Case Study

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**Introduction**

Known as one of the biggest retailers in the world in furniture, IKEA is a multinational group based in Sweden that is best in designing and ready to assemble the furniture. IKEA incorporates more than 900 articles in their stores by providing kitchen appliances and other essential home accessories required for daily use. IKEA managed to acquire the top position in the most important furniture retailed since 2008. The large multinational group was formed in 1943 in Sweden by a carpenter of 17 years of age named Ingvar Kamprad. Due to his extraordinary success with IKEA, he became known and was listed as one of the wealthiest persons in the world in 2015 by Forbes. The net worth was estimated to be exceeding $40 billion. The name of the group IKEA is an acronym that is made by combining the initials of its founders. IKEA gained popularity among customers through its modernized designs for all the types of furniture and appliances. Its interior design products are often related to an eco-friendly simplicity. Apart from this, the multinational corporation is known for providing all its products and services in an eco-friendly environment maintaining simplicity. IKEA makes sure to perform attention to details, reasonable costs, operational details and continuous upgradation in it is products. In the process of horizontal expansion, IKEA has managed to lower the prices during the decade by an average of one to three percent. As IKEA is such a big corporation, undertaking operations in almost 44 countries, the corporate structure of the company is also quite complicated to understand. Currently, IKEA has nearly 424 stores spread in 52 different countries. IKEA sold products worth of US $44.6 Billion in the fiscal year 2018. IKEA sells almost 12,000 different kinds of products online which is closet to an entire range of IKEA in stores. Nearly 2.1 billion customers visit the IKEA websites in a year. The multinational giant is responsible for contributing to 1 percent consumption of world commercial product wood. That makes IKEA one of the largest consumers of wood in the retail sector. Previously INGKA which is a holding company that is related to INGKA Foundation owned the IKEA's stores and factories. INGKA is one of the top 40 wealthiest foundations of the world.

**Background**

The case study is related to the world’s biggest furniture retailer IKEA that is concerned about expanding its business towards the emerging markets, i.e. BRICS. In BRICS, the multinational group has already succeeded in capturing the market like India, Brazil, etc. but is now interested in targeting the Indian market for further operations continuation (McNamara & Descubes, 2016). IKEA faced many issues in the entrance to the Indian economic market as this study reveals. There are many questions asked in the case study which will answer the concerns on what caused a delay of IKEA in the entrance, how IKEA managed to succeed in capturing the Indian market, what strategies they had to change to serve their Indian customers and how the operations went in India. India unlike other countries is very different when it comes to culture, dialect, food, values, preferences, and habits so it makes a west driven firm quite challenging to adjust to the Asian environment. Before moving forward, it is very critical first to perform TOWS analysis on IKEA so that it becomes easy to analyze the threat and other external issues IKEA is exposed to as compared to other Indian furniture retailers in the Indian market.

**TOWS of IKEA**

Below is the TOWS analysis undertaken for IKEA so that the threats, difficulties, and challenges for IKEA can be highlighted according to the Indian market.

*Threats*

There is already a competitive competition that exists in India between the top brands "Raj and Raj," Godrej Interior, Nesta, Style Spa, Durian, etc. before the arrival of IKEA in India. This shows that the chances of IKEA are quite low as compared to other to other furniture retailers in India. There are also some new firms that are opened for customers for furniture dealing. So the threat of entrance in India is very high as the online-commerce with free installation, and the domestic retailers already opt a substantial discount.

*Opportunities*

Looking at the possibilities of the TOWS analysis for the IKEA, it can be seen three different options that might create an interest in IKEA's products from the Indian people. The first opportunity is related to the size of the population that India, and the population is still growing at a rapid speed. The more the people will be, the more demand they will create for the product. Another opportunity is that; Indians consider the presence of furniture in their marriages as a must as they are always busy attending weddings. So, this leaves a constant demand for IKEA furniture as the customers will regulate require present presents. The third reason is more connected to the cultural beliefs etc. as most of the Indians live in a joint family system in which all the families like to have separate furniture for all the occasions. So, here cultural aspects and difference in culture serves as a bright aspect for IKEA.

*Weaknesses*

The weaknesses which IKEA might require to face internally due to the change in socio-cultural dimension is that pricing might become an issue for IKEA. IKEA's prices were already reasonable but as IKEA is trying to move from the developed context to developing context, many matters changes. IKEA will still require to lower their prices so that they could meet the financial requirements of the Indian customers as the majority of the population there is lower middle class. International rates will work in favor of IKEA, and this is why they will have to revise their pricing strategies by applying offers, discounts, etc. Reason for such promotional techniques is that Indian customers are very price conscious and will do bargaining if they do not satisfy (Raju & Singh, 2018). Also, the designing of IKEA's products is very advanced and modern and is difficult to be understood by Indian customers that easily that is why IKEA should opt for simplicity in their articles.

*Strengths*

IKEA offers excellent quality in its wide range of products. They have a world-class manufacturing facility, and the element of brand recognition will surely attract the Indian customers to try their products as they prefer foreign brands over the domestic ones. The best part about IKEA's products is its flexibility to work many designs to win customers' hearts that too at affordable prices.

1. **Analyzing the reasons behind IKEA's late arrival in India**

IKEA is a multinational company operating business activities in more than 44 countries around the world. The target market of IKEA brands is the middle-class community, so India is the best choice for this brand. In India middle-class population is rapidly growing which attracted the company to launch its business and exploit this business opportunity. IKEA tried to enter the Indian market back in the 1980s (McNamara & Descubes, 2016). However, the Indian government didn't approve its proposal. The company applied again in for getting a license, as the rules about FDI changed in 2009. Its permit was approved by the government and started operations in 2013. Here we will discuss the reasons for IKEA's interest in the Indian market (Raju & Singh, 2018).

India is the largest market with a population above one billion people. Most of the multinational companies are attracted because of its growing economy. The country has stable political and economic conditions. IKEA first store in India was opened in 2018 in Hyderabad. The relation of IKEA with India was over 30 years, and the company was sourcing products for its stores worldwide from India. The company was doing business with India behind the scenes. The initial obstacle in the way of IKEA to enter Indian market was the foreign direct investment (FDI) policies of the country (McNamara & Descubes, 2016). While another obstacle was hardly available land in the dense and populated cities of the country. The company had decided to produce its products locally and offer these products at nominal prices. However, this process was not natural, it caused a delay in the entry to the market. IKEA is a furniture business, so it needs vast space for both its production plants and its stores.

Foreign Direct Investment (FDI) is the investment of nondomestic or foreign organizations or investors in a country. According to Press Note 2 in 2009, the FDI policy for relaxed the rules and requirements, so the business in India boosted during the last decade. Initially, the country had banned all the FDIs according to the country's policy, then in 1991, India decided to open its market for foreigner investors. Then gradually opened its market for in different business sectors. India is the second most attractive market after China for investors and businesses around the world. India became the second leading market having the highest number of FDIs. The government of India had set a target to achieve the US $ 30 billion through foreign investments. To meet this target government had relaxed the rules for FDI and revised its policy in 2009. IKEA was interested in Indian market back from the 1980s, because of its growing economy and population. The company's system is cost-oriented and provides a quality product with the lowest prices. For the furniture business, the Indian market is still mostly fragmented. Most of the people get their furniture made by their nearby carpenters. The local carpenters do not have proper distribution channels and departmental stores. The company has both a threat and an opportunity because there is no other multinational brand. The company can achieve a first-mover advantage; however, the challenge is the availability of local furniture at a reasonable price. The company was facing a hurdle in the entry to the Indian market because of the legal obligations (McNamara & Descubes, 2016). The country's economic policy changed, and they took an interest in revenue generated through FDIs. This process was initiated in the 1990s, with time government relaxed its policies for foreign investors. Moreover, after getting the license, the business opening delayed due to unavailability of sufficient space in huge and populated cities. Most of the Indian cities are dense, and there is not adequate space for the products like furniture of such a large and multinational brand (Raju & Singh, 2018).

**2. Market strategy of IKEA for the Indian Market**

The retail outlets business in India has covered 14 percent of its Gross Domestic Products (GDP). However, it contains mostly small shops and stores. After the 1990s so many international firms took an interest in the Indian market. Until 2011 the multi-products retail outlets were banned, while the single product retail stores were permitted. The company got its license in 2013 and initiated its first retail outlet in Hyderabad. The company is famous for its quality products with modern architecture. The company's policy is to produce eco-friendly products. The company adopted a green products strategy in other countries of the world which was highly appreciated around the globe. India has now focused on environmental issues because of its rapidly growing industry. So IKEA can get a competitive advantage, and attract loyal customers for its products. The company has explicitly adopted the policy for the Indian market, to survive and get prosperity in the long run successfully. First, the company has paid attention to the cost control strategy, and the company has to reduce its cost to provide cheap and quality products. The cost control strategy is essential for every business to maximize its price and soar its profit. The cost control strategy is specifically for the factory, to reduce the wastage of materials and save time. Cost control is a broader term that involves many stakeholders to reduce its cost and improve its profitability.

Moreover, the company has the strategy of continuous product development which allows the company to reduce its prices by reducing the production cost. The company has a strong product development department which will research and understand the choice and taste of the local community. The company also has a secure distribution network and efficient supply chain management system. The company can take advantage of its sophisticated policy and sufficient resources to make a better entry in the Indian market. Most of the people of India belong to the middle class and lower class, so the policy of cost control will be effective for this market (Raju & Singh, 2018). The company will be able to provide quality products at a reasonable price.

Additionally, competitors of the company are mostly small businesses owned by local carpenters. They have the lowest overhead costs and no administrative costs so that they can offer furniture at a lower price. So the cost minimization will support the business to survive in the Indian market. The company will launch its products in the Indian market with the strategy to run all the operations with its resources. The company will not go for any merger or acquisition for entry to the Indian market. The company will wholly-owned subsidiary route in entering the market to achieve all its benefits. Wholly-owned business can also help the organization to manage all its activities and avoid any mismanagement properly. The company has a considerable budget and vast experience of foreign direct investment, so it does not need the financial and nonfinancial support for entry to this market. The wholly-owned business benefits organization for some reasons such as to get the experience of business in a new scenario. The organization can get benefits from the expertise of other partner organization to achieve its competitive advantage. There are certain disadvantages associated with wholly-owned business, such as chances of mismanagement and fraud.

Moreover, by merger in a specific project or business the company shares its profit with other investors. The partnership with other firms mostly done to utilize the strength of each other and achieve competitive advantage. Mostly large corporations do these mergers for huge investments, using distribution channels, research, and development, etc. of other organization to get successful in a specific project or market.

1. **Critical elements of IKEA's successful business model**

The essential factors for the success of IKEA are that they developed the products which were easy to assemble and easy to use. Their prices were reasonable, and they have a clear mission of achieving their goals. IKEA is not only focused on lowering the cost of its products but also focusing on the quality and function of the products. They have maintained a standard of their products in the market and increasing their global presence in more countries. It has been observed that IKEA's is currently working in 41 countries.

IKEA has a cost-efficient supply chain strategy which is one of the reasons for its success in the market. Another element for the success of IKEA is that they were known for paying a good salary to their employees and workers. IKEA is increasing their market presence in other countries which is one of the reason they will get more success in the future. IKEA is also focusing on cost leadership strategy which is that they will first find out the cost of the product they are going to develop and they will produce a product to fit in that cost.

IKEA has a wide range of products which one of the reasons for their success and one of the reasons for their competitive advantage. There are about 9500 products which are in IKEA portfolio, and the company continues to increase its collection. They launch almost 2500 new products every year. However, they are not only focusing on developing more products but also expanding their presence in food and catering services. Researchers found that IKEA group has about 340 stores in 28 markets globally which are the most significant achievement for them. They also have 22 pickup and order points in 11 countries and 41 shopping centers in 15 states and almost 38 distribution sites in 18 countries.

The company is planning to expand their business and open stores Serbia & India (Raju & Singh, 2018). IKEA is providing a wide range of home furnishing products at meager prices which is one of the reasons for their success in the market. They are offering high quality with low prices which makes them a strong competitor in the market. The products which IKEA is developing are durable and are designed according to the market needs. In this world of e-business, it has been a massive challenge for a company like IKEA that how they will compete in the market. However, IKEA has developed many showrooms and made it easy for people to buy products from their showrooms in different cities of different countries.

IKEA has heavy competition with companies like Style SPA, Interior, Durian and Home Centre. However, IKEA is still leading from the front because of its quality and low prices. IKEA's products are used in homes, restaurants, offices, etc. Their store's layout is based on customer needs and is just like home. They have created a restaurant in their store, child care, full parking lots and easy read tags with the description and price of the products. This is one of the reasons why they are catching customers, and they are getting success in the market.

IKEA has faced a lot of problems when they enter the country like the United States because they have to change their business model and products according to the local needs of the US. They changed their strategy according to the local needs of people which is one the reason why they are getting success. It is essential for any organization to customize their approach according to the local environment and IKEA is one of the companies who has faced challenges in the market of US and, but they made changes according to the situation which is why they have become so much success in the market.

1. **Bureaucratic and cultural challenges for IKEA in India**

In gaining approval to enter India, IKEA must face the challenges of bureaucratic and cultural issues it might face as they are creating hurdles for the gigantic corporation. IKEA initially started with the idea of DIY furniture that means customers have to assemble the components by themselves which will be provided by the company under easy instructions. IKEA gained a competitive advantage with the initiative of one piece of furniture as well as components assembling. This idea became an instant hit in Sweden and later in the European countries, but not all states are the same in adopting the new trends. Structure and composition of the Indian market are drastically different than the structures of developed European countries due to the change in culture, lifestyle of people and the social arrangement, etc. To enter the Indian market, IKEA needs to modify itself in the designing of all the products, and for that, it also has to lower the prices more. Apart from them, IKEA is also facing hurdles in the bureaucratic side which should be addressed accordingly. India has stringent rules for Foreign Direct Investment when it comes to multinational corporations as the country wants to protect its domestic industries from international competition. Currently, the system of FDI in India requires to look for an Indian partner for collaboration when the single brand retailing is opted for in their economy (Raju & Singh, 2018). Another way to enter is through the mode of the franchise in which international brand will search for a potential and competitive Indian partner to assist and promote its brand. To tackle these issues, the strategies required for IKEA to follow is that it has to first target the physical stores in India and then go for e-commerce websites. The market share must be adequately established to be captured in the next six months, and strategic planning should be performed accordingly to the plan. All kinds of advertisements must be incorporated for the marketing purposes of the IKEA brand.

Moreover, the cultural aspects of the Indian people must be studied and analyzed in detail to look for their preferences and requirements in interior setup. Indian people, preference is not that simple as compared to the choices of other people around the world. They prefer unique designs that should not be repeated and more spacious articles for their prominent families. In short, they want more in fewer prices that give them plenty of different ways to use.

1. **Steps for IKEA to succeed in Indian Furniture Market**

IKEA will face many difficulties once it is entered in India, the main hurdle will the establishment of its stores in proper localities. After choosing the mode of franchisee over the JV to fit in the Indian market, IKEA will opt for low-cost enter an active market control of shares in the Indian market. Major cities will be targeted first for the physical locations of IKEA stores.

The marketing for the stores will be done with the help of outsourcing and the distribution of IKEA products through the franchise to both online as well as physical stores. The targeted group in the population will be the middle class as the ratio of the middle class in India is very large as compared to the other two social levels. The middle class has the purchasing power, and they are often inclined towards changing their interior setup as they experience a rise in their incomes (Raju & Singh, 2018). Marketing will be done on those places where they will be majorly viewed and visible enough for the general public, i.e. traffic signals, shopping malls, commercials, cinemas, etc. Hence, the driving factors that will push the IKEA's position in the market are strategic locations, right population to target, i.e. middle class, advertisements at traffic signals on billboards, in the shopping malls, cinemas and newspapers, and magazines.

**Conclusion**

India’s economic policy changed, and they took an interest in revenue generated through FDIs. Mostly large corporations do these mergers for huge investments, using distribution channels, research, and development, etc. of other organization to get successful in a specific project or market. It is crucial for any organization to customize their approach according to the local environment and IKEA is one of the companies who has faced challenges in the market of US and, but they made changes according to the situation which is why they have become so much success in the market. Furthermore, the cultural aspects of the Indian people must be studied and analyzed in detail to look for their preferences and requirements in interior setup. Hence, the driving factors that will push the IKEA's position in the market are strategic locations, right population to target.

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