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Foreign Market Entry: An Analysis of IKEA in China

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Abstract:
As a result of globalization, there is an increasing number of businesses that are now leveraging the closeness of markets to increase business sales and economic gains. Similarly, since globalization has made the world smaller and has expanded markets for companies beyond their primary borders, more companies are continually increasing their business prospects while serving customers from all parts of the world. Additionally, globalization has increased the inter-relationship between nations, for this reason, businesses can easily set up foreign branches and operations in other countries.

The article analyzes the methods in which IKEA has leveraged the provisions of globalization to extend its business operations to China. Similarly, China has been chosen as a case study since it reflects a geographical location that is inherently distant from IKEA's home market – Sweden. This distance is recorded in regards to culture, buying attitude, social demographics, and other political aspects, hence, we analyze how a company may choose a suitable entry method depending on various local and international factors.

Keywords **—**Market entry, international trade, IKEA, China, Culture, foreign market, business.

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I. INTRODUCTION

Every company seeks to increase market sales and generate profit, a goal that can be achieved provided the company reaches a wider audience size. To reach a wider audience, most companies decided to enter into a foreign market, also known as internationalizing. It is pertinent to note that internationalization was first introduced in the literature by Johanson and Vahlne earlier in 1977, signifying an act of increasing business activities in foreign markets [1]. For this reason, we understand that when a company internationalizes, it prepares itself for foreign expansion which as a corollary brings about business growth.

Similarly, when companies enter into a foreign market, they seek to boost their business activities, enjoy comparative advantages, and increase their profits in the new markets. However, internationalization demands that a company must firstly develop their knowledge of the domestic market and international market, as well as the various factors of the international market which could be social, economic, and cultural factors. This is where the understanding of foreign market entry methods is introduced.

As mentioned by Kotler and Armstrong, foreign market entry is plagued by numerous domestic and international limitations such as the culture of the host country, education, geographical location, political implication and even psychological differences, for this reason, a company must understand the market before it plans an entry [2]. This is based on the idea that when a company learns the psychological distance between their home country and the intended new market, it can then explore the best methods in conducting business that is regarded as ethical and respectful.

Beamish [3], also supported the notion that a company must first understand the market before they enter because when this understanding is reached, the company can then choose the right entry measures or methods that best relate to the intended foreign market. This is based on the premise that when the wrong market entry measure is employed, the company suffers and may even collapse. It is therefore understood that an entry into a market requires that a company understands the market conditions in the new market, business traditions, and also understands government policies of a new market. Market commitment is then formulated based on the degree to which the new market is understood, allowing the company to employ viable means in its market entry strategy.

As highlighted by Blake and Moschieri [4], when a choice is made to embark on foreign market entry, a company must select the best method of foreign market entry which implies that there are different forms wherein market entry can be conducted as will be seen in the article. To provide a comprehensive understanding of how a company's foreign entry method could be shaped by domestic and international factors, the global furniture giant Ikea is used as a case study.

IKEA is a multinational corporation with 445 stores in over 60 countries across the world. For this reason, IKEA has been chosen as the case study for the thesis since the aim is to explore the growth and success of IKEA in the foreign market [5]. As a furniture market founded in Sweden in 1943, IKEA continues to spread its business process to all the continents of the world. Hence, interacting with various countries with different business cultures, psychological distance, and even a total mode of engaging in business. A study of IKEA foreign entry mode is inherently important for any company looking to expand into foreign markets soon.

The study has been compiled using a qualitative research design. This includes the use of available literature sources in the discussion of foreign market entry and the various methods that may influence the market entry style of a company. Similarly, the study has made sufficient usage of works provided by Philip Kotler, Gary Armstrong, Michael Czinkota, and other prominent scholars of international trade. This has provided us with a rich collection of information and the necessary knowledge required to conclude. Additionally, since the study is focused on IKEA in China, we have collected information from IKEA's official website as well as IKEA annual reports, while we discuss the position of IKEA in China.

The article begins by providing a concise literature review which will set the tone for subsequent discussions. Having analyzed the literature concerning foreign market entry, the article then moves to explain various entry methods and how this has shaped IKEA's decision in China. This document is a template. An electronic copy can bedownloaded from the conference website. For questions on paper guidelines, please contact the conference publicationscommittee as indicated on the conference website. Information about final paper submission is available from the conference website.

II. LITERATURE REVIEW

Numerous factors shape the entry model of companies in international trade. Douglas [6] highlights the presence of numerous factors that shapes the actions and behaviour of companies in the international market. To enjoy the benefits of globalization through foreign market entry, businesses must understand that there is an important need to use the right policies, strategies and activities. Tan and Lui [7] explain these various factors to be caused by the nature of the foreign market that may either create positive opportunities for business growth or negative implication for the business.

The nature and scope of foreign market entry according to Johanson and Vahlne [1] is susceptible to various factors that may influence organizational productivity in the international scene. Therefore, it is of utmost importance for the company to recognize these factors before they can enjoy the profits and from the international market. Based on the nature of the foreign market we can understand that the activities conducted by a company in Africa may be different from the actions of the same company in North America. For this reason, Tihanyi, Griffith, & Russel [8] highlights that some factors to be considered by companies before venturing into the foreign market include political, social (cultural), economic, and domestic factors.

In addition to these factors, Ghemawat [9] posits that companies must also consider the nature of technology and innovation as a scope of foreign market entry since this determines workers efficiency, business speed, and in the long run business growth. Following the constant changes associated with the international market, unfamiliar business sectors that were once undiscovered are getting progressively essential to international organizations, hence, making it important to consider the scope of foreign market entry.

It could therefore be deduced according to Nezekati and Akhoundi [10] that an international marketing environment for a company implies a larger market and a source of business expansion, despite the factors that stimulate its changing elements. Additionally, due to the effect of globalization, the nature of the international market is exceedingly competitive, therefore, forcing states to adopt the best available business practices in a saturated market to ensure growth.

Numerous studies explain and highlight the measures companies ought to follow depending on the entry market. For example, Cavusgil and Nevin [11] provide an insight into the nature of international market entry in the United States. This was established based on the premise that globalization is the major structure upon which foreign market entry was found, established, and maintained.

Additionally, from this study, it was noticed that companies that were concerned about foreign market entry, had to be mindful of the business models of the host country before engaging in foreign market entry. A similar submission was made by Lindridge [12] as it was mentioned that the company engaging in foreign market entry had to be mindful of both domestic and international factors that may influence business operations around the world.

This, therefore, leads to the understandıng that companies shape their foreign market entry strategies based on various motives or reasons. Therefore, as mentioned by Czinkota and Ilkka [13], before a company can plan on the most feasible market entry mode to use, these companies must fully learn the benefits, methods of entry, and how best to plan for the risk that may occur in the event of wrongful entry.

A similar addition was made by Isoble and Robin[14] who mentioned that when companies enter the foreign market, they enjoy larger margins and may create a niche market for themselves in the international market. However, to enjoy all these benefits, the company must formulate a feasible entry strategy otherwise the process might prove costly.

Another motive of foreign market entry for a company is to increase its market share in various nations and to explore various operational strategies across different markets [15]. Similarly, Li [16], mentions that a company’s entry into the foreign market exposes them to advanced models of production, which in the long run leads to increased profit for the company. For Santagelo and Meyer[17], the population of the world is an added incentive while firms enter the international market. This is because companies in the global arena have increased access to these over 7 billion persons and they can explore emerging markets. Santagelo and Meyer’s approach using population statistics notes that the concept of globalization continues to grow as most countries become interdependent, hence, forming a basis for international cooperation.

Brouthers [18] provide a different motive to entering the international market which is based on the spatial distance between the home country to the intended host country. This is based on the belief that countries that are close to each other share similar values, market beliefs, and most likely a friendly political structure that may allow for easy entry to the intended host market. Additionally, it must be noted that nations close to each other can easily establish trust amongst themselves, form regional organizations, and even create easy flow and integration of ideas, people, and goods within this region.

However, despite the numerous benefits attached to foreign market entry, there are significant levels of risks that a company must consider in planning efficient market entry methods. This was mentioned by Hollensen [19] where he discussed the degree of risk concerning international market entry as an important factor in deciding the best processes to adopt during internationalization. For this reason, risks may be due to various reasons such as political instability, economic problems, currency fluctuations and even cultural conflicts of the host country. This highlights why market entry research is a necessity for companies looking to enter into a foreign market. Concerning the two main market entry measures discussed in the previous chapter, the wholly-owned subsidiary model involves a greater risk since the parent company bears the full risk from internationalization, whereas, the companies involved in joint venture share the burden amongst themselves.

Similarly, companies engaged in a joint venture may have a partnership with a local company that keeps them informed of events, occurrences and activities that happen within the host countries. Hence, an entry of such measure lowers the risk compared to a company that engaged in a wholly-owned subsidiary with no background information. For these reasons, the degree of risk is an important factor that a company must consider when internationalizing.

In the case of IKEA in China, the degree of risk needed to be understood as this represented cultural differences, physical differences, buying differences and even differences in the level of economic status. This next part of the article explains in detail the nature of IKEA's entry in China and how this was chosen.

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III. IKEA IN CHINA

The joint venture model was firstly used because IKEA sought to test the knowledge of the Chinese market and a local strategic partner not only could help IKEA to understand the market knowledge, but also could together take the operational risk of IKEA in the Chinese market. Second, this could be explained by the Chinese trade policy. China's accession into WTO was in 2001. However, IKEA firstly and secondly entered Shanghai and Beijing in 1998 and 1999 [20]. Before China's accession into WTO, the local policy for protecting the local enterprise had a serious disadvantage for a multinational enterprise in China. Therefore, the domestic partner is very necessary for IKEA for the first entry into the Chinese market, and the earlier entry mode "join venture" could be very reasonable in the early entry in China.

The success of IKEA in the Chinese market is very outstanding. It is easy to find on the IKEA business map of China that most retail stores are in the major cities, such as Beijing, Shanghai, Guangdong. China as a country has the most population in the world, hence, it is a great place for sales. Similarly, the good design, function and low-price business idea of IKEA highly conforms to the consumption habits of the Chinese. Therefore, a reasonable marketing strategy could help the expansion of IKEA in the Chinese market.

Most of IKEA's stores in China are close to cities because most consumers use public transportation since closeness to the market is important in business sales as mentioned by Bell and Young [21]. However, the company perceives that this trend will change, and so it must create stores that are accessible to all types of consumers in its markets.

It is important to note that besides the joint venture model, IKEA, also adopted the "wholly-owned subsidiary" model of market entry in China. Currently, IKEA only operates the retail stores with the mode of "wholly-owned subsidiary" and changed all of the stores' operation of "joint venture" when primitively entered into Chinese cities. Therefore, nowadays the only entry mode of IKEA is a "wholly-owned subsidiary" [20]. The entry mode of "joint venture" was only applied by IKEA to enter into China in two cities: Shanghai and Beijing all in a means of testing the Chinese market and checking for business growth and development.

The joint venture model of market entry is characterized by the formation of independent business entities which are created by two or more independent parent companies whose major aim is to reach a fixed goal or business target in a new market. The joint venture is mostly established along economic and legal lines as the contributions from these parent companies are discussed and legally binding. As discussed by Yiu and Makino [22], the joint venture mode of entry allows for the long-term benefit of trade and maybe the most feasible way to get past government barriers in a foreign state.

As highlighted by Albaum, Duerr & Josiassen [23] there are numerous reasons why some companies adopt the joint venture market entry mode as this provides them with an opportunity to avoid domestic protectionist policies and other culturalist sentiments that are attached to domestically produced goods. By utilizing the joint-venture approach, IKEA sought to limits its risk in entering a market that was then placed under an increased level of government supervision [24]. Similarly, the joint-venture model provided IKEA with security and an efficient balance of risk as they had the opportunity of sharing this burden with a domestic company.

For this reason, IKEA's growth in China is tied to the fact that they first sought to understand domestic and international factors that may influence business and trade, hence, they leveraged the opportunity of using the best entry method possible to balance risk and increase profit.

IV. CONCLUSIONS

The study highlighted that globalization has turned the world into one huge homogenous market and is based on the dimensions of globalization of production and globalization of markets. Companies enter foreign markets to sell their products and services in these markets to achieve economies of scale, increase their growth opportunities, gain access to imported inputs, exploit marketing opportunities, spread their R&D costs, achieve economies of scope, and profitability.

A company's strategy is the focus and scope of the organization aimed at achieving long-term goals. Each organization needs to establish goals that will satisfy its stakeholders, and the stakeholders will also the expectations and values of the company, thus enabling the company to know what to aim for. Nevertheless, the strategy that an organization selects must be aligned with the long-term goals and vision for the company. This means that an organization's management must implement strategic marketing and operational decisions to gain a competitive advantage against its competitors, especially in the international market. Furthermore, the strategic decisions undertaken must be aligned with the tangible and intangible resources available in the organization otherwise there will be a gap between the organization's capabilities and its goals for growth.

In the case of IKEA, it became inherently important for them to understand the various market structure and elements across the world to understand what factors to consider and how to enter into different markets. Hence, making foreign market entry an integral yet complicated aspect of business growth.

The article discusses the importance of market entry which is to enable an organization to expand its business. Similarly, vital discussion on market entry mode was provided where internal and external factors had to be considered by various organizations before entering into the market. The scope of foreign market entry tends to increase as global markets open for business. In some instances, manufacturing products in a foreign country becomes more cost-effective, and the country becomes the hub of all exports. For instance, a significant portion of all consumer products used worldwide is manufactured in China due to its affordability in production processes. Global brands can therefore generate significant portions of their revenues from outside their home country.

Consequently, IKEA has established itself as one of the leading retail furniture manufacturers in the world, and with continued effective implementation of strategies, the company is expected to continue in a path of growth and sustainability over the long term.

Similarly, the study also provided a detailed analysis of the various business analysis concerning the policies of IKEA, especially in China.

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