

**Effects of Globalization on Asian International Retailing: Case of IKEA**

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Received: 23 May 2018; Revised: 4 June 2018; Accepted: 30 June 2018

Abstract: Globalization has encouraged the free flow of products and services across the nations' boundaries. It is also results in crucial impacts on international retailing where the global retailers are producing and offering their products/ services in different marketplaces. This case study is focuses on the impacts of globalization on market and production experienced by the global retailers. IKEA, a Swedish company whom had recognized as the '58th World's Most Valuable Brands' by Forbes, is chosen as the example to show how the company applies its business strategies to deal with the globalization.

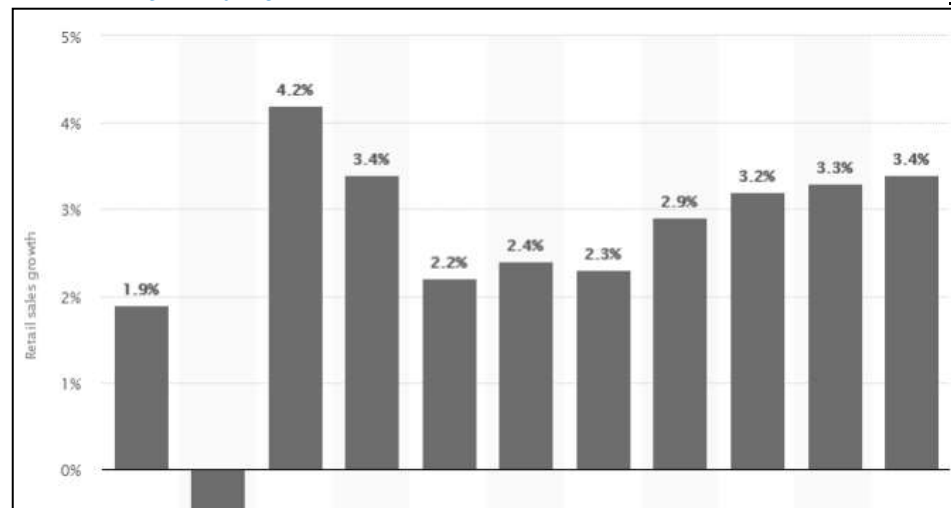
Keywords: Globalization, IKEA, market, product

INTRODUCTION

In the context of business, globalization is defined as 'the worldwide movement toward economic, financial, trade and communications integration' [1]. It is due to the free transfer of capital, goods and services across national boundaries. Besides, globalization refers to the tendency of international trade, investments, information technology to reach the economic integration, which is also describes as the social-cultural adaptation among business parties [2]. Globalization has brought crucial effects on global retailing in terms of variety of choices for products and services can be found in every market [3]. The trade agreements among countries have removed the restrictions such as tariffs and quotas, which help global retailers to produce goods and sell in various markets [4]. Besides, the selling price is becoming more competitive among retailers, thus it enhances the growth of economy of a country and the emerging of international business [5].

Globalization is encourages worldwide retailers to enter into international market rapidly. The forecast of global retail sales growth from 2008 to 2018 shows that the growth is continuing since 2014 and expected to achieve 3.4% in 2018, reported by The Statistics Portal [6] which is shown in Figure 1a.

Besides, the global online retail sales are growing and estimated to reach 8.8% of total retail spending in 2018, which is an increase of 1.4% compared to 2016. Figure 1b shows the estimated online retail sales worldwide from 2014 to 2018 [7].



Source: The Statistics Portal (2017). Key figures of retail

Fig. 1a: Forecast for global retail sales growth from 2008 to 2018

Year	Retail Sales (In trillion USD)	% of total retail sales
2014	\$1,316	5.9%
2015	\$1,592	6.7%
2016	\$1,888	7.4%
2017	\$2,197	8.2%
2018	\$2,489	8.8%

Source: Global online retail spending-Statistics and trends.

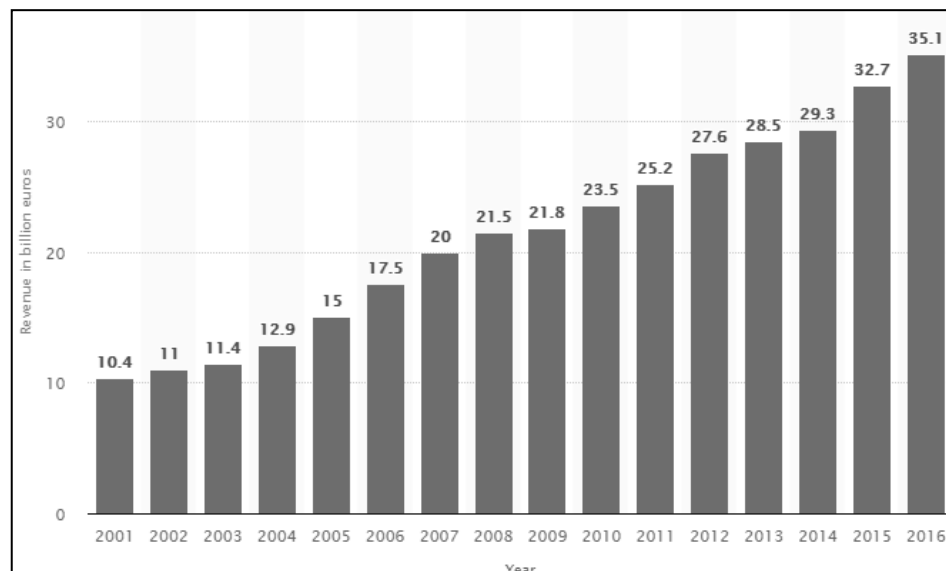
Fig. 1b: Estimated online retail sales worldwide from 2014 to 2018

REVIEW OF THE CASE: IKEA

IKEA International Corporation is adopted in this study as the example to show how a successful global retailer operating in international business. It focuses on the ability of the company to react to the changes in globalization and its business strategies in running global operations. The discussion is started with the brief introduction of the company and its overall achievements.

IKEA was founded in 1943 as a Swedish company which headquartered in Netherlands. The company designs and sells furniture, kitchen appliances and home accessories. It has been listed as the world's largest global retailer and franchising operations [8]. IKEA was awarded several recognitions by Forbes, such as 58th World's Most Valuable Brands, 115th America's Best Employers and 115th Canada's Best Employers with over 783 million stores visits and more than 9500 products offer to consumers [9]. In operating over 41 countries and 30 franchised units, the company's sales volume is estimated to achieve at least \$24 billion since 2012, reported by

Forbes [10]. The largest market for IKEA is Germany, followed by the United States. In term of revenue, the company has generated a continuing growth profit and its global profit amounted to 35.1 billion Euros in 2016 (Figure 2a). This statistic is extracted from The Statistics Portal [6].



Source: The Statistics Portal (2017). IKEA's statistics & facts

Fig. 2a: IKEA's revenue worldwide from 2001 to 2016

IKEA is also known as the most successful global retailer due to its unique forward-thinking business strategies, reported by Financial Post [11]. The fierce competitions around the world and the changes in environments are not seen as a threat for the company. It is successfully transforms those challenges into business opportunities. There are some crucial factors had led to IKEA's success, in terms of the globalization of market and globalization of production have contributing much to the company's overall achievement [12]. The company has adjusted its strategies in order to adapt its operations to the environment changes effectively.

Globalization of Markets benefited IKEA

Globalization of market is referring to the merging of separated national markets into one global marketplace [13]. The remove of barriers to cross border trade have make the firms can sell their products globally. They can expand the operations in other geographical areas by gaining better profits and competitive advantages. IKEA is taking this trend by producing consumer furniture products in global marketplace. The company has benefited from globalization in several dimensions.

A main advantage is seeking opportunities for growth through expanding and market diversification. There are many substantial potential markets existed outside the home country. The globalization has enable IKEA to growth internationally and becomes well known in many countries. There are many potential markets with the high growth rate especially Asian market [14]. Asian market is viewed as one of the main markets for global economic growth. The market is believed to grow at 6.1% at year 2015 and 6.2% in year 2016 under the forecast [15]. IKEA

[DOI:10.24214/ARJBM/5/4/120128](https://doi.org/10.24214/ARJBM/5/4/120128)**Review Article**

has entered into this market by setting up many outlets in Asia countries. The brand “IKEA” is existed in many countries which allowed the firm to gains large economies of scale. Statistic shows that IKEA group is the world’s largest furniture retailer who has more than 301 stores and 30 franchised units.

The largest market for IKEA is Germany with total number of 44 stores, the suppliers are more than 1380 in 54 countries and coworkers are exceed 154,000 in 40 countries [16]. The company was founded in year 1943 with the concept of low price business idea. It focuses on cost reducing and innovation such as introducing materials that contribute to more environmental friendly. It makes the firm become famous in global marketplace where the manufacturing has been outsourced to China and other Asian countries. With the global expanding, IKEA has awarded “Brandz Top 100 Most Valuable Global Brands 2014” [6].

Besides, globalization market allowed IKEA earns higher profits and margins. Market growth in mature economies will force firms to seek for global market. Intense competition also makes the firms to enter in other marketplace for better earnings and profit margins. IKEA has successfully ranked the 4th most valuable retailer in the world with the value of approximately 19.4 billion USD [17]. The company operates businesses in more than 40 countries and achieved the sales of over 27.5 billion Euros in year 2012. Global market allows IKEA’s revenues doubled in a 4 years period to from \$600 million to \$1.27 billion. By year 2012, United States was becoming the company largest market after Germany which accounting for 14% of the total revenues [13]. Besides, IKEA was investing additional 2.5 billion Euros in year 2014 for stores, factories and shopping centres.

Globalization of market also encourages the company to invest in renewable energy in year 2015. By October of 2014, its sales increased 3.1% to 27.9 billion euro [18]. The net profit also increased 0.4% to 3.33 billion euro. IKEA said to receive more than 270 million visitors at its Russian shopping centers in year 2014 and setting the goal to raise the revenue to 50 billion euro by year of 2020. It also aims to open more stores to generate higher profit margin which including 25 in India [19].

Furthermore, IKEA can gain new ideas about products, services and business methods through globalization market. Foreign market can help firms to work with different environments and expose to new opportunities. Besides, the experience of doing business on global market allows firms to acquire new knowledge for better enhancing organizational effectiveness. It may result in innovation and better quality products. IKEA businesses are found in more than 40 countries which included Asia, Europe and America. The different taste and preferences of customers in different nations make IKEA to innovate new offers to satisfy the customers’ needs. Besides, the company works well with local suppliers to understand the customers’ expectations on furniture. For example, IKEA joint venturing with China partners when entering Chinese market to understand the local needs. It modifies the furniture and develop new business model to serve huge market demands. IKEA managed to come out with many new product ideas to sell in China and generated over 540 billion RMB in year 2012. The company plans to expand businesses with a total of 40 stores in China by year 2020.

Globalization of Production benefited IKEA

Globalization of production is referring to the sourcing of goods and services from global market to take the advantage of national differences in cost and quality of factors of production [20]. It allows the firm to get more resources from different country which can highly affect the productions in terms of type of inputs, quality of materials, manufacturing cost and other overall product quality. IKEA has more than 300 stores over 40 countries which the furniture productions are manufactured in many locations. The company has benefited from globalization in several dimensions.

Going abroad or entering into global market can reduce cost of doing business. Firms can choose to enter into different market by fulfilling the local political requirements to produce the products due to the globalization of production. It helps the firms to reduce operation cost by getting cheaper raw materials. Besides, partnering with local suppliers can make sure the supply chain process is smooth and lower the overall production cost. IKEA has more than 43 manufacturing units over 12 countries and opened its first wholly owned manufacturing facility in Jiangsu, China. This factory is producing wooden furniture and interior decoration materials and will supply to most of the stores in China [21].

Sweden based furniture giant, IKEA can target its China markets by producing at host country which help to reduce the transportation cost for exporting and transportation. IKEA believes that choosing the right location for their local production base is critical decision which allows the firm to reduce logistic cost. When the cost is lower, the company is able to offer great home furniture at cheaper price with right quality. It can enhance the competitive advantage in local market. When producing at foreign market such as China, IKEA has successfully cut prices by an average of 50% during year 2000 to 2012 [21].

Besides, globalization production allows firm to develop economies of scale in sourcing, marketing and R&D. Economies of scale is the reduction of the cost per unit of manufacturing due to producing high volume. It also enables the firms to conduct better marketing and R&D in global market by the availability of accessing materials abroad [22]. IKEA is well known as practicing cost leadership whereby it is considered low cost provider by offerings affordable furniture to most of its customers. Producing large volumes is the significant factor to make the prices low. The company successfully achieved economies of scale in sourcing of materials which make the production cost reduced [23]. It has resulted in cheaper selling prices while maintaining good quality.

Therefore, more customers choose to buy IKEA products. The company also reduces the cost through increased specialization. IKEA has developed strong division of labor whereby particular products are made by specialized workers in different locations around the world. It also spends huge investment in doing R&D to innovate new technology and products to lower the manufacturing cost in long run [23]. For the economies of scale in marketing, IKEA choose bulk buying and advertising to reach large number of customers economically.

Furthermore, globalization production creates an opportunity for firm to produce better quality product. The availability to get materials from global market allows firms to seek for better

[DOI:10.24214/ARJBM/5/4/120128](https://doi.org/10.24214/ARJBM/5/4/120128)**Review Article**

alternatives. IKEA has enjoyed this benefit by offerings high quality furniture in lower price. The company invests huge amount in R&D and seeks for materials substitution from around the world. It aims to produce 100% renewable or recycled home furnishing by year 2020 [23]. IKEA will also works closely with all suppliers and stores' managements to make improvements at every production step. Production Sustainability Scorecard has been used to continually assess and improved the products' quality. The company is looking for better quality wood which is renewable, recyclable and biodegradable from global market. It is the most important raw material. IKEA is looking for this material sourcing from New Delhi through the manufacturing store over India [24].

LIMITATION

Limitations of IKEA's Ethnocentric Approach

IKEA was adopting ethnocentric approach which treating the entire world as a single integrated global marketplace. This approach is simple and easy to use because the firm markets its goods in international market by using the same marketing mix that uses in domestic market [25]. This approach is also saving time and cost by avoiding the introduction of new products to global market. However, there are many limitations and put the firm in higher risk when serves the global marketplace by using standardization strategy. IKEA has experienced the pain by the products are rejected by local consumers due to the different taste and preference. It will result in poor customer satisfaction and bad profit margin in long term.

The main limitations of standardization is ignores the different conditions of product use. Many products are same in the purpose but using differently by different marketplaces. It can be seen obviously in home appliance market whereby US kitchens are tend to be larger and spacious where consumers prefer bigger electronic products such as washing machine, refrigerator, stove, oven and etc. Compare to European market, people there are preferred smaller home appliance in fact. Besides, there are many other different conditions of product use which included the design layout, features and control panel. One of the reasons is because of the different in culture and living pattern. Firms must respect these elements that make every marketplace is unique compare to others. Therefore, the international marketing mix applies by global managers should be customized for better effectiveness [26]. IKEA has discovered this issue in the early of 1990s when entered into US market.

Besides, standardization is ignoring local legal differences. Law and regulations of foreign country always affect the product policies adopted by international firms. Some legal requirements are imposed by local government which has increased the production cost but firms have no choice to obey. For example, top instant noodle manufacturer, Maggi has involved in an issue where all of its boiling products that contains of monosodium glutamate (MSG) are banned on the direction of Singapore Agri-Food and Veterinary Authority. When look into IKEA who has more than 300 stores over 30 countries, the company needs to understand the legal environment from each country to make sure the productions are met with the requirements. Besides, the marketing mix such as promotion and pricing must fulfill the legal policies. For

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example, China is one of the major markets of IKEA has banned the use of China's flag in the advertisement for all foreign firms [27].

Furthermore, standardization not accounts for differences in buyer perception and behavior pattern. Consumers have different perception on value of product which affects their buying pattern. Daye [28] found that same brand is different in image when across the buying behavior in China market. Chinese normally perceive medium quality western brands as luxury when the product is selling at high price. For example, IKEA has adopted its global business idea of producing low cost products. This concept is effective for many markets such as US and Europe. However, the company was faced difficulty when brought this concept to China. In addition, Chinese buying behavior prefers traditional products. They viewed IKEA furniture is innovative but not traditional and the products are not necessary [29].

CONCLUSION

In conclusion, IKEA is a successful global retailer with offering more than 9000 products in over 20 countries. The company is taking advantages from the globalization of markets and productions. IKEA is able to sustain from fierce competition and diverse its businesses into different areas which including renewable energy, etc. Besides, globalization allows the firm to develop economies of scale, which in turns, reduce its production cost and create better customer value by providing better affordable products. However, product standardization strategy adopted by IKEA on global operations is believed less effective due to the limitations such as ignoring the differences of culture, taste and preferences, etc. Therefore, the company is advised to apply customization strategy on its foreign retailing for better customer satisfaction.

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