should skillfully integrate the increasing quality of prospective leads and market share and the improvement of operational efficiency to attract consumers to enter into a relationship with the firm. In that way, firms increase the perceived value of their products and services relative to the perceived value of the products and services of their competitors, achieving competitive advantage."

In addition, product uniqueness integrates several elements which can be both recognizable and valued by customers. Product customization is one of those elements. This means that a product or service having customized properties can influence preferences of customers when being compared to similar products or services. (Pomoni 2010; Jaquier 2010)

When a customer is choosing a product or service, there are three crucial factors that matter: functions offered, innovations involved, and product serialization.

- ✚ **Product functions** are the “product’s answer to the set of user tasks” (Inclusive Technologies 2012).
- ✚ **Innovations** is aiming at create better or more effective products, processes, services, technologies, or ideas that are accepted by markets. Besides price and quality, a new product or service with less competition can lead to success more easily. However, add value to products or services via improving them or make them easier to use also belongs to innovations. (Watson 2009)
- ✚ **Product serialization** means that whether the company can provide a series or a set of products or services.

2.2.2 Distribution

Except product uniqueness, lots of companies make themselves distinguished from the rivals through the value chain. That is to say, they have specific channels or means of distribution. (Bacon & Pugh 2003, 20-22)

In the marketers’ point of view, distribution means to pass the products from the hands of companies to the hands of customers through certain channels. (Christ 2012)

Stores’ location is an important element of differentiation. Without doubt, a store located in downtown will be much more popular than a store located in suburbs. If store is located far away from the central points, customers need more time and more money to get to the store. (Pomoni 2010; Jaquier 2010)

In this thesis, the author focus on customer’s perspective, which means pay more attention on outbound logistics. Besides the location of the company, following elements also contribute to a company’s distribution:

Ordering: nowadays, with the rapid development of economy, more and more people prefer to order a product or service on Internet or via phone calls. If a

product is easy to order, this positively distinguishes a company from its competitors in the same industry.




Handing and Shipping: Right after a customer purchases something from a seller, they will go through the handing and shipping method. Handing and shipping plays an important role to attract customers when customer chooses a company, concerning the pages of the products and distance between the company and the customer. Easy to handing and shipping positively differentiate a company from its rivals.

Display: The way products are displayed influences customers' decision of purchase. A well-organized showroom will encourage customers to buy more whereas a showroom in a mass may make customers feel uncomfortable and have negative influence on customers.

2.2.3 Product Market Segmentation

Some companies focus on a narrow niche of a broader market to make themselves differentiate from the others. These companies also known as “category killers” open a store focusing on one retailing segment, which is normally included in traditional department stores or supermarkets. Since they specialize in a particular segment, the so-called category killers can provide a greater selection of products, more knowledgeable salesman, much focused service, as well as cheaper price than other stores. (Bacon & Pugh 2003, 22-23)

Pieter and Ismael (2010) states “Segmentation is a common tool that helps organizations discern and describe key patterns in complex markets.” Companies put efforts on identifying different market segments due to some customers' needs are compatible with each other while the others covers quite different capabilities (Mitchell 2009). According to Goldstein and Blogger (2007), there are five common segmentation objectives:

-  Developing new products
-  Developing differentiated advertisements and marketing communications
-  Developing differentiated retention strategies and customer services

- ✚ Developing multi-channel distribution strategies
- ✚ Developing target prospects with greatest profit (Goldstein, Blogger 2007)

In furniture industry, previous studies shows that the buyers appreciate three attributes: quality, design and products' practicality, with an understanding of technology and ergonomics built in. (see Bplans 2012, 4)

2.2.4 Customer Service/ After-sales Service

Customer service experience is made up of all interactions and touch point between the salesperson, the products or the services which was offered by a company, and the customer. Every industry has its unique opportunities to create valuable and meaningful relationships with their customers. Within customer service, if the company serves as a supporter for every single customer, building trust along the way loyalty will definitely come along right after. People prefer to purchase from somewhere they feel comfortable and familiar, it is good that salesmen can get to know about the customers and build a stable relationship with them. In addition, companies are also trying to get closer to the potential customers. A perfect interaction experience goes well beyond just listening to the customers. It stretches to action, enablement and empowerment. (Lieberman 2011; Figure 6)

Some companies differentiate themselves through superior customer service or after-sales service, and this is also an effective way to build a stable relationship with customers and turn a potential customer to a loyalty customer. (see Bacon & Pugh 2003, 23-25)

A company can receive good reputation by providing good support and service. Good reputation in turn helps the company to attract customers since outstanding service will definitely distinguish itself from the other competitors in the marketplace.



Figure 6. The importance of customer service experiences (Lieberman 2011).

Reputation of a company or an organization and its products is one of the most powerful bases of differentiation. As we all know, reputation is quite difficult to develop. But, once developed, it will last for a long period of time, even the basis of the company's or the organization's reputation has gone. As a result, the ability of a company or an organization to develop, maintain and improve its reputation depends on the products or services, especially customer support and services offered by the company or the organization. (see Watson 2009; Jaquier 2010)

2.2.5 Breadth of Offerings

Another group of companies are on to prefer "One-stop shopping" model. They distinguish themselves through the breadth of their offering. One-stop companies offer convenience and confidence to customers. These companies are much more convenient since customers can find almost everything they want in just one location or from one supplier. They inspire more confidence when knowledgeable employees can solve lots of customers' problems or provide a wide range of services. (Bacon & Pugh 2003, 25-26)

The mix of products or services provided by a company also can be a source of differentiation. Nowadays, many customers prefer to go to one place to buy several kinds of products rather than go to one place just buy one kind of products. This newly one-stop shopping method saves time and money for customers. (Jaquier 2010)

2.2.6 Brand

When a product brand becomes recognizable and valuable, the most powerful form of product differentiation appears. There is no doubt that every successful business is based on a recognizable, appealing and unique brand. In most cases, a successful branding is so powerful that man can easily relate it to its products. (see Powell 2010; Figure 7)

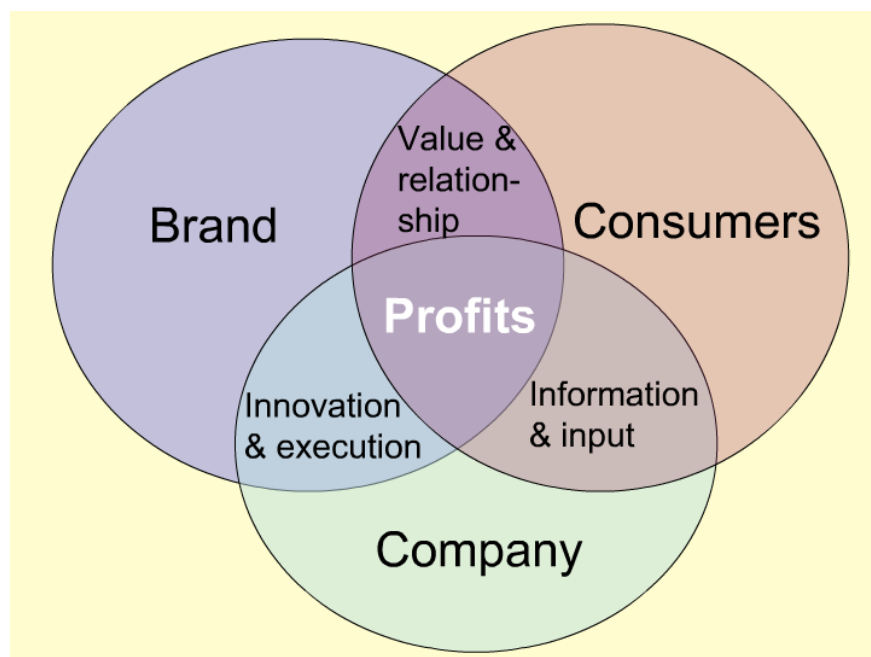


Figure 7. The analysis of company, consumer and brand (Wreden 2012).

There can be many reasons why a company needs to create its own brand. According to Powell (2010), she listed four simple reasons as following:

- ✚ The brand can deliver message clearly. To some degree, a good branding is indeed a good method of communication. When the relationship

between the company and the customer is established, the customers are not mere customers any longer, but clients.

- ✚ The brand can create business credibility. Business credibility it is quite difficult to develop. It needs continuous innovations, aggressive marketing campaign as well as delivering the promised products or services at the right time at the right place to the right person. As soon as the brand is known by a customer, the credibility of the company began to accumulate.
- ✚ The brand can create a connection between the product and the clients. In many cases, people can easily find their special connection with their favorite brands. Actually, a well-organized brand can easily establish a stable relationship between the company and the hundreds of thousands of customers who are always patronize the company's products or services.
- ✚ The brand helps motivate the buyer. Since a strong relationship has already established, the brand then will motivate the clients continuing support the brand.

2.2.7 Size/ Market Dominance

Some companies have outstanding size and market dominance of the market. Their advantages are the combination of brand-name recognition, accessibility, capacity, broad expertise, and “the ability to create advantage through sheer marketplace muscle” (Bacon & Pugh 2003, 27-28).

Companies achieving marketplace via market dominance always have a first-mover advantages. Since they are the first ones developing a new area, they of course have a large installed base of their products and large numbers of facilities in the important locations. Moreover, the companies and their customers get a very good opportunity to establish and enhance their relationships before other rivals come to the marketplace, some of the customers may even rely on the products or the services the company provided. To this point, the companies have already got strong recognition; a large segment of customers with high loyalty; and the ability to satisfy a variety of customer needs due to their sheer size, diversity, and expertise of their workforce. (see Bacon & Pugh 2003, 27-28)

Frankly speaking, the first movers do not always take full advantages of being the first one to enter the market. Actually, they can achieve market dominance via inventing new products, markets, or channels. Once the first movers survive at the beginning stage, they will definitely continue to differentiate themselves from their competitors since the size and market dominance will support them to do more, offer more and invest more than the second-tier companies in the marketplace. (see Bacon & Pugh 2003, 27-28)

Publishing a product or a service at the right time always help a company creates differentiation. In fact, moving first plays an important role in determinant of perceived differences in the quality of education. (Jaquier 2010)

2.2.8 Low Price

Low price does not make any difference to a company's products or services, but it does provide the company a differentiating strategy in the marketplace. These companies try efforts to offer products and services at a lower price than their competitors in the marketplace as well as maintain their low-price strategy by selling to mass markets, maximizing operational efficiency, and managing their logistics and supply chains strictly. (Bacon & Pugh 2003, 28-29)

The price of a product or service is always the primary way to attracting customers.

The way a company price its products or services determines a certain position in the marketplace. There are four types of pricing strategies (see Figure 8):

- ✚ Penetration pricing: The price is set manual low in order to gain market share. The price will increase after the company earns market share.
- ✚ Economy pricing: Low price with low quality, keeping the cost of marketing minimum.
- ✚ Price skimming: The company charge for a high price due to a substantial competitive advantage, or there exists a shortage in the marketplace. Actually, the high price won't last long since the high profit will attract

more competitors into the market and the price will fall because of the increased supply.

- ✚ Premium pricing: High quality with high price, which means the company definitely owns substantial competitive advantage among all the competitors in the marketplace. (MarketingTeacher 2012)



Figure 8. Pricing strategies matrix (MarketingTeacher 2012).

Anyway, all in all, lower price can positively differentiate the company in the marketplace and attracts customers.

2.2.9 Behavior

Finally, a large number of companies differentiate themselves behaviorally: via the ways they treat their customers, organize their business, attract and lead their staff and advertise themselves to the local marketplace. A successful company

makes itself differentiate from its competitors in as many ways as it can because it knows that once it succeeds, its rivals will copy the core value of the products or services. After a period of time, the marketplace tends to assimilate the difference. “Behavior Differentiation is insufficient by itself to create a sustainable advantage”. (Bacon & Pugh 2003: 29-31)

Behavioral differentiation means differentiating yourself through behavior towards customers. It is unique in several important aspects.

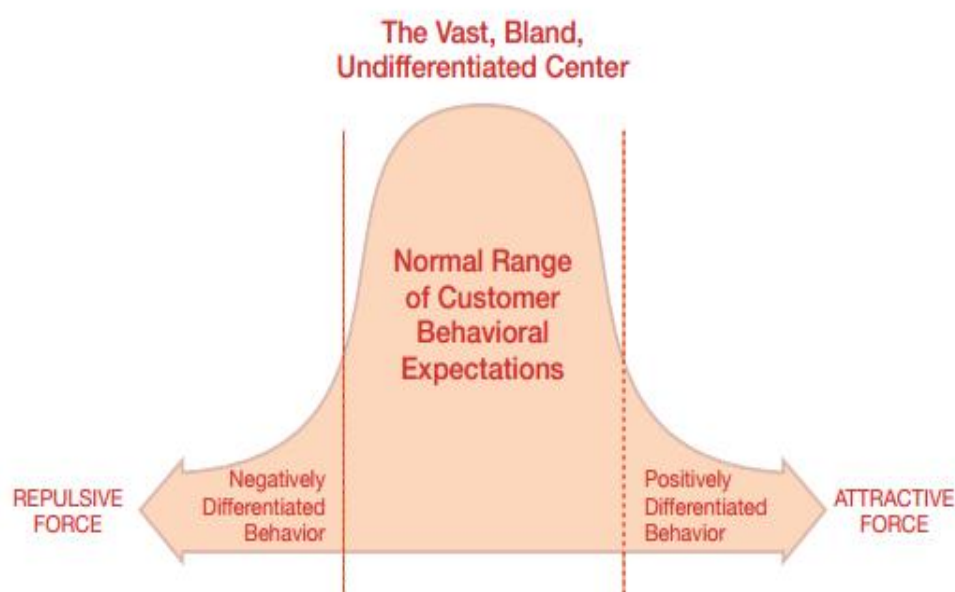


Figure 9. Range of customer behavioral expectations (Bacon & Pugh 2011, 5).

Behaviors can differentiate a company both positively and negatively. That is because in each section company interact with customers, the company will show customers whether it works better than its competitors or not. Positive behavioral differentiation can enhance the customer’s experience with the company as well as the products and services provided by the company. In this situation, if all the other elements are equal, the customer who thought the company is unique will choose the company in the future due to the good impression. (Bacon & Pugh 2011, 4-5)

The Figure 9 illustrates how behavioral differentiators can either attract or repel customers.

2.3 Theoretical Framework

Based on the previous discussion in this chapter, a theoretical framework of this thesis is summarized as follows (see Figure 10), and the following empirical research is based on it.

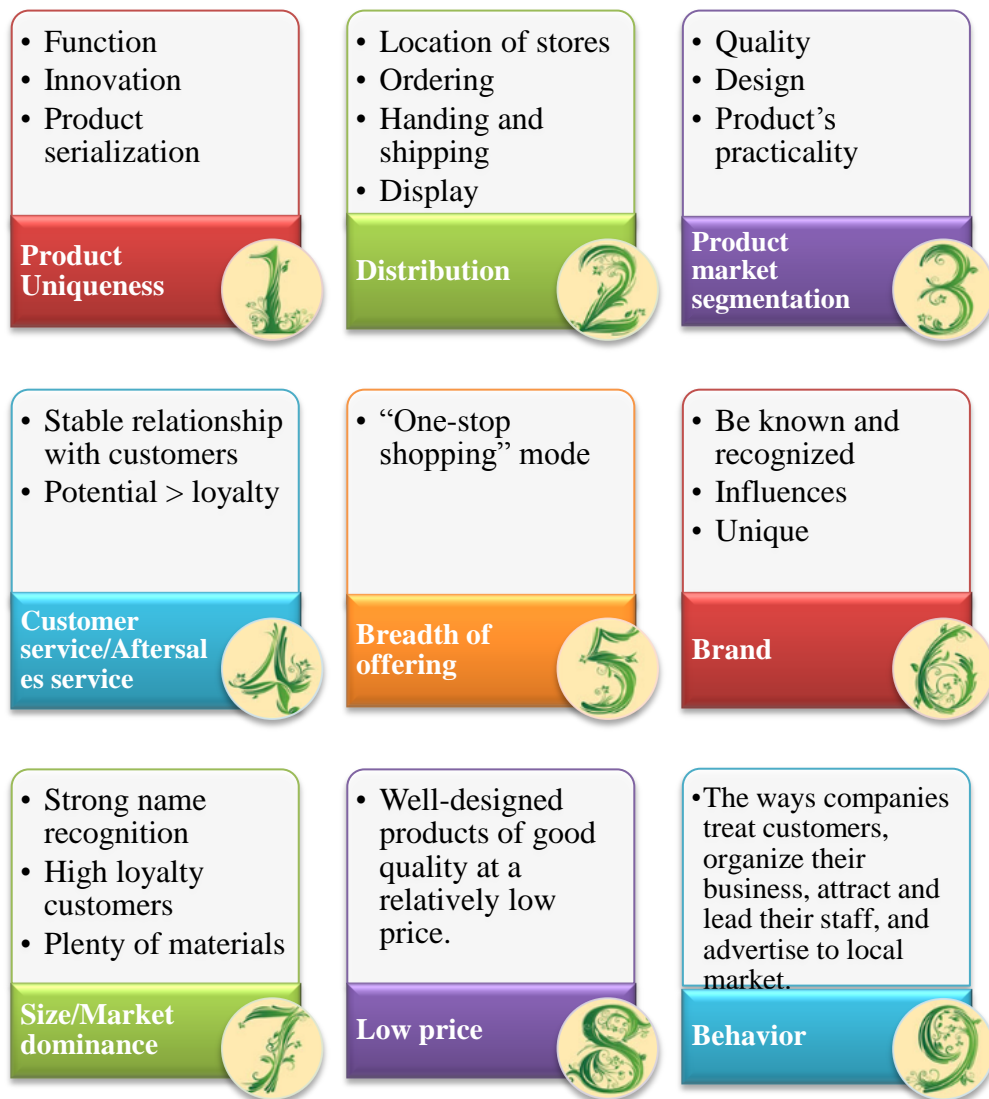


Figure 10. Theoretical framework.

As is illustrated in Figure 10, we could proposed that product uniqueness, distribution, product market segmentation, customer service/after-sales services, breadth of offerings, brand, size/market dominance, low price and behavior are

positively related to the differentiation strategy. Each of these domains will be put into the empirical context.

2.4 Analysis of the Case Company: IKEA China

In order to understand the link from the theory of differentiation to practice, we now examine IKEA China as a case company, using the previously described elements of differentiation.

2.4.1 Analysis of IKEA China

Brand:

IKEA is named as an acronym comprising the initials of the company's founder's name, the farm where he grew up and his hometown and the colors of their brand are blue and yellow, which also are Sweden's national colors. (see Figure 11) When people talk about IKEA, the first image is the clean design which is influenced by Swedish lifestyle and society, the region IKEA originates from, and the historical influences.



Figure 11. IKEA logo & Swedish flag.

According to Kaylo (2011), there are five levels of the IKEA brand (see Figure 12). As a global brand IKEA stands for: 1) Unique household products with

modern design, affordable prices; 2) “A gathering place the global tribes that are sensible in cost, design, and green environment.” 3) Egalitarianism; 4) Highly competitive as IKEA lowers their prices (2-3% annually) constantly to offer the best values for customers. (IKEA 2010)

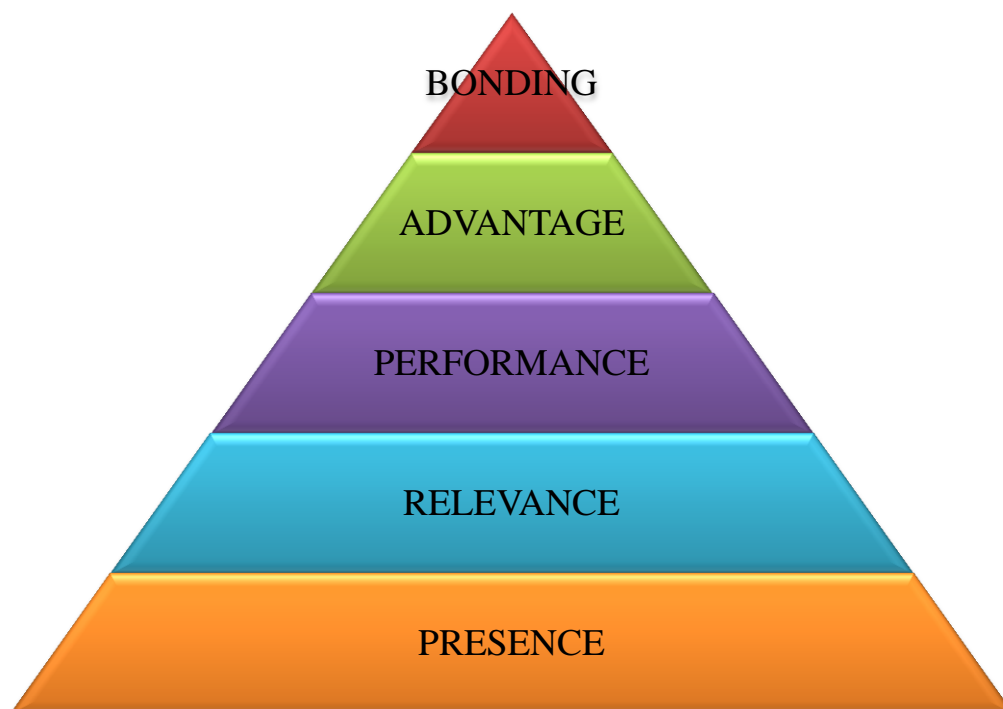


Figure 12. Five levels of the IKEA brand.

IKEA’s 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.” (IKEA 2011, 6-7)

Product Market Segmentation:

Today, neither a single product or service can be found to satisfy all the customers, nor a single organization can meet all the demands of all the customers. IKEA sets their target customer group as the youth who want to buy furniture of high class but cannot afford such a high price. That is to say, IKEA’s

target customers are willing to assemble the furniture themselves at home to save the cost for manual service.

Low Price:

Mostly well-designed furniture is focused on a limited number of people who can afford it. When IKEA first came to the Chinese furniture market, they found it is difficult to market the company. Moreover, most of the local people regard IKEA as a “luxurious furniture” brand, but what IKEA wants to offer to the market is the well-designed furniture with affordable prices.

To solve the contradiction, IKEA has taken a series of steps. Firstly, the designers in IKEA cooperate with manufacturers to find out the most economical way of manufacturing items. They came up with a new way to design the furniture. They divided the furniture into several models and each of the models can be made of materials from different suppliers as well as different furniture may share the same design model. Secondly, IKEA searched for suitable suppliers for materials all around the world. After that, IKEA performed large purchases to make sure the prices of the products are affordable. Thirdly, the customers need to find their unassembled furniture in the warehouse and assemble the furniture themselves at home to lower the price. Fourthly, with some of the IKEA products, IKEA sets the price first, and then finds suitable materials to make it to ensure the final price for a product is the lowest in the marketplace. Fifthly, IKEA has a stable relationship with OEM (original equipment manufacturer), which enables IKEA to lower the costs for products. Sixthly, the special package for IKEA, flat packs, saves IKEA quite a lot during the shipping and storing section. (see IKEA 2011):

Distribution:

For IKEA, distribution is one of the most important parts to make home furnishing sold at a price as low as possible. IKEA products are manufactured by thousands of suppliers and shipped to hundreds of IKEA stores around the world, normally via one of the company’s central warehouses and distribution centers.

To IKEA, distribution is all about making the route from the manufacturer directly to the customer as quick and short as possible. (IKEA 2003)

Moreover, most of IKEA's furniture is designed to be self-assembled while most of the other companies' furniture is sold pre-assembled. IKEA was the first company in the world to realize the benefits of flat pack furniture in the year 1956. According to the IKEA's statements, the customers can do the assembling themselves at home with just a few simple tools. Moreover, this kind of design will help reduce costs and packing materials for shipping (Laylin 2012). For example, a huge bed can be carried within a small cart (see Figure 13).



Figure 13. IKEA's flat packs.

As commonly known, IKEA has stores all over the world. There are two types of stores, one is wholly owned subsidiary (so-called Blue Team) and the other is franchise chain store (so-called Red Team). Among all the 163 IKEA stores in the world, 143 of them are wholly owned subsidiaries, distributing in 22 countries and districts while the rest 20 franchise chain stores distribute in 13 countries and districts. (see Baidu Zhidao 2010)

Customer Service/After-sales Service

When talking about IKEA's customer service, the following aspects which are based on observations when visiting IKEA-stores can be noted.

Consumers are free to choose what they want, at the pace they prefer and under relaxed circumstances. By this experience, IKEA aims to convince customers that these products can be highly trusted. Finally customers are recommended to finish the deals all by themselves -- which is meant to be a pleasant experience as well.

IKEA allows customers to try the products in the store. At the same time, most of the other furniture companies in the Chinese market set notice boards on samples, says "No seating" or "Don't touch". Besides, most of the furniture companies hire lots of salesmen to tell the customers about the features of every product. IKEA lists all the information a customer may want to know on the product label, such as price, functions, instructions of how to use, how to purchase, even the quality of one product.

Breadth of Offering

IKEA adopts "One stop shopping" strategy, which aims to make IKEA stores a place for the whole family to spend their time during the weekend. IKEA diversifies in both product variety and geographic expansion.

For product variety, IKEA does not only sell furniture for one specific area or part of the house. They provide a variety of more than 20,000 kinds of products which are mainly divided into three series: IKEA Office, IKEA Home and IKEA children. To be more detailed, there are 18 different categories divided by their different functions among all the products as follows: Eating, Desks, Mirrors, Children's IKEA, Chairs, Beds & mattresses, Bathroom storage, Cooking, Clothes storage, Decoration, Flooring, IKEA FAMILY products, Sofas & armchairs, Small storage, Lighting, Kitchen cabinets & appliances, Storage furniture, Tables, Textiles & rugs, Tools & hardware, and TV stands & media solutions.

For geographic expansion, IKEA has expanded its market from Sweden to other 38 countries by the year 2010. During this expansion, IKEA has tried to keep the same products style and the same operations formulae. (OPPAPERS 2011)

Behavior

Concerning all the behaviors of IKEA when it markets itself, it is not hard to find that IKEA focuses on customer perspective. (BBS.YingJieSheng 2008)

Firstly, the company designs products according to customers' needs. When IKEA develops a new product, the salesmen will cooperate with the designers since they know exactly what kind of product is most needed by the local customers.

Secondly, IKEA stores have a standard system, once entering a store, the customer just needs to follow the arrows on the floor to check almost all the products offered by IKEA. The showroom is arranged as living room, work space, bedroom, kitchen, children's products and dining room. This special arrangement is good for showing a series of demonstrations and to some degree it entices customers to buy more.

Thirdly, the labels in IKEA will make a deep impression on the customers. There customers can find as much information as they want about the product, such as how to use, how to wash, price, even how to figure out the quality of the products.

Fourthly, as stated, the furniture bought from IKEA, need to be assembled by the customers at home. Only in the Chinese markets, however, IKEA provides a special service, if the customers do not want to assemble the furniture themselves, IKEA will send staff to the customers' places to help them assemble the products.

2.4.2 IKEA China's Differentiation Strategy

Based on previous studies about IKEA China, IKEA's differentiation strategy is summarized into two parts: Three cornerstones & two main features. (Gu, Liu,

Wang, Ye & Lv 2011) A picture can show IKEA China's differentiation strategy as above (see Figure 14).

When talking about IKEA China's three cornerstones for differentiation strategy, it means the following three aspects, specific target market, strong research and development system and low price strategy.

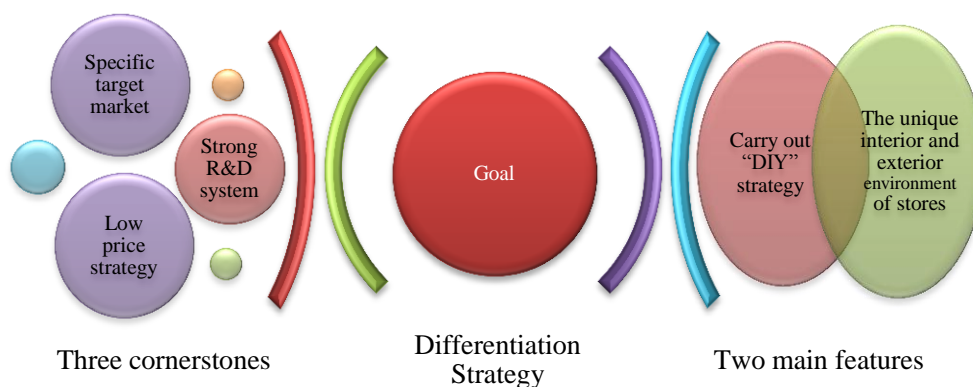


Figure 15. IKEA China's differentiation strategy.

Specific target market: When entering Chinese market, IKEA China chose to stand with the majority customers, that is to say they defined their target customers as teenagers who advocate high-end products but cannot afford the high prices. Moreover, IKEA China planned the shopping place just like a friend's home, relaxed, happy and totally free. There is no salesman standing by the customers' side introducing the products, prices and some other features, but a detailed product label which lists all the important information about the products, even the evaluation standards to help the customers to identify the product's quality. There are no posters saying "DON'T TRY", instead, customers can see the slogans "Just try it" or "Feel free to try" everywhere in the stores. There,

customers are free to choose what they want and enjoy the purchasing process. These behaviors strongly attract the teenager customers. (Gu et al. 2011)

Strong Research and Development system: When people talk about IKEA, the first picture coming into their minds is the IKEA style. All the IKEA furniture has the same style: concise, natural, and well-designed. Moreover, IKEA has developed a new method to manufacture furniture with different models. That is to say, IKEA furniture consists of different models and some models can be used to build up more than one kind of furniture. In addition, IKEA China offers a wide range of products and it also helps itself to earn more market share as the wonderful functions of products does.

Low price strategy: Unlike the other competitors, IKEA sets the price for a product first and then based on the price, chooses the right suppliers and manufacturers for the product. Thanks to its widely distribution channels, IKEA can always find a suitable suppliers and get connected with the cheapest manufacturers all around the world, of course, with quality guaranteed. Moreover, IKEA combines warehouses with stores, that is to say, their warehouses are inside stores. Such arrangements can effectively lower the cost for distribution as well as save time in deliveries. In addition, the typical “flat package” also contributes to decreasing the cost as well as to saving the room for storage.

Besides the three cornerstones discussed above, IKEA China also have two main features to support its differentiation strategy, namely the unique interior and exterior environment of stores and carry out “DIY” strategy.

The unique interior and exterior environment of stores: IKEA declares that their goal 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 (IKEA 2011). According to their business idea, IKEA China devoted themselves to creating stores just like a friend’s home. What is more, IKEA provides Omni bearing services, whenever and wherever the customers need help, they can always find a salesman willingly to answer their questions.

Carry out “DIY” strategy: The whole trip in IKEA, from the first step into an IKEA store to getting all those products a customer has purchased, all processes can be done by customer himself alone. This “Do It Yourself” mode can save money and time for both the company and the customer.

These three cornerstones and two main features work together to help IKEA China distinguish itself from its competitors in the Chinese furniture market.

3 RESEARCH METHODOLOGY

This chapter explains the methodology used in the study. It opens up with the definition of research, then research process and qualitative versus quantitative research method. The sources of data will be presented. By the end, reliability and validity are illustrated.

3.1 Definition of Research

Generally, research is a vital part of the business decision-making process. In the book *Business Research Methods*, the authors stated “Business research may be defined as a systematic inquiry whose objective is to provide the information that will allow managerial problems to be solved.” (Blumberg, Cooper & Schindler 2011, 4)

3.2 The Research Process

The research stands for a process, which means that a set of activities takes place over time. Moreover, research takes time and consideration. The results of research studies may be modified or changed over time. Ghauri and Grønhaug (2010) states in the book *Research Methods in Business Studies*, it is useful to treat research as a process with distinct stages, as different stages entail different tasks. The main reason for considering it so is this can help researchers to run these tasks systematically and to understand what exactly need to be done at each particular stage. (Ghauri & Grønhaug 2010, 29)

Figure 15 below illustrates a prototypical research process. The whole research starts with the research topic, which is the theme or phenomenon to be studied. Then by moving from the general research topic to a research problem, a more specific question is addressed. (Ghauri & Grønhaug 2010, 29-30) The relationship between research topic and the research problem is shown in Figure 16.

The research problem must be captured by a set of interrelated concepts. The way the problem is represented influences how the problem is framed and understood.

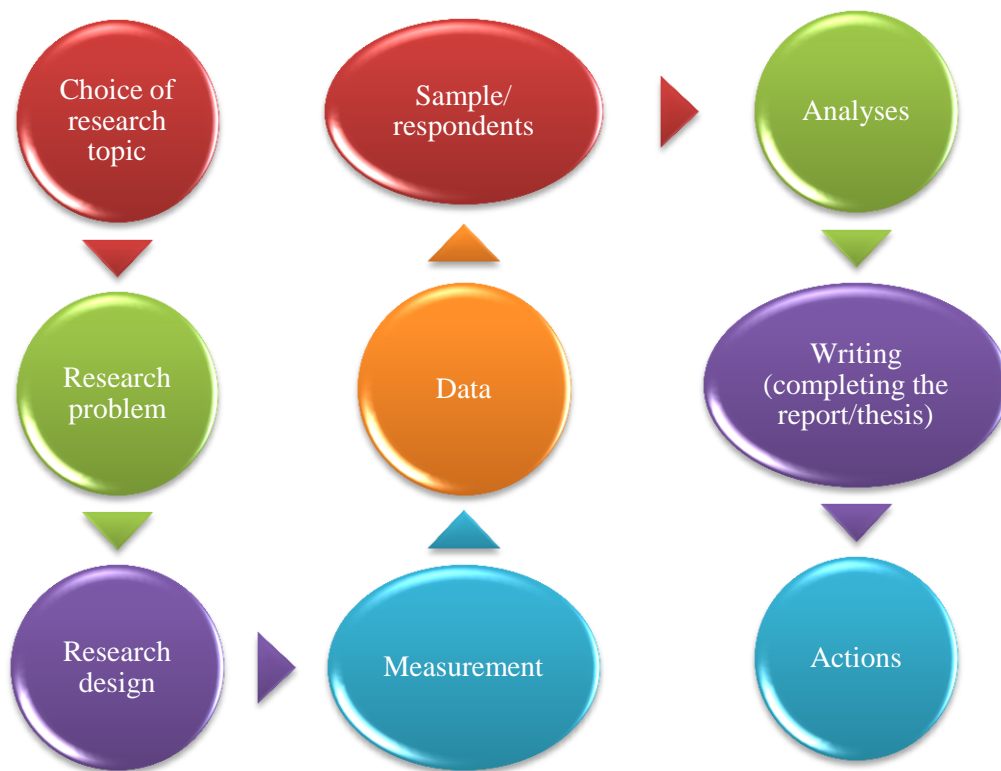


Figure 15. The research process (Ghauri & Grønhaug 2010, 30).

To be more specific how the research problem is captured influences the following concepts: Choice of research design; Measurements; Data collection; Sample; Data analysis; Recommendations (Ghauri & Grønhaug 2010, 31)

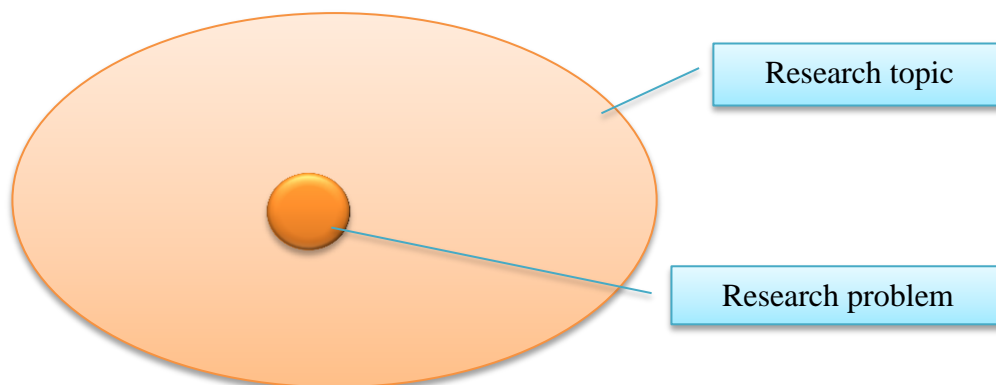


Figure 16. From research topic to research problem (Ghauri & Grønhaug 2010, 31).

Among those six concepts, research design relates to the choice of strategy to collect the data need to answer the stated research problem. After the choice of overall strategy to solve the research problem empirically, the choice of research design leads to a series of activities. A variety of data sources carries information. Empirical measurements relate to theoretical constructs or concepts. It is very important to answer these questions before successful research results can be achieved: why the data is chosen, from whom the data is chosen and also in which way it was collected. These choices are based on the types of problems, information needed and data possibilities. Moreover, empirical measurements relate to theoretical constructs or concepts. Data collected must be handled, analyzed and interpreted to indicate meaningful information that can influence subsequent actions. Almost all the research efforts are reported in written form. In addition, the results of research often influence actions in business. (Ghauri & Grønhaug 2010, 30-32)

3.3 Qualitative versus Quantitative Methods

Which methods or techniques are more suitable or “scientific”? This topic has been discussed a lot over the last decades. The answer is obviously that it depends on what the research problem and its purpose are. (Jankowicz 1991, 104) “Research methods refer to systematic, focused and orderly collection of data for the purpose of obtaining information from them, to solve/answer a particular research problem or question.” (Ghauri & Grønhaug 2010, 104)

Research method means collecting data through historical review and analysis, surveys, field experiments and case studies while research techniques means a step-by-step procedure that researchers in order to gather data and analyze them to find the answers to research questions. In business studies, particularly, people prefer to use techniques such as structured, semi-structured or unstructured interviews, surveys and observations. (see Ghauri & Grønhaug 2010; Jankowicz 1991)

Qualitative methods concentrate on the perceptions of the people involved and it aims to gain deeper knowledge about the research problem. Quantitative methods

concentrate on what can be measured, including collecting and analyzing objectives data, and it aims to get a wider perspective on the research problem. (Lautamäki, 2011)

Table 1. The difference in emphasis in qualitative versus quantitative methods (Ghauri & Grønhaug 2010, 105).

Qualitative Methods	Quantitative Methods
Emphasis on understanding	Emphasis on testing and verification
Focus on understanding from respondent's/informant's point of view	Focus on facts and/or reasons for social events
Interpretation and rational approach	Logical and critical approach
Observations and measurements in natural settings	Controlled measurement
Subjective 'insider view' and closeness to data	Objective 'outside view' distant from data
Explorative orientation	Hypothetical-deductive; focus on hypothesis testing
Process oriented	Result oriented
Holistic perspective	Particularistic and analytical
Generalization by comparison of properties and contexts of individual organism	Generalization by population membership

Research procedure is the main difference between qualitative and quantitative research. Researchers can do research on behavior, events, organizational

functioning, social environments, and relationships. In some of those researches, data may be quantified, but the analysis itself is qualitative. Qualitative and quantitative methods are not mutually exclusive (see Figure 17). The differences in the emphasis between qualitative and quantitative methods are illustrated in Table 1. (Ghauri & Grønhaug 2010, 104-105)



Figure 17. Quantitative and qualitative methods and techniques (Ghauri & Grønhaug 2010, 107).

As is shown in Figure 18, the methods from left to right become more quantitative and use more quantitative techniques. Historical review, group discussions and case studies are mostly qualitative research methods. (Ghauri & Grønhaug 2010, 107)

In this study, quantitative research will be used. A survey will be organized based on questionnaires which are delivered to customers in China. Microsoft Excel Worksheet will be used as the analytical tool for this study.

3.4 Data Sources

When talking about data sources, there are two main kinds of data sources, secondary and primary data sources.

3.4.1 Secondary Data

Secondary data are information that collected by others for different purposes. They are helpful to find information to solve research problem and useful for the researchers to better understand and explain research problem. In almost all the researches, the authors need to begin with literature review, such as books, journal articles, online data sources, catalogues, etc. These secondary data source provides the information that may have been collected for a different purpose. Moreover, secondary data can help researchers in the following manner:

- ✚ Answering research questions or solving some or all of the research problems;
- ✚ Helping in problem formulation and/or developing more focused research questions;
- ✚ Deciding on the appropriateness of a certain research method or suggesting better research methods for each particular problem;
- ✚ Providing benchmarking measures and other findings that can be compared later on with the results of the study at hand. (Ghuri & Grønhaug 2010, 90-91)

Table 2. The advantages and disadvantages of secondary data (Prescott 2008).

Advantages	Disadvantages
Ease of access	Quality of research
Low cost to acquire	Not specific to researcher's needs
Clarification of research question	Incomplete information
May answer research question	Not timely
May show difficulties in conducting primary research	

Table 2 illustrates the advantages and disadvantages of secondary data. In conclusion, secondary data offers many significant advantages to the researchers. However, the researchers need to identify, reduce, and manage the disadvantages when using secondary data in the research studies. (see Prescott 2008; Ghauri & Grønhaug 2010)

The figure below provides an overview of the different types of sources of secondary data. (see Figure 18)

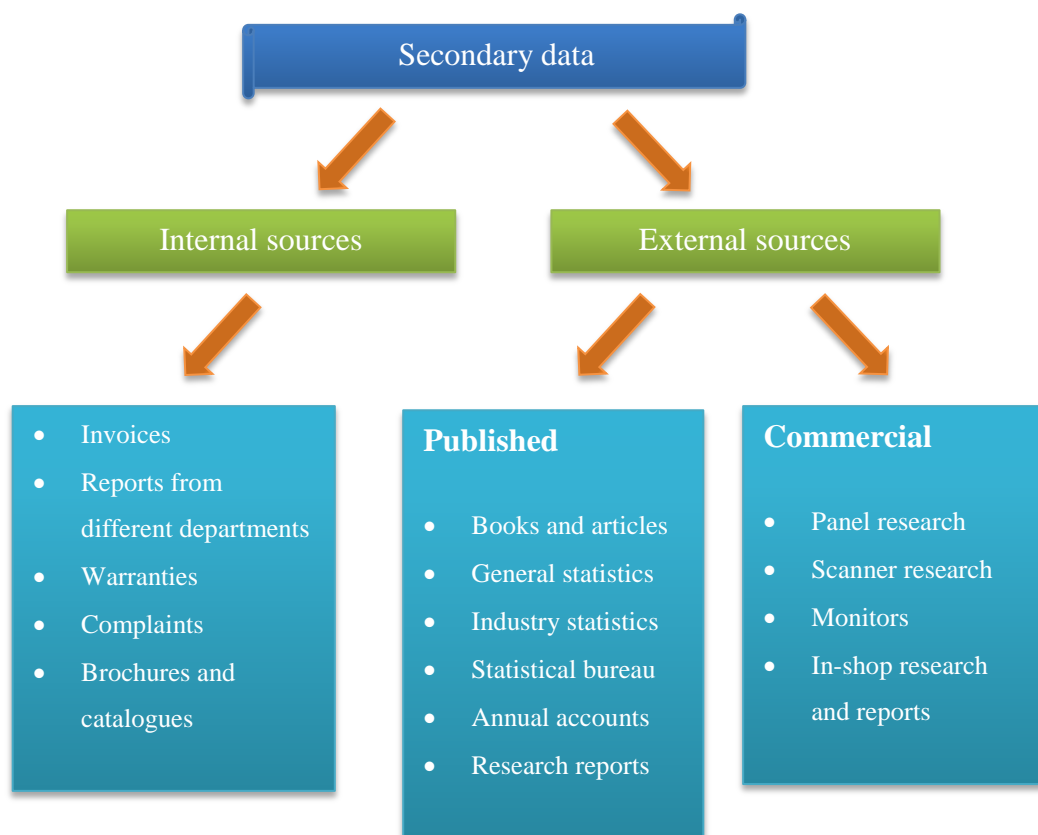


Figure 18. Types of secondary data (Ghauri & Grønhaug 2010, 97).

In business research, a lot of information is available when doing study for companies, such as internal information on customers, suppliers, employees, marketing plans and efforts, and even on competitors while external sources include published books, journal articles, academic and professional organizations. (Ghauri & Grønhaug 2010, 97-98; Blumberg et al. 2011, 239-243)

3.4.2 Primary Data

Primary data are original data collected by researchers for the research problem at hand. When secondary data are not available or enough to support research questions, then primary data will help. Usually, primary data includes observations, experiments, surveys/questionnaires and interviews (see Figure 19). (Ghauri & Grønhaug 2010, 90-99)

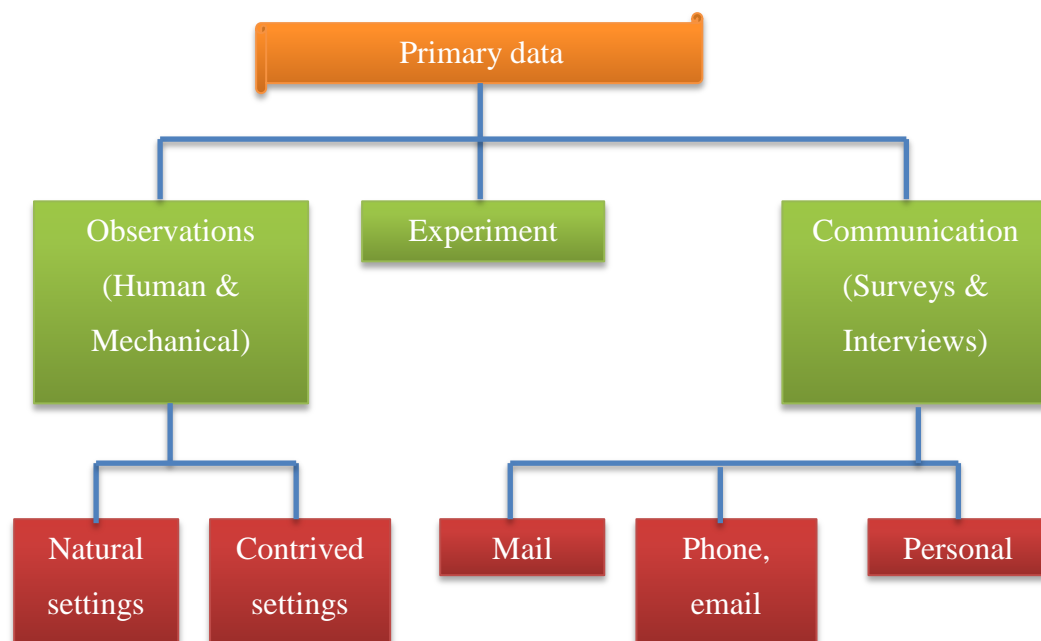


Figure 19. Types of primary data (Ghauri & Grønhaug 2010, 99).

As is shown in the table above (see Table 3), there are also both advantages and disadvantages of primary data. The main advantage of primary data is that they concentrate more on the research questions and research objectives. (Ghauri & Grønhaug 2010, 99-100)

Moreover, if researchers do not ask the people involved questions directly, they are impossible to get people's opinions. The main disadvantages of primary data are: 1) it takes a long time to collect data; 2) it is not easy to get the target group, especially when the research questions are sensitive; 3) the researchers need to carefully choose the proper tools, procedures and methods for analysis. (Ghauri & Grønhaug 2010, 99-100)

Table 3. Advantages and disadvantages of primary data collection (Ghauri & Grønhaug 2010, 99).

	Communication	Observation
Scope	+	-
Cost	+	-
Objectivity	-	+
Precision/accuracy	-	+
Speed	+	-

In this study, both secondary and primary data are used. The secondary data are derived from published books, articles, and websites and the primary data are derived from survey (questionnaire).

3.5 Reliability and Validity

Measurement experts believe that every measurement method should possess certain qualities. And the most common technical concepts in measurements are reliability and validity. Reliability is defined as the extent to which a questionnaire, test, observation or any measurement procedure produces the same results on repeated trials. That is to say, it is the stability or consistency of scores over time. Validity is defined as the extent to which the instrument measures what it purports to measure. That is to say, it refers to the degree that a study accurately reflects or evaluates the specific research questions that the researcher is attempting to measure. (Miller 2002, 1-3; Howell, Miller, Park, Sattler, Schack, Sperry, Widhalm & Palmquist 2005)

In general, validity is related to the degree to which a finding is accurate or truthful and reliability concerns the consistency of responses to a question. (Lautamäki, 2011)

Normally, people think reliability and validity are separate concepts. But William and Donnelly (2006) stated according to their study, these two concepts are related to each other. The relationship within these two concepts is shown below (see Figure 20). The center of the target is exactly the concept the researcher is trying to measure. (Trochim & Donnelly, 2006)

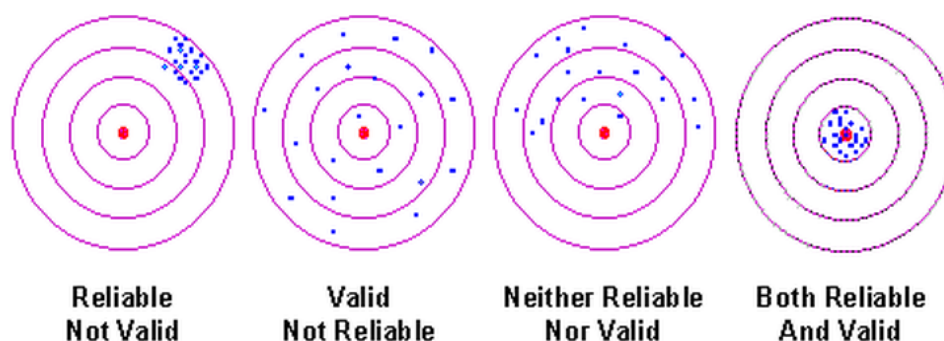


Figure 20. The relationship between reliability and validity (Trochim & Donnelly, 2006).

In this study, the reliability of the research is approved by the match of the theoretical study and the empirical findings. The concepts discussed in the theoretical part are examined in the empirical research and the empirical findings are compared to be consistent.

To ensure the validity of this thesis, firstly, the theoretical framework of the study was drawn from previous studies and researches; secondly, multiple measurements were used to measure the nine domains of differentiation; thirdly, the results were summarized by analyzing the 100 valid answers for empirical research questionnaires. These all steps can guarantee the validity of this study.

4 EMPIRICAL FINDINGS

In this chapter, the responses to the quantitative survey will be presented and analyzed.

A structured questionnaire (see APPENDIX 2) made with Diaochapai.com online survey software was sent to target respondents with a direct link. The direct link <http://www.diaochapai.com/survey605040> was available during the period from 08:00 am on 8 May 2012 to 09:36 pm 12 May 2012 (Beijing time). By the end of this period, there were 232 independent IP addresses checking the questionnaire in total, of which 155 respondents completed the questionnaire. Moreover, 100 respondents had been to IKEA store, and their responses will be used for the later analysis about IKEA China's differentiation while the other 55 questionnaires will contribute to getting the basic information about the respondents (see Figure 21).

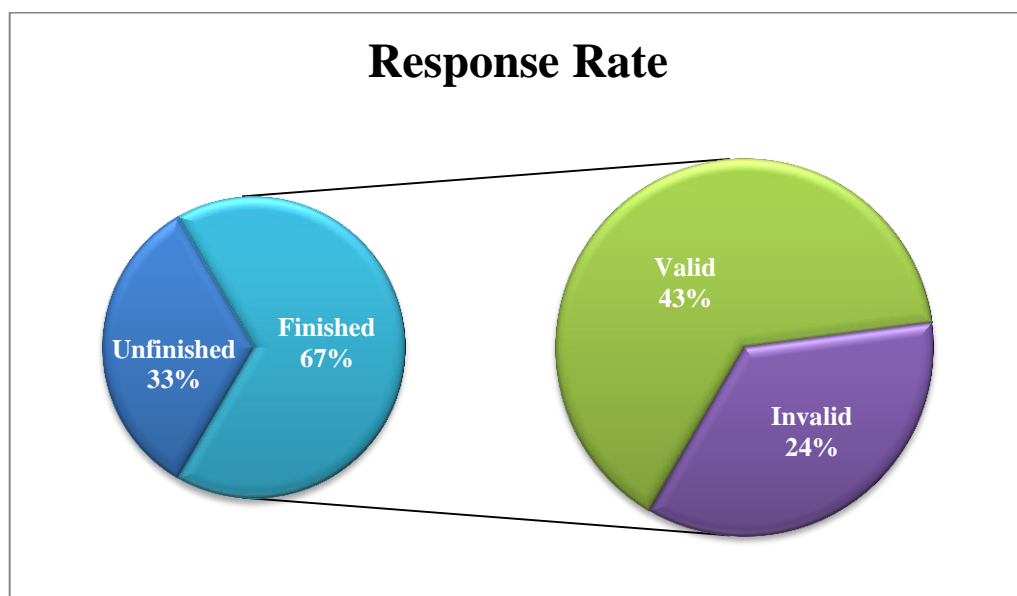


Figure 21. Response rate.

The questionnaire begins with some questions about the basic information about the respondents, including gender, age, monthly income, and the preference of furniture brand in the Chinese market. This is followed by a question about whether the respondent has been to an IKEA store. If the answer is yes, then the questionnaire will automatically jump to section A questions. There are nine more

detailed questions concerning IKEA China's differentiation. If the answer is no, then the questionnaire will turn to section B question. The questionnaire will end up with a question asking about the reason why the respondent has not been to IKEA China yet. (see APPENDIX 1)

4.1 Basic Information of Respondents

Of all the 155 respondents, the share of male respondents is 61% (94 in number), while the share of female respondents is 39% (61 in number). Of all the 100 valid answers (see Figure 22), males and females are both about 50 percentage, however with the share of males (with 53% in percentage and 53 in number) a little higher than the share of females (with 47% in percentage and 47 in number). This contributes to the reliability of the research due to covering an approximately equal number of both genders among all the 100 valid answers.

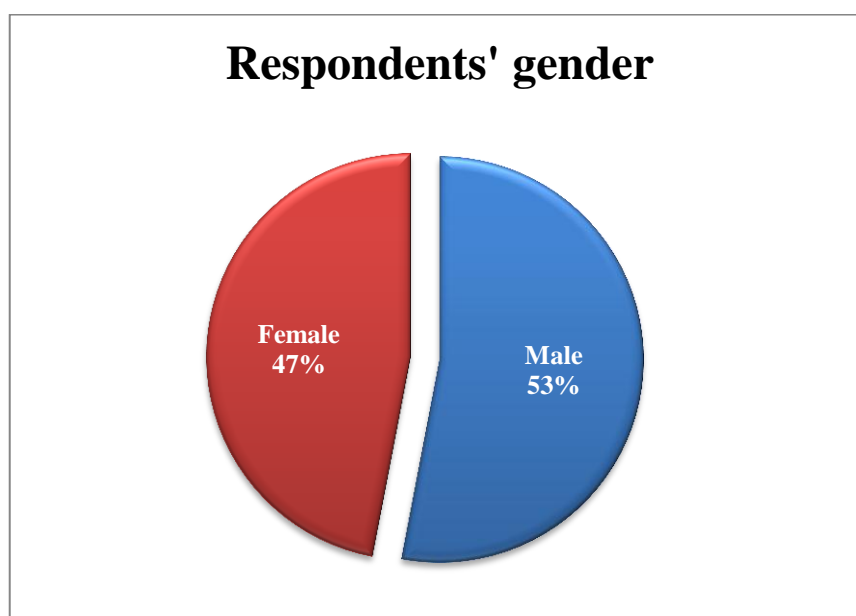


Figure 22. The gender of the respondents.

IKEA China's target customer group is aged from 20 to 45 years old (Liu 2003, 4). Of all the 100 valid answers, there were no respondents younger than 18 years old. 23% of the respondents are aged from 18 to 25 years old, 46% of the respondents are aged from 26 to 35 years and the rest, 31% of the respondents are older than 35 years old (see Figure 23).

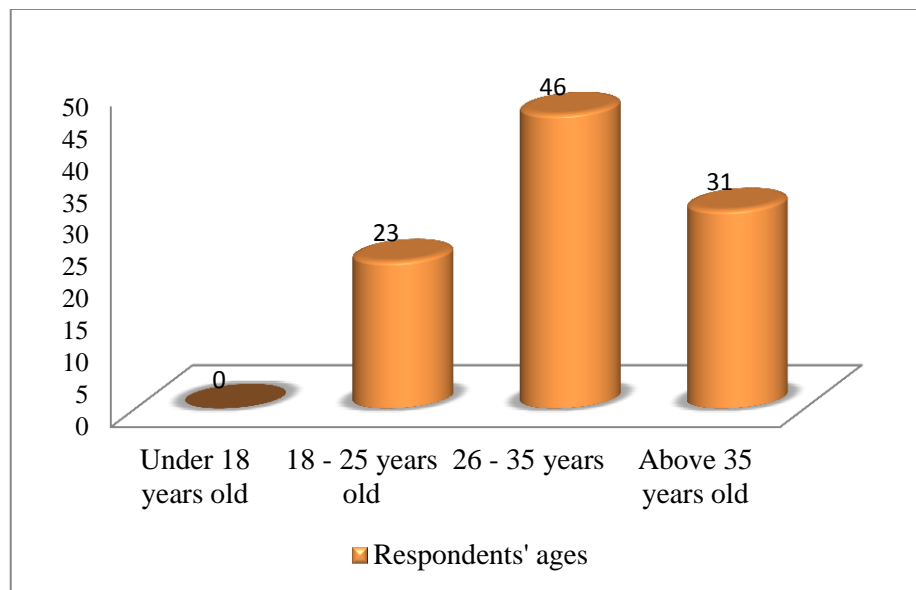


Figure 23. Respondents' ages.

In order to see the general income level, the 155 finished responses about monthly income are presented. The monthly income level was divided into four categories. 26% of the respondents (41 persons) had a monthly income less than 1500 RMB; 46% of the respondents (62 persons) had a monthly income between 1501 and 3000 RMB; 22% of the respondents (36 persons) had a monthly income between 3001 and 5000 RMB; and 6% of the respondents (16 persons) had a monthly income more than 5000 RMB. (see Figure 24)

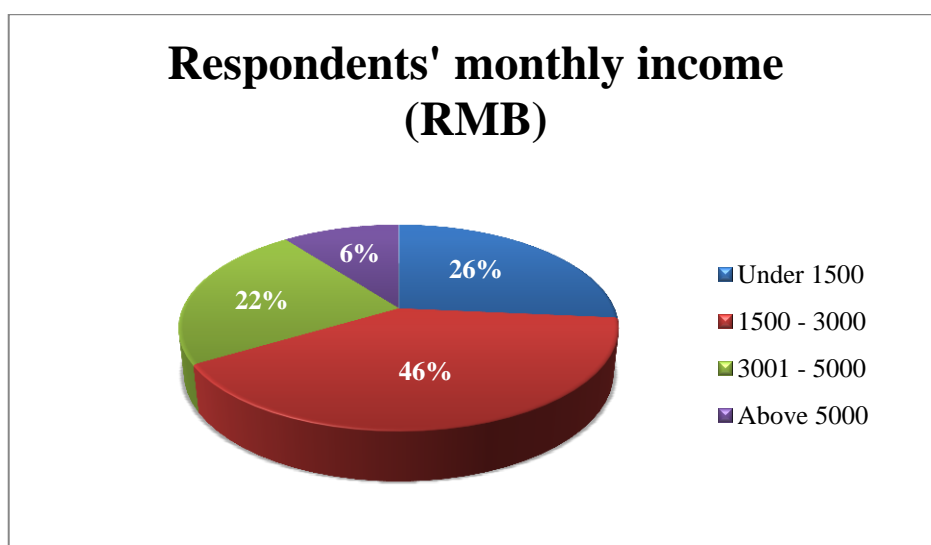


Figure 24. Respondents' monthly income (RMB).

In order to study how IKEA China differentiates itself from the other local furniture companies in the Chinese market, a question about the brand preferences was presented. The respondents have compared the listed brands to pick their preferred brand. According to the data collected, approximately 23% of the 155 respondents choose QuanYou, while approximately 13% choose QuMei, approximately 34% choose IKEA China, approximately 4% choose HuaRi, approximately 21% choose Royal and approximately 11% choose they prefer other brands which were not listed. It seems that IKEA China now is a leader in the Chinese furniture market and it is successfully outstanding in the marketplace. (see Figure 25)

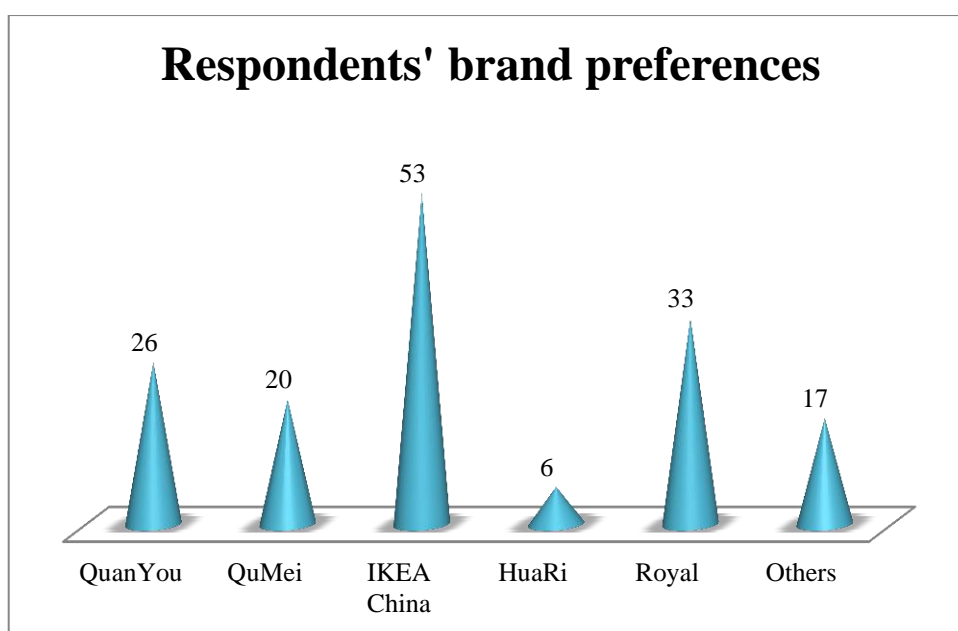


Figure 25. Respondents' brand preferences.

Of all the 155 respondents, there are 55 respondents who have not been to IKEA yet. The reason why they have not been to IKEA yet is because of three main reasons: not available in his or her city, there is no easy transportation to get to the IKEA stores or the respondents have not considered buying furniture yet. Firstly, IKEA China presently has stores in just 10 cities in China where are located in Beijing, Chengdu, Dalian, Guangzhou, Nanjing, Shanghai, Shenzhen, Shenyang, Tianjin, and Wuxi, which means IKEA stores are not easily available for the people in other cities, except through online ordering. Moreover, the cost for

ordering products is much more expensive than going to the stores, so people may not want to order online or via phone calls. Secondly, IKEA usually locates their stores somewhat outside the city center in order to have more room to show the products and lower the cost for the building, which means it is troublesome for the local people to get to their stores, especially during the weekends. Thirdly, due to some reasons, some of the respondents have not considered buying furniture, for example, being too young to think of buying furniture. To find out more specific explanations, this question is cross-tabulated with the age of the respondents. Figure 26 provides some information on this issue:

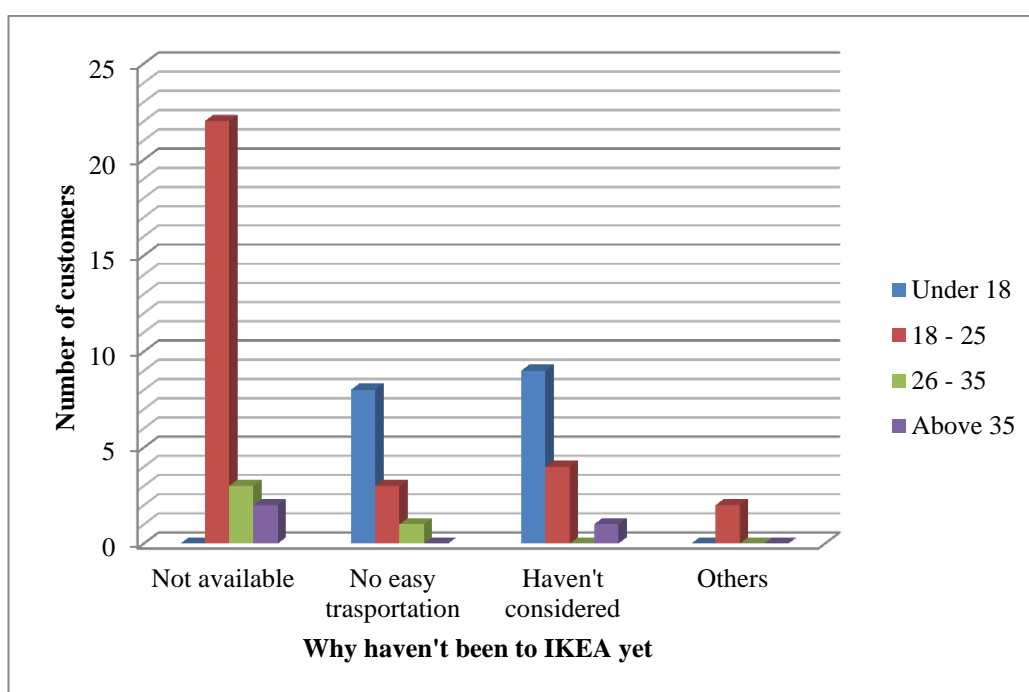


Figure 26. The reasons why people have not been to IKEA according to age.

It is respondents aged under 18 who have not been to IKEA mainly because it not easy to get to the stores and they have not considered buying furniture yet. For the respondents aged above 18, the main reason is there is no IKEA store available in his or her city.

4.2 Features Contributing to IKEA's Differentiation Strategy

In order to examine the nine domains of differentiation discussed in previous chapters, some specific questions were presented and discussed in this sub-chapter based on the 100 valid responses.

4.2.1 Shopping Frequency According to Gender

As commonly known, people need to buy furniture mostly when they move into a new home or want to update the old styled furniture. The collected data shows that among the 155 answers, about 56% of male respondents have been to IKEA stores while for female respondents the percentage is about 77%. We could presume that there are more female customers than male customers in IKEA stores. Moreover, among those 56% of male respondents, some of them may just be accompanying their wives, girlfriends or other female friends. Therefore, it will now be analyzed whether there is a link between shopping frequencies of IKEA's customers and gender. From Figure 27, it can easily be found out that more than half of the male customers go to IKEA store once a half year while most of the female customers prefer to go to IKEA store once a season.

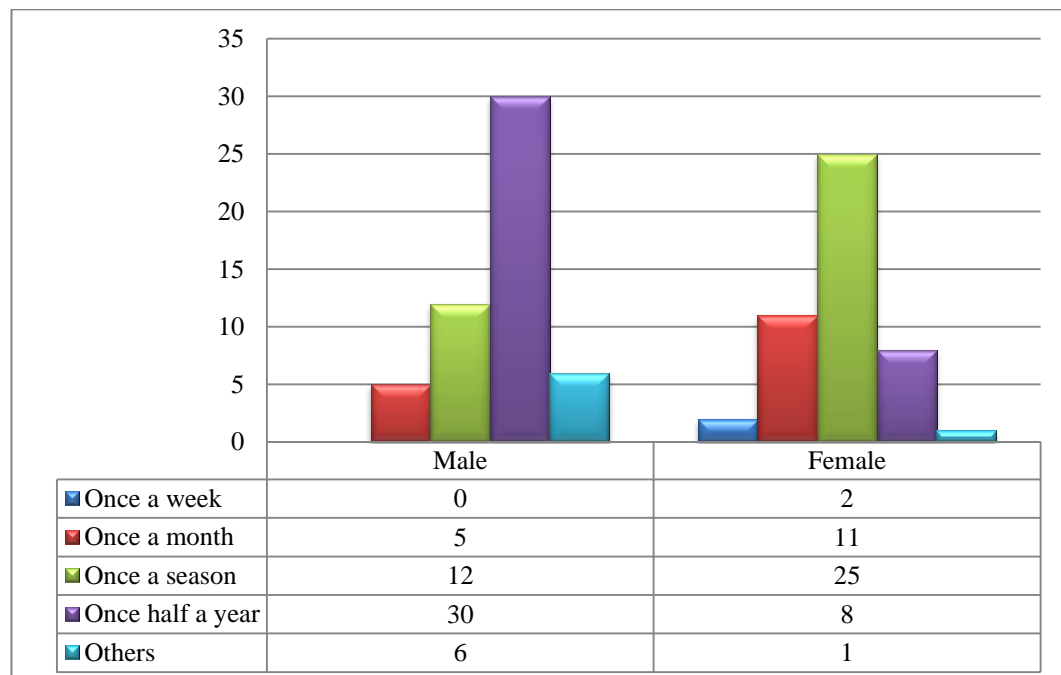


Figure 27. Shopping frequencies of IKEA's customers according to gender.

Also, it is shown that all the customers who go to IKEA store once a week are females. It can be concluded that not only are there more female customers than male customers in IKEA stores, but also female customers go to IKEA store more often than male customers.

4.2.2 Market Segmentation

As mentioned in previous chapters, IKEA puts every effort into providing well-designed products at low prices.

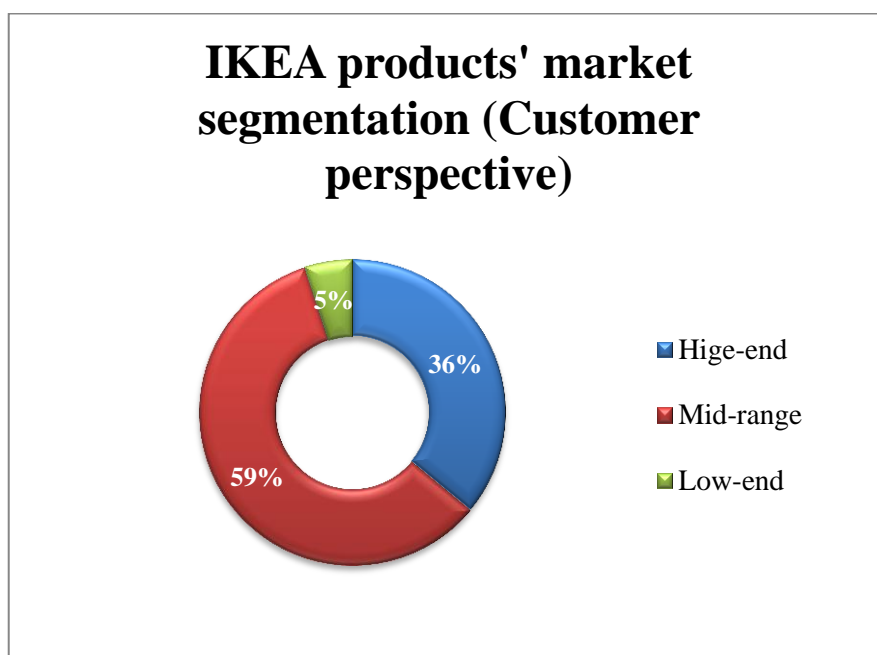


Figure 28. IKEA products' market segmentation (Customer perspective).

Figure 28 displays that the majority of the customers, approximately 59%, perceive IKEA China's products as mid-range, which suits the business idea of IKEA China. 36% of the customers perceive IKEA's products as high-end. This can be partly caused by the first impression IKEA gave to the customers when it entered the Chinese market in 1998. Besides this, the different levels of monthly income of the customers can also lead to this result.

4.2.3 Customer Service and After-sales Service

The next question focuses on hearing customers' opinion on IKEA's customer service and after-sales service. Five options were given: very good, good, normal, poor, very poor.

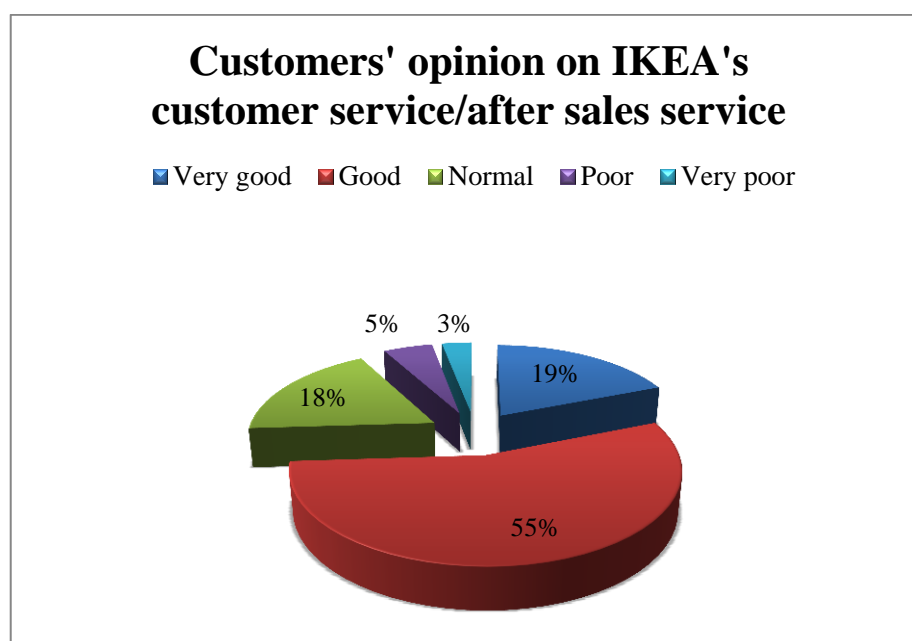


Figure 29. Customers' opinions on IKEA's customer service/after-sales service.

Figure 29 shows that 55% of the respondents considered IKEA's customer service and after-sales service as good, 19% of them said it is very good, 18% considered it as normal, 5% as poor and 3% as very poor.

4.2.4 Breadth of Offerings

Big changes have taken place on the Chinese market when IKEA came up with the "One-stop shopping" model, which helps to turn the shopping store into a place to go during the weekends with the whole family. That is to say, customers can at the same time relax and enjoy the time in IKEA stores and buy something for their families.

Figure 30 illustrates the customers' opinions on how strongly they agree IKEA China has a wide selection items on offer.

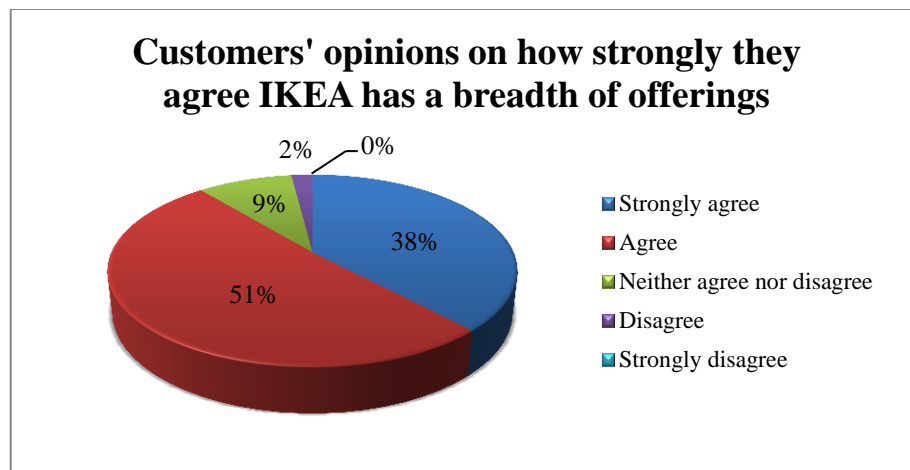


Figure 30. Customers' opinions on IKEA's breadth of offerings.

It can be concluded from the bar chart that about 89% of the customer positively agree that IKEA offers a wide range of products. There are only 2% (2 persons) of customers, who felt unsatisfied with IKEA's offerings.

4.2.5 Low Prices

People having different income levels have different purchasing power. Figure 31 displays the customers' opinions on the pricing of IKEA products according to their monthly income.

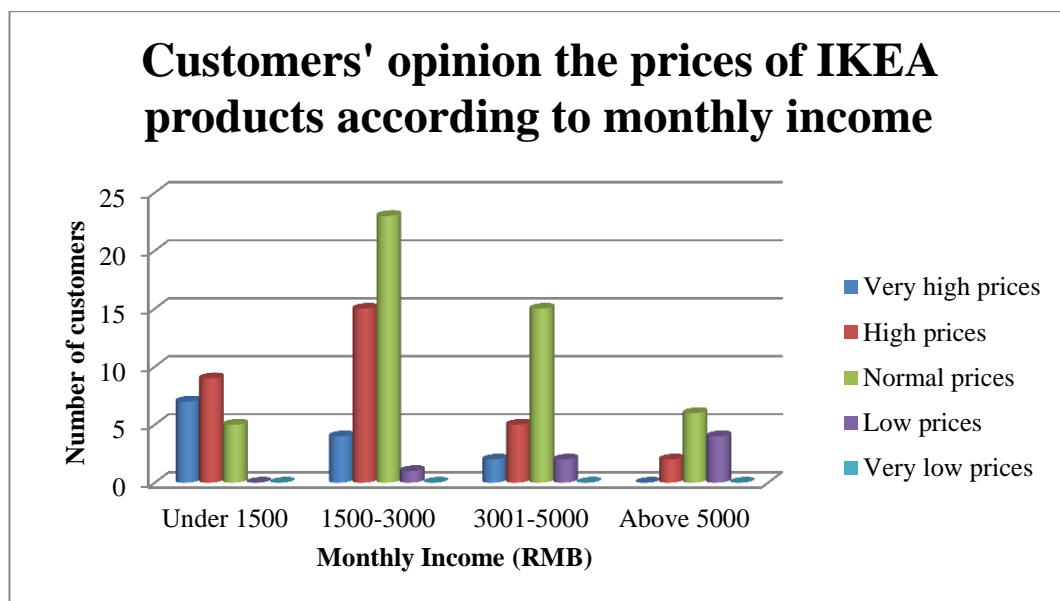


Figure 31. Customers' opinions on prices of IKEA products.

There are four groups of monthly income, and within any of all these four groups, no one thinks the prices are very low. For the first group with a monthly income of less than 1500 RMB, 33% of them think the prices are very high, 43% of them consider prices as high, and the rest, 24%, consider the prices as normal/reasonable. For the second income level with a monthly income ranging from 1500 to 3000 RMB, 9% consider prices very high while 35% consider them as high, 53% think the prices are normal, and 2% think the prices are low. For the third income level, whose monthly income ranges from 3001 to 5000 RMB, almost 63% regard prices as normal, 8% regard prices as very high, 21% regard them as high and about 8% regard them as low prices. For the last income level, whose monthly income is more than 5000 RMB, no one thinks the price are very high, 17% consider prices as high, 50% see them as normal and 33% treat the prices as low.

4.2.6 Size and Market Dominance

Although IKEA is not the first furniture company entering the Chinese market, it still has some market dominance in different aspects, owing to its strong research and develop department.

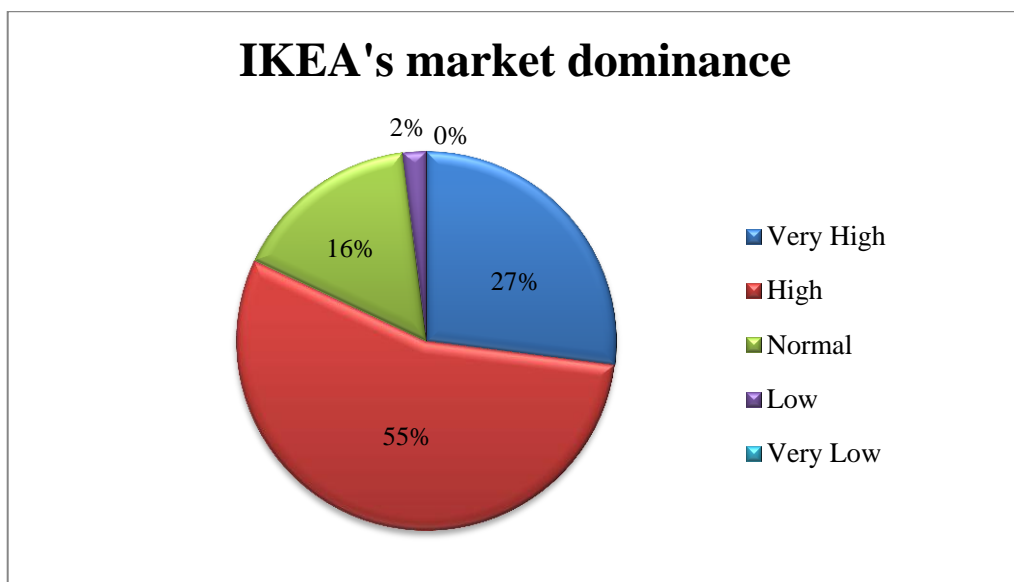


Figure 32. Customers' opinions on IKEA's market dominance.

As shown in Figure 32, more than half of the customers agree that IKEA has quite a high market dominance while 27% see it as very high, 16% evaluate it as normal and the rest, 2%, agree with low market dominance. No one agrees that IKEA has very low market dominance.

4.2.7 Interior and Exterior Environment and Shopping Atmosphere

Next a question was concerns customers' opinions on IKEA's interior and exterior environment and the shopping atmosphere. Five options are given: very comfortable, comfortable, average, uncomfortable, very uncomfortable.

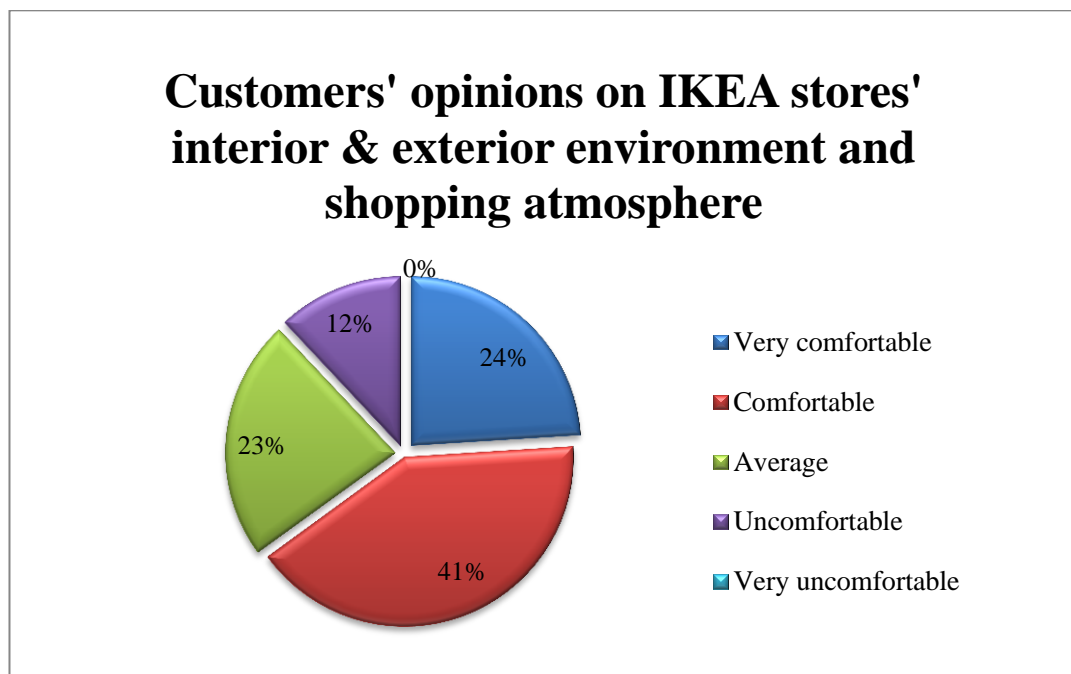


Figure 33. Customers' opinions on IKEA stores' shopping experience.

Figure 33 depicts that about 24% of customers feel that the interior and exterior environment as well as the shopping atmosphere in IKEA stores as very comfortable, while 41% feel comfortable when shopping in IKEA, 23% feel average, 12% feel uncomfortable and none feel very uncomfortable in IKEA stores.

4.2.8 Other Features Contributing to IKEA's Differentiation Strategy

In order to see how IKEA distinguishes itself from the other companies in the Chinese furniture market, the following three aspects, namely product uniqueness, distribution and brand, were combined (see Table 4). The respondents are asked to evaluate how these features contribute to IKEA's differentiation. Five options are given for each feature: strongly agree, agree, neither agree nor disagree, disagree, strongly disagree.

Table 4. Customers' opinions on other features contributing to IKEA's differentiation strategy.

	Strongly agree	Agree	Neither agree nor disagree	Disagree	Strongly disagree
Product quality	43%	37%	15%	4%	1%
Functional features of products	32%	48%	18%	2%	0
Product design	55%	36%	9%	0	0
Practicality of products	35%	49%	12%	2%	2%
Innovative features of products	48%	39%	12%	1%	0
Products are offered as sets	36%	52%	11%	1%	0
Store locations	4%	15%	37%	27%	17%
The way of ordering products	11%	28%	39%	13%	9%
Handling and shipping of products	21%	45%	28%	5%	1%
The way products are displayed in stores	21%	41%	18%	12%	8%
Brand is known and recognized	28%	21%	38%	12%	1%
Brand affects the buying decision	15%	27%	37%	15%	6%
Brand uniqueness	56%	33%	9%	2%	0

Among the 13 features shown in Table 4, most of the customers strongly agree that product quality, product design, innovative features of products and brand uniqueness positively contribute to IKEA's differentiation strategy. Most of customers agree that functional features of products, practicality of products, products offered as sets, handing and shipping of products and the way products are displayed in stores positively contribute to the differentiation of IKEA China from other competitors. Most of customers neither agree or disagree that store locations, the way of ordering, brand's effect in the buying decision and known and recognized brand would positively help IKEA differentiate itself from the other rivals in the marketplace.

4.3 The Most Effective Way to Differentiate IKEA China from Its Competitors

Here the focus of study is on the nine domains of differentiation presented in Chapter 2 from the customers' perspectives: which of these domains make customers like IKEA best. The respondents could choose one or more of those domains.

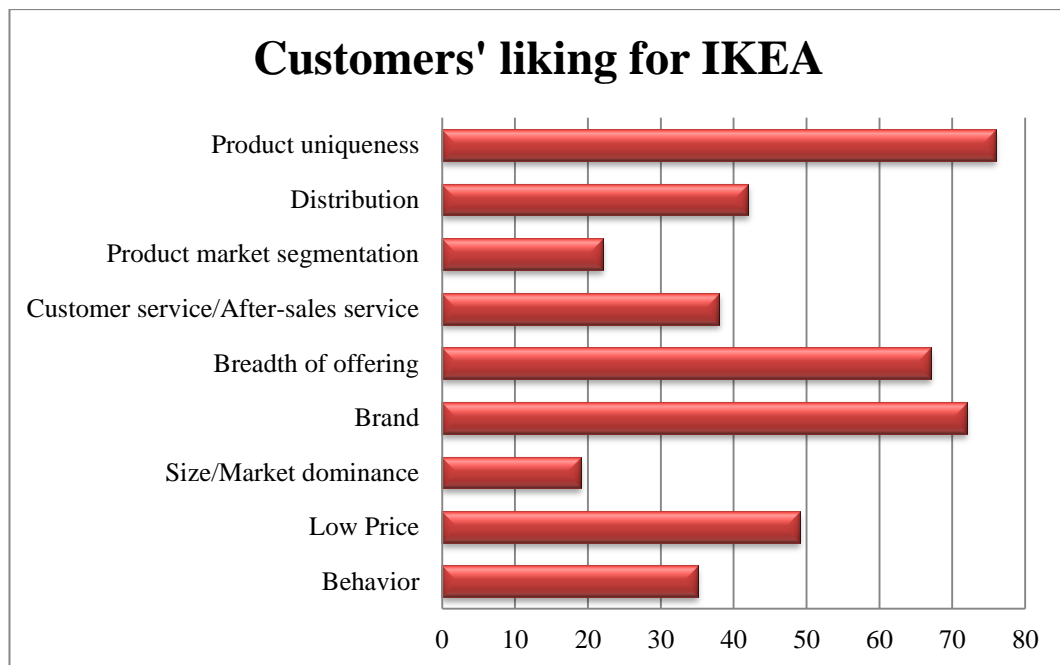


Figure 34. Customers' liking for IKEA.

As is demonstrated in Figure 34, respondents' liking for IKEA was in the following areas: 1) Product uniqueness (76%); 2) Brand (72%); 3) Breadth of offerings (67%); 4) Low price (49%); 5) Distribution of products (42%); 6) Customer service/After-sales service (38%); 7) Behavior (35%); 8) Product marketing segmentation (22%); 9) Size/Market dominance (19%).

5 SUMMARY AND CONCLUSIONS

At the end of this thesis, the summary and conclusions are drawn based on the former chapters, including theoretical framework and empirical findings. By the end of this chapter, managerial implications and suggestions for future research are presented.

5.1 Summary

The aim of this thesis was to empirically investigate the differentiation strategy in the Chinese furniture industry. To reach the main goal, the following three sub-objectives were set: 1) to theoretically describe what differentiation is as well as how and why it functions; 2) to empirically analyze the local customers' perceptions on IKEA's differentiation in the Chinese furniture market; 3) to summarize the possibilities of differentiation in the furniture industry in China. Here each chapter is summarized according to its role in contributing to the research problems.

Chapter 2 focused on the first sub-objectives of this thesis. To answer the sub-objectives, the overview of differentiation and the nine domains of differentiation were discussed. In addition, the analysis of the case company IKEA China was presented.

Chapter 3 presented the definition and process of research as well as the reasons for choosing quantitative research as the method for the empirical study. By the end of the chapter, the reliability and validity of this research was illustrated.

Chapter 4 focused on the third sub-objective of the study and examined which behaviors differentiate IKEA China from other local furniture companies in customers' perspectives. The collected data was used to analyze how the theoretical analysis supported the empirical results.

5.2 Conclusions

The results from this study provide substantial support for the theoretical framework presented in Figure 10. Most of the theoretical framework was supported by the empirical findings, but still some were not found to be significantly positively contributing to the case company's differentiation strategy.



Figure 35. Empirical framework of this thesis.

Based on the answers of 100 valid questionnaires, it is obvious that female customers treat IKEA China as their first choice when they want to buy some furniture or decorations for their families. When people talk about IKEA China, the first ideas appearing in the customers' mind may be IKEA's comfortable and unique interior and exterior environment and the shopping atmosphere as well as all the information linked with IKEA brand, such as well-designed products and good quality. IKEA's wide ranges of offered items as well as the functional and innovative features of the products also help to attract both male and female customers. Besides those features, the low price strategy also makes IKEA China outstanding in the Chinese furniture market. Moreover, the outbound distribution of IKEA which means the way/style products were displayed in stores, the handing and shipping of products and the way of ordering products are also positively related to IKEA's differentiation. However, it seems that the respondents were not satisfied with IKEA China's customer service and after-sales service, maybe due to the cultural differences, or they are used to the traditional customer service rather than the "DIY (Do It Yourself)" mode. And also the behavior, the market segmentation and the market dominance seem not so closely linked with the case company's differentiation in customers' perspective. (see Figure 35)

All in all, most of the domains discussed in former chapters were supported by this thesis.

5.3 Managerial Implications

Based on both the theoretical study about differentiation and the data collected for empirical study of this thesis, the empirical framework for this thesis is presented in Figure 35. From this framework, the order and the figures can be used as a reference for IKEA's research and development department to improve their work, keep maintaining their advantages and try to deal with the encountered problems. What is more, for some other new furniture companies, this research could give some general ideas about how to differentiate themselves by choosing the suitable domains of differentiation. From what has been discussed above, we may

reasonably arrive at the conclusion that it is quite important for furniture companies to know which domain of differentiation is preferred by customers.

5.4 Suggestions for Further Research

In the end, some more suggestions and thoughts are listed here for further research in similar areas.

Differentiation is actually quite a wide topic which contains more than those nine domains discussed in this thesis. It would be better if later research or study could generally cover some other domains and analyze them and then get same conclusions.

Due to the tight schedule, the questionnaire was mostly delivered directly to customers who live in cities where an IKEA store is available. Most of the respondents have been to IKEA stores. In further research, the researcher could organize a larger research, that is to say the researcher can study both the ones who have been to an IKEA store and also the ones who have not been to an IKEA store yet, and compare and analyze the data collected from the two groups. This might be something beneficial to study.

Customers' opinions or preferences may vary in different cities since customers come from different backgrounds. Concerning this, in further research, the researcher could organize the empirical research in one specific city to get more accurate results of that city.

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APPENDIX 1: Structured questionnaire form for Chinese Customers (English version)

Dear respondents,

Here is a questionnaire about “The differentiation strategy in Chinese furniture industry”, aiming to find out the customers’ perspectives on the differentiation strategy in Chinese furniture industry, case company is IKEA China. I really appreciate it if you could take about 5 minutes to answer the following questions. All the information is privileged and for research use only.

Questionnaire:

Your gender:

- A. Male
- B. Female

Your age:

- A. Under 18
- B. 18-25
- C. 26-35
- D. Above 35

Your monthly income (Chinese Yuan):

- A. Under 1500
- B. 1500-3000
- C. 3001-5000
- D. Above 5000

Which brand do you prefer if you are going to purchase furniture:

- A. Quan You
- B. Qu Mei
- C. IKEA
- D. Hua Ri
- E. Royal
- F. Other _____

Have you been to IKEA store:

- A. Yes (Section A)
- B. No (Section B)

Section A:

How often do you go to IKEA store?

- A. Once a week
- B. Once a month
- C. Once a season
- D. Once half a year
- E. Other _____

How do you feel about the marketing position of products towards IKEA?

- A. High-end
- B. Mid-range
- C. Low-end

How do you feel about the customer service or after-sales service of IKEA?

- A. Very good
- B. Good
- C. Normal
- D. Poor
- E. Very poor

Do you think that IKEA offers a wide range of products?

- A. Strongly agree
- B. Agree
- C. Neither agree nor disagree
- D. Disagree
- E. Strongly disagree

How do you feel about the price of products at IKEA?

- A. Very high prices
- B. High prices

- C. Normal prices
- D. Low prices
- E. Very low prices

Do you think that IKEA owns high market dominance?

- A. Strongly agree
- B. Agree
- C. Neither agree nor disagree
- D. Disagree
- E. Strongly disagree

How do you agree the following factors contribute to the differentiation of IKEA China from its Chinese competitors?

	Strongly agree	Agree	Neither agree nor disagree	Disagree	Strongly disagree
Product quality					
Functional features of products					
Product design					
Practicality of products					
Innovative features of products					
Products are offered as sets					
Store location					

The way of ordering products					
Handling and shipping of products					
The way products are displayed in stores					
Brand is known and recognized					
Brand affects the buying decision					
Brand uniqueness					

How do you feel about the interior and exterior environment when you shop in IKEA store?

- A. Very comfortable
- B. Comfortable
- C. Average
- D. Uncomfortable
- E. Very uncomfortable

From which aspect do you like IKEA best?

- A. Product uniqueness
- B. Distribution
- C. Product market segmentation
- D. Customer service/After-sales service
- E. Breadth of offerings
- F. Brand

- G. Size/Market dominance
- H. Low Price
- I. Behavior

Section B

Why you haven't been to IKEA store:

- A. Not available
- B. No easy transportation
- C. Haven't considered
- D. Other _____

Thank you for your cooperation!!

APPENDIX 2: Structured questionnaire form for Chinese Customers (Chinese version)

尊敬的先生/女士：这是一份关于“中国家具产业的差异化战略”的调查问卷，恳请您能协助回答下列问题。如果在做此问卷期间，有疑问可以通过邮件方式 mengdi.he@gmail.com 来联系调查员。问卷说明：随着中国整体经济日新月异的发展，各行业从业人数大大增加，企业数量急剧攀升，技术不断提高，设备快速更新，服务和质量迅速提升。家具行业也迎来了新一轮的高速发展期，企业采取差异化战略使企业产品、服务、企业形象等与竞争对手有明显的区别以获得竞争优势。此问卷旨在调查消费者对中国家具行业（案例公司：宜家中国）的差异化战略的看法。本问卷采用不记名方式填答，所获资料仅供学术研究之用，绝不对外公开，敬请根据自己的实际情况放心填答。感谢您在百忙之中填写问卷，谢谢！

您的性别是：

- A. 男
- B. 女

您的年龄是：

- A. 18 岁以下
- B. 18-25 岁
- C. 26-35 岁
- D. 35 岁以上

您的月收入是：

- A. 1500 元以下
- B. 1500-3000 元
- C. 3001-5000 元
- D. 5000 元以上

如果您要购买家具，下列品牌中您更倾向于：

- A. 全友
- B. 曲美
- C. 宜家 IKEA
- D. 华日
- E. 皇朝
- F. 其他 _____

您是否去过宜家 IKEA 家具店购物：

- A. 是 (请直接回答 A 部分问题)
- B. 否 (请直接回答 B 部分问题)

A 部分：

您多久去一次宜家 IKEA：

- A. 每周一次
- B. 每月一次
- C. 每季一次
- D. 每半年一次
- E. 其他 _____

您觉得宜家 IKEA 的客户服务和售后服务如何：

- A. 非常满意
- B. 满意
- C. 中等
- D. 不满意
- E. 非常不满意

您是否同意宜家 IKEA 所售商品涵盖范围很广：

- A. 非常同意
- B. 同意
- C. 中立
- D. 不同意
- E. 非常不同意

您认为宜家 IKEA 商品的价位如何：

- A. 很高
- B. 高
- C. 中等
- D. 低
- E. 很低

您是否同意宜家 IKEA 有市场优势：

- A. 非常同意
- B. 同意
- C. 中立
- D. 不同意
- E. 非常不同意

下列因素有助于宜家 IKEA 区别于其他家具厂商，您同意吗？

	非常同意	同意	中立	不同意	非常不同意
产品质量					
产品功能					

产品设计					
产品实用性					
产品创新					
产品系列化					
店铺选址					
订购方式					
装卸及物流运输					
产品陈列方式（店内）					
品牌认知度和识别度					
品牌影响力					
品牌独特性					

您认为宜家 IKEA 店内和周边设施及环境如何：

- A. 很好
- B. 好
- C. 一般
- D. 差
- E. 很差

您喜欢宜家 IKEA 的哪些方面：（多选）

- A. 产品特点
- B. 产品销售渠道
- C. 产品市场定位
- D. 客户服务以及售后服务
- E. 产品涵盖面
- F. 品牌文化
- G. 市场优势
- H. 价格
- I. 行为

B 部分

您没去过宜家 IKEA 是因为:

- A. 所在地没有宜家 IKEA
- B. 去宜家 IKEA 交通不便
- C. 没考虑过
- D. 其他 _____

非常感谢您的合作!!