

PGDM-RM (2012-14)
FRANCHISING & GLOBAL RETAILING
Subject Code: RM 402
Trimester IV End Term examination, September 2013

Total Marks = 50

Time: 2 hours 30 minutes

Roll No.

Section A

Attempt any three. Word limit: 150 words

M M = 5 * 3 = 15

1. If you as an international retailer has a choice of entering either the Asian region or the African region, which would you prefer and why. Explain in detail.
2. "Round-tripping", in some economies may account for a significant portion of FDI. Explain this statement.
3. Describe how the PESTEL Framework helps in deciding the new markets to enter.
4. How can franchising and licensing both help or hurt an international retailer. Explain with examples.
5. What are the drivers and impediments of retail internationalization? Explain in detail.

Section B

Attempt any two. Word limit: 300 words

M M= 10* 2 =20

1. How has the rise of the internet culture in conjunction with globalization helped in the increase of international e- retailing? Quote examples.
2. The patterns of development based on market proximity (the EPRG Framework) become less important and less evident as retailers have become more international in their objectives and expansion. Give your comments on this statement.
3. According to the GRDI 2013, why are the smaller markets attracting the attention of the international retailers as compared to the earlier propensity for bigger markets?

Section C

Case Study is compulsory and is for 15 marks.

1. IKEA is often given as an example of a global company. What characteristics of a global company have been highlighted in the case? What are the elements of IKEA's strategy which do not reflect a global strategy?
2. What do you think are two of IKEA's most significant ownership advantages?
3. Most retail global companies are multi-brand or smaller scaled specialty stores. IKEA enters the market in a larger store format. Is there something unique about the company's product that allows this format?

COMPANY FOCUS V.2

IKEA

Lori Garijo

To succeed as a global retailer, a company must possess several characteristics that ensure longevity and success. The most important of these characteristics is an understanding of the consumers in the market being entered. Cultural differences, government policies, and economic climates are just a few of the variables that need to be examined in gaining that understanding. Two other characteristics of importance are production location and distribution methods. These factors are especially crucial in determining whether it is feasible for a firm to enter the international market. Conversely, if these factors are not wisely managed, they can also determine how quickly a firm will exit the international market.

IKEA is a company that understands what it takes to become a global retailer. IKEA has more than 50 years of experience as a retailer, with over 30 years as an international retailer. IKEA is looked upon as a model for successful entry into international markets, with good reason. In 1997, IKEA has 136 stores in 17 countries.¹

History

IKEA is a privately owned firm that was founded by Ingvar Kamprad in 1943, in Sweden. The name IKEA is an acronym for the founder's name and the area where he lived. When Kamprad began his business, furniture was not an item that he sold. Vegetable seeds, fish, and magazines were the extent of his merchandising mix.² In 1947, IKEA issued a mail-order catalog, and by 1950 included furniture in its offerings. The opening of IKEA's home furnishing showroom in 1953 was followed by a 13,000 square meter (140,000 square feet) store in 1958. Growth continued, and in 1963, IKEA opened a store in Norway, its first outside of Sweden.³ Although IKEA is still privately owned, the IKEA Group belongs to a Dutch charitable foundation. However, Kamprad continues to oversee many of the company's operations.

Consumers, Environment, and Employees

The IKEA vision is to contribute to a better everyday life for the majority of people. We do this by offering a wide range of home furnishing items of good design, and function, at prices so low that the majority of people can afford to buy them.

—IKEA's corporate philosophy⁴

IKEA is more than a firm that produces and sells furniture to the public, it is a company that cares. IKEA cares about the public it sells to, the workers it employs, and the environment that surrounds us all. IKEA strives to give its customers convenience, assistance, and an all-around pleasant shopping experience. This is accomplished through the use of unique services and unusual store promotions.

Shortly before the opening of its Long Island, New York store, IKEA sent out a mass-mailing of its catalog, to familiarize consumers in the region of its offering. Television ads were also used to stir up excitement. A few weeks before the store opened, IKEA announced that it was giving away all of the furniture pictured on the cover of its catalog, (a living room suite), to the first person to enter the store on opening day. On the day of the grand opening, consumers found more than a promotional gimmick. They found child care services, low-cost truck and car rack rentals (for customers to take their purchases home), instant credit services, decoration services, and a dining facility serving low-cost Swedish specialties. This is one example of how IKEA creates a total shopping experience for its consumers. These types of services are available at most IKEA stores worldwide. Another example of IKEA's fun and unusual promotions occurred in Canada. On February 26, 1996, IKEA invited customers to visit one of its Canadian stores wearing pajamas. The first 100 people to enter the store in their pajamas would get a free pillow and a coupon to use toward the purchase of bed linens and bedroom furniture. This promotion was designed to celebrate leap year.⁵

IKEA also provides convenience for its customers. Realizing that customers would have to travel long distances to shop, after the closing of its Quebec City store, IKEA provided those customers with a home shopping phone order service.⁵

Commitment to the communities it enters is another IKEA hallmark. IKEA has been using Polish suppliers since 1965 and opened its first Polish store in 1990. Another IKEA outlet was opened in the town of Janki, near Warsaw in 1993. The opening of this store was part of an investment that IKEA made to that community. The Janki store was the first stage of achieving a goal; the creation of an "American-style" shopping center in Poland. The goal was realized on September 7, 1995, with the opening of the Regional Shopping Center in Janki. The Janki shopping center is the largest IKEA store in central Europe, and "has become a magnet for weekend family shopping trips."⁷

Consistent with IKEA's vision to create a "better everyday life" is its focus on environmental concerns. In 1993, IKEA began printing its catalog on nonchlorine-bleached paper. The company brochure is also printed on recycled paper, and to save the cost of printing yearly brochures, the brochure is expected to remain current for at least three years.⁸

Recycling is a growing movement in the United States, and it is a cause that IKEA is happy to champion. In many of its stores, the IKEA catalog may be brought back to the store for recycling.⁹ After the Christmas season, IKEA offers free mulching to customers who return their trees to the store.

Another example of IKEA's ongoing concern for the environment is its constant search for methods and products that will not cause harm to the environment during the production of furniture. In March 1996, IKEA began testing products from AMT, a California-based company that produces a line of water-based wood coatings.¹⁰ These water-based coatings eliminate the potential environmental hazards that arise from using solvent-based coatings. If the products are approved by IKEA, the company will recommend that its suppliers use the AMT products.¹¹

Ingvar Kamprad formed the IKEA Foundation in 1982. The IKEA Foundation presents monetary awards and grants to individuals, companies, and institutions whose contributions in the areas of design, environment, production, and architecture have had a positive effect on the "majority of the people."¹² These awards are presented every three years.

IKEA is also known for its consideration of its employees. When the company closed its Quebec City store, it was concerned with the fate of its employees. IKEA offered workers leaving the company severance pay based on "one month's salary for every year of service plus outplacement support."¹³ IKEA also promised to investigate relocation opportunities for its workers.¹⁴

In France, legislation allows employees to take a six- to 11-month unpaid break for the birth of a child, to create a business, or for a sabbatical leave of absence. To offset the possibilities of financial hardship to its employees, IKEA France has created an unusual agreement with its workers. The agreement is called CET or Compte Epargne Temps (time-saving account), which allows employees to save unused leave, and apply it towards the leave of absence. The employees benefit from a paid leave of absence, and IKEA benefits from the ability to plan employee absences and coordinate replacement workers.¹⁵

In New York City, the IKEA outpost store is unique because it remains closed during its frequent theme changes. IKEA compensates its employees by keeping workers on the payroll during the downtime. IKEA allows staff to log their hours by doing volunteer work for a charity that they (employees) select.¹⁶

Suppliers, Distribution, and Information Systems

Using a global sourcing network allows IKEA to minimize costs. This system lowers costs by decreasing the distance needed to ship goods to IKEA's numerous worldwide locations. It is more economical to ship goods manufactured in North America to stores located in North America, than it is to ship them from another country. Suppliers contracted by IKEA are closely monitored and often benefit from IKEA's close supervision. This is a necessity because many of the company's furniture parts come from different manufacturers. For example, the legs of a chair may come from one supplier, the seat from another, and the back from a third; IKEA's strict quality control system ensures that these pieces fit together when the consumer is ready to assemble them.¹⁷ To facilitate the acquisition of suppliers, IKEA has invested in or become a joint owner of furniture industries in many different countries. IKEA suppliers receive training, technical advice, leased equipment, and long-term contracts. In return, IKEA receives an exclusive contract and suppliers who will work closely with its designers to lower costs.^{18,19}

IKEA's furniture is boxed in flat packages. This packaging system has three benefits. IKEA benefits by saving money (flat packages save space during transport) and by reducing damage to goods during transportation. Consumers also benefit because most of the packages can easily fit into an average car. Central warehouses are used as a furniture "pit-stop" before it is delivered to the stores. IKEA is trying to develop a more efficient system to reduce the intermediate storage time at the warehouses. Direct delivery to stores and consumers is limited but increasing.²⁰

IKEA carries a wide variety of products; more than 12,000 SKUs. To assist in pricing and inventory control, IKEA has enlisted the services of the Oracle Corporation. Oracle is a leading supplier of information management software. IKEA had developed a pricing information system using Oracle's software. The new system allows the individual IKEA stores to set prices and print price tags.²¹ Before the development of this system, price tags and product information labels were generated in Sweden and took up to six weeks to reach the stores. The new system also enables the individual stores to quickly adjust prices in their local areas, and update their product information labeling without the time lag from Sweden.²²

International Furniture Industry

In the international furniture industry, importing to the United States is indicative of success. The United States is the world's largest single furniture market, as well as the largest single manufacturing country, with an annual production of approximately \$22 billion. The European market is a close second with an annual production of \$19 billion.²³

Because of the wide variety of designs available to European consumers from European manufacturers, importing to the United States is crucial for a global furniture company. For the same reason, there is little demand for imports from Asia or the United States, and the volume of imports from these two countries to Europe is very small.²⁴ Two European companies that are considered to be international companies due to their success in importing to the United States are IKEA and Natuzzi of Italy.²⁵ Another factor contributing to the success of these two companies is their sophisticated channels of distribution, a characteristic not usually attributed to European furniture manufacturers.²⁶

The third largest furniture manufacturing market is Asia. The largest Asian importers (labeled the "Asian Tigers" in the furniture industry) are Taiwan, Indonesia, China, Thailand, Malaysia, and the Philippines. Individually, these Asian manufacturers are small when compared to European manufacturers. The exceptions are the Taiwanese companies who are the leading importers of furniture in both the United States and Japan.²⁷

The home furniture industry appears to be reasonably free from barriers to importing and exporting products. Growth in this industry can be expected, but factors such as local and worldwide economies could have a slowing effect.²⁸

International Entry—United States

When IKEA entered the U.S. market by opening a 169,000 square foot (15,700 square meter) store outside Philadelphia, in 1985, it did not follow the basic rules of international retailing. The company did not appear to research the U.S. market extensively, and although it is often held up as an example of successful international entry, it suffered a few setbacks initially.

IKEA did not anticipate any major problems in its U.S. expansion, but by 1989, several of its stores had yet to show a profit. This concerned the company, because *in each new European country it had entered, a profit was realized within the first two or three years of entry.*²⁹ IKEA assumed that the same approach that had worked for it in other countries would work in the United States as well.

One of the problems that IKEA encountered was American indifference to some of its product offerings. American consumers prefer matching bedroom suites—IKEA did not offer any. Americans prefer wide beds—IKEA offered only narrow beds with sheets measured in centimeters. The kitchen cabinets that IKEA stocked in its U.S. stores were too small to accommodate the large dinner plates that Americans normally use. When IKEA's staff noticed that customers were not buying its drinking glasses, but their vases were selling very quickly, management began to speak to customers in an effort to understand the odd buying patterns. It was soon discovered that the U.S. shoppers were purchasing the vases to use as drinking glasses. The glasses IKEA offered were too small for Americans, who prefer ice with their beverages.³⁰

Other cultural obstacles that plagued IKEA were an American fondness for liberal return policies, and

American dislike for waiting in long lines.³¹ IKEA quickly made the appropriate changes, and the situation improved. Although IKEA was forced to make these changes in order to suit U.S. tastes, the company's core concept remains the same, and its ability to adapt to different international markets is the key to the company's success.³²

Another primary concern of IKEA when entering a new market is maintaining low costs. High corporate costs lead to higher prices for consumers. Although IKEA has an international reputation for cost trimming, the company did not have a clear strategy on how to cheaply supply the American market. This lack of a clear strategy led to high costs resulting from shipping products to the United States from Europe, as well as availability problems for certain items. To combat these problems, IKEA arranged for a high percentage of the furniture to be produced locally.³³

IKEA responded quickly and adequately to the problems encountered in the U.S. market. IKEA entered the U.S. market in 1985 and did not realize a profit until 1993; yet the company remained committed to its U.S. expansion. Currently, IKEA has 15 stores in the United States, including a "marketing outpost" store located in New York City.

Innovations: The IKEA Marketing Outpost Store

IKEA's "marketing outpost" store—a concept store in New York City—is located at the busy intersection of 87th Street and Lexington Avenue. The 7,500 square foot (700 square meter) store changes its concept every 8 to 12 weeks and totally shuts down its operations during these changes.³⁴ The outpost opened in the fall of 1995 with the theme of IKEA COOKS. For the duration of this theme, the outpost featured kitchen furnishings as well as cookware; the sales staff dressed in chef uniforms.³⁵ By Thanksgiving of the same year, the outpost reopened with the theme IKEA PLAYS. All traces of IKEA COOKS were removed and replaced, including exterior signs, and shopping bags.³⁶ It was decided that opening a full-scale IKEA store in Manhattan would defeat the low-cost policy of the company. The overhead from operating in an area as expensive as downtown Manhattan would raise prices chain-wide.³⁷ Sales are not the primary goal of the concept store; instead, the store is used as a marketing vehicle to promote interest in IKEA's nearby stores.³⁸

The outpost store features a shuttle bus program called "Passport to Sweden." Customers participating in this program receive a "passport," and if they are intrigued by what they see at the outpost store, they may use their "passport" to take a shuttle bus trip to full-scale IKEA stores on Long Island or in Elizabeth, New Jersey. After several trips, customers may turn in their "passport" (every bus trip entitles riders to a stamp in their passport) for merchandise credit.^{39,40} Frequent bus riders are entered into a lottery for a free flight to Sweden. This concept store has proven beneficial to IKEA. According to Martin Dooley, the outpost director of events, the sales of the Elizabeth, New Jersey store have increased significantly.⁴¹

Future Expansion

IKEA continues to expand globally, and seems intent on opening stores in every country on the planet. The company's planned expansion into Israel created a controversy when, in 1994, Ingvar Kamprad publicly admitted to having affiliations with Nazi extremist groups from 1945 into the 1950s.⁴² This admission led to a series of discussions with the Simon Wiesenthal Center, which is committed to focusing attention on people or companies with past Nazi affiliations. After these discussions, the Center, along with other Jewish groups, accepted Kamprad's apology for his past, and announced that they would not attempt to block IKEA from opening a store in Israel.^{43,44} In 1995, IKEA announced its plans to open a store in that country.⁴⁵

Currently, IKEA is undertaking expansion plans in the People's Republic of China (PRC). Beijing and Shanghai are the two locations of interest to the company.⁴⁶ The PRC is an untapped market for most retailers and is sure to be a profitable one for businesses throughout the next decade. IKEA is wise to get an early start in this emerging market, and it will be interesting to watch the company's future development there.

Conclusions

IKEA has consistently proven itself as a major player in the international business community. IKEA's strong corporate philosophy, cost-saving measures, and commitment to providing convenience and quality furniture for its consumers ensures its high ranking. It is not surprising that IKEA is often held up as a model to businesses attempting to enter international markets.