Fredskov Christiansen, director of the Chinese operations, it was crucial for the company to be present in western China when growth accelerated. He expected Carlsberg's turnover to rise in line with the general growth in the Chinese beer market.[15] In addition, the western Chinese market was quite fragmented, and none of the other large players were present, as they all concentrated on the south-east.

Carlsberg's 2007 *Annual Report* indicated that the company's strategy was 'to build up a leading position in these emerging markets through acquisitions and subsequent strong organic growth, so that Asia makes a greater contribution to Carlsberg's overall earnings in the future'.[16]

In 2007, Carlsberg had operations in 20 brewery plants and had 4756 employees in China. Only a handful of the Chinese breweries were fully owned by Carlsberg, while the rest were operated through joint ventures with local partners, the Danish Industrialisation Fund for Developing Countries (IFU) and local authorities. These efforts gave Carlsberg an overall market share of approximately 55–60 per cent in western China, making it the only international brewery with a leading position in that region. In addition to selling local brands, Carlsberg experienced increasing success with Carlsberg Chill, a brand designed for the Chinese market. This beer targeted the more exclusive segments and was distributed not only in western China but also in the east. In this respect, Jørgen Buhl Rasmussen argued, 'We are interested in approaching nearby areas by continuously moving from the west towards central China – for instance, through acquisitions'. However, he also stated, 'alone in western China, the possibilities are enormous. We control approximately 60 per cent of [the] western China [beer market] in an area of a population of approximately 120 million. That is far more than Great Britain and Scandinavia together, and it is a market where the consumers continuously buy better, more expensive beer'.[17]

Even though the Asian investments had yet to show their full potential, former CEO Nils Smedegaard Andersen emphasised, 'We are in China to create a position. And we are not counting on making money in perhaps five to 10 years. Carlsberg has to establish new markets'. He also argued, 'We consider Western Europe to be a mature, stagnating market. Russia and Eastern Europe are growth markets, while Asia is a developing market'.[18]

Considering Carlsberg's activities in emerging markets, CEO Jørgen Buhl Rasmussen was optimistic. He was convinced that the company's timely and successful emerging market strategy and positioning had ensured that Carlsberg was prepared to successfully capitalise on its investments in the emerging economies. However, Rasmussen was fully aware that the majority of the company's revenue was still generated in the stagnating Western European markets and that new sources of revenue were needed. At the same time, the BBH success story was likely to soon be affected by ever-fiercer competition, and the Russian Government was contemplating worrisome taxation proposals for alcohol in general and beer in particular, which could seriously challenge the profitability of Carlsberg's Russian operations. Moreover, despite magnificent forecasts for the Asian markets, the annual consumption per capita was still humble and had yet to take off.

Therefore, Carlsberg's shareholders would need time and patience if they wished to see whether Carlsberg's emerging market strategy would suffice as a response to the operational, competitive and regulatory challenges that these markets posed. In the longer term, the pay-off could be significant.

Notes

1 *Berlingske*, 2008, http://www.business.dk, 18 August.
2 Carlsberg, 2007, *Annual Report*.
3 Ibid.
4 *Børsen*, 2007, 18 May.
5 *Politiken*, 2004, 4 April.
6 *Børsen*, 2008, 1 February.
7 *Børsen*, 2005, 11 October.
8 Carlsberg, *Annual Report*.
9 *Reuters*, 2008, 14 July.
10 *Børsen*, 2003, 19 March.
11 Carlsberg Group, 2008, http://www.carlsberggroup.com
12 *Børsen*, 2007, 12 June.
13 Ibid.
14 *Børsen*, 2004, 16 July.
15 *Jyllands-Posten*, 2005, 30 July.
16 Carlsberg, *Annual Report*.
17 *Berlingske*, 2008, 18 August.
18 *Jyllands-Posten*, 2005, 12 October.

CASE 10

THE BUSINESS MODEL AND COMPETITIVE STRATEGY OF IKEA IN INDIA

Syed Abdul Samad
IBS Center for Management Research (ICMR)

> We are very determined but very patient at the same time. We started this journey six years ago. Things are finally moving and we are satisfied with the progress so far ...
>
> I truly believe that the IKEA format is going to work. What is an IKEA store? An IKEA store has more than 9000 different articles for the entire family. We offer an experience for the whole family. Also remember, at IKEA we don't sell products, we sell inspiration.
>
> Juvencio Maeztu, IKEA's Country Manager for India, in 2013[1]

After a year of lobbying and negotiating with and convincing the Indian politicos and bureaucrats, IKEA's €1.5 billion investment proposal to set up its stores in India was finally accepted by the local government on 2 May 2013. However, as of July 2013, Juvencio Maeztu, IKEA's country manager for India, found he still had a colossal task ahead of him.

IKEA, the Netherlands-based Swedish company, was the largest furniture retailer in the world with a presence in 44 countries, including the USA, the UK, Russia, the EU region, Japan, China and Australia. However, it did not enter the Indian market until 2013, though the company had had a presence in the country since the 1980s as a sourcing destination for its global stores. It had even opened its regional procurement office in Gurgaon, India in 2007. In 2009, IKEA tried to enter the country to establish its stores, but its attempts were thwarted by India's stringent Foreign Direct Investment (FDI) regulations. It again applied for permission for entry in June 2012, after India had made some changes to its FDI rules. However, IKEA had to wait another year, hitting many roadblocks on the way, before it was able to obtain the Indian Government's approval to establish its stores. The company also had to tweak its global store model to fit the Indian FDI and sourcing outlines and Indian consumer preferences.

While Maeztu was tasked with tapping the Rs 925 billion Indian furniture and furnishings market, analysts were waiting to see what strategies the furniture giant would come up with to win the highly fragmented, price-sensitive Indian market – many Indian middle-class families preferred to have their furniture custom-made by small retailers or local carpenters. No two Indian homes had the same kind of furniture, as Indians in general showed more of an affinity for unique woodwork and designs rather than flat geometric furniture. 'Living room in India is different from any other country – a place for socialising and every activity is around the food. In some countries it is the kitchen and in some countries living room is used for sleeping', said Maeztu.[2] More important was the fact that the Indian customer did not prefer the concept of do-it-yourself (or DIY, where buyers have to assemble different pieces of the product themselves), a key part of IKEA's globally successful business model. Analysts suggested that though the company had managed to impress the Indian Government, getting into the homes of Indian consumers would be an entirely different ball game.

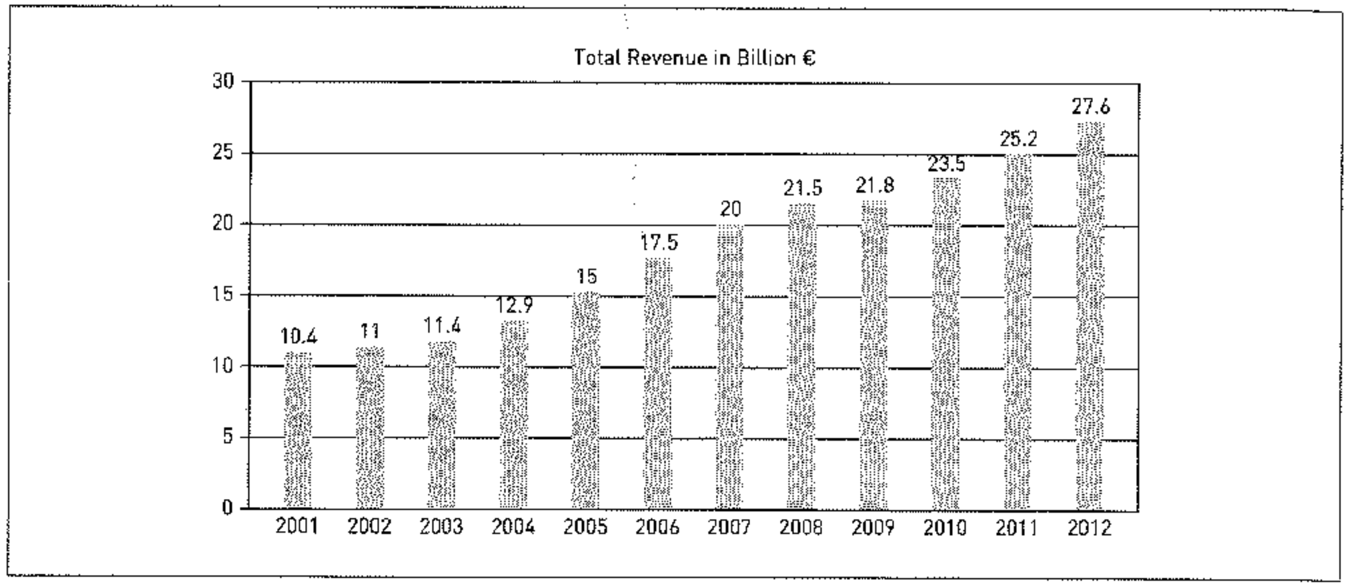
About IKEA

IKEA was a privately held company. It designed and sold ready-to-assemble furniture, home appliances and accessories. From humble beginnings in 1943, the company went on to become the world's largest furniture retailer by the 2000s.[3] In the financial year 2001, the company earned revenue of €10.4 billion (refer to Figure 1 for IKEA's revenue growth). By 2012, the company's revenues increased to €27.6 billion with a net income of €3.202 billion (refer to Table 1 for IKEA's income statement). By 31 August 2012, the IKEA Group had operations in 44 countries, including 30 service trading offices in 25 countries, 33 distribution centres and 11 customer distribution centres. By 31 August 2012, the IKEA Group had a total of 298 stores in 26 countries and employed 139 000 people.[4] Globally, the company had doubled its sales to €27.6 billion over the past decade and planned to double them again by 2020, and to open 20–25 stores a year from 2015.

* Rs = Indian rupees or INR. As of 2013, US$1 was approximately equal to Rs 62; €1 was approximately equal to Rs 85.

This case was written by Syed Abdul Samad, under the direction of Debapratim Purkayastha, IBS Hyderabad. It was compiled from published sources, and is intended to be used as a basis for class discussion rather than to illustrate either effective or ineffective handling of a management situation.

IKEA's revenue growth, 2001–12



Source: Adapted from IKEA, 2012, *Welcome inside: IKEA Group yearly summary FY12*, http://www.ikea.com/ms/en_CA/pdf/yearly_summary/ys_welcome_inside_2012_final.pdf

IKEA's consolidated income statement, 2008–12

In million € (for 1 September – 31 August)

	2012	2011	2010	2009	2008
Revenue	27 628	25 173	23 539	21 846	21 534
Cost of sales	15 723	13 773	12 454	11 878	11 802
Gross profit	11 905	11 400	11 085	9 968	9 732
Operating cost	8 423	7 808	7 888	7 198	7 078
Operating income	3 482	3 592	3 197	2 770	2 654
Total financial income and expense	427	165	76	143	177
Income before minority interest and tax	3 909	3 757	3 273	2 913	2 831
Tax	695	781	577	384	546
Minority interests	12	10	8	–	–
Net income	3 202	2 966	2 688	2 538	2 280

Source: Adapted from IKEA, http://www.ikea.com

IKEA was founded in Sweden in 1943 by 17-year-old Ingvar Kamprad. IKEA was an acronym of Ingvar Kamprad, Elmtaryd (the farm where he grew up) and Agunnaryd (his hometown in Småland, south Sweden). The company's products were well known for their modern architecture and eco-friendly designs. In addition, the firm paid attention to cost control, operational details and continuous product development, which allowed it to lower its prices. Instead of selling preassembled products, the company designed furniture that could be self-assembled. This helped it cut down on costs and the use of packaging. The company's website featured around 12 000 products, which represented its entire range.

Corporate structure

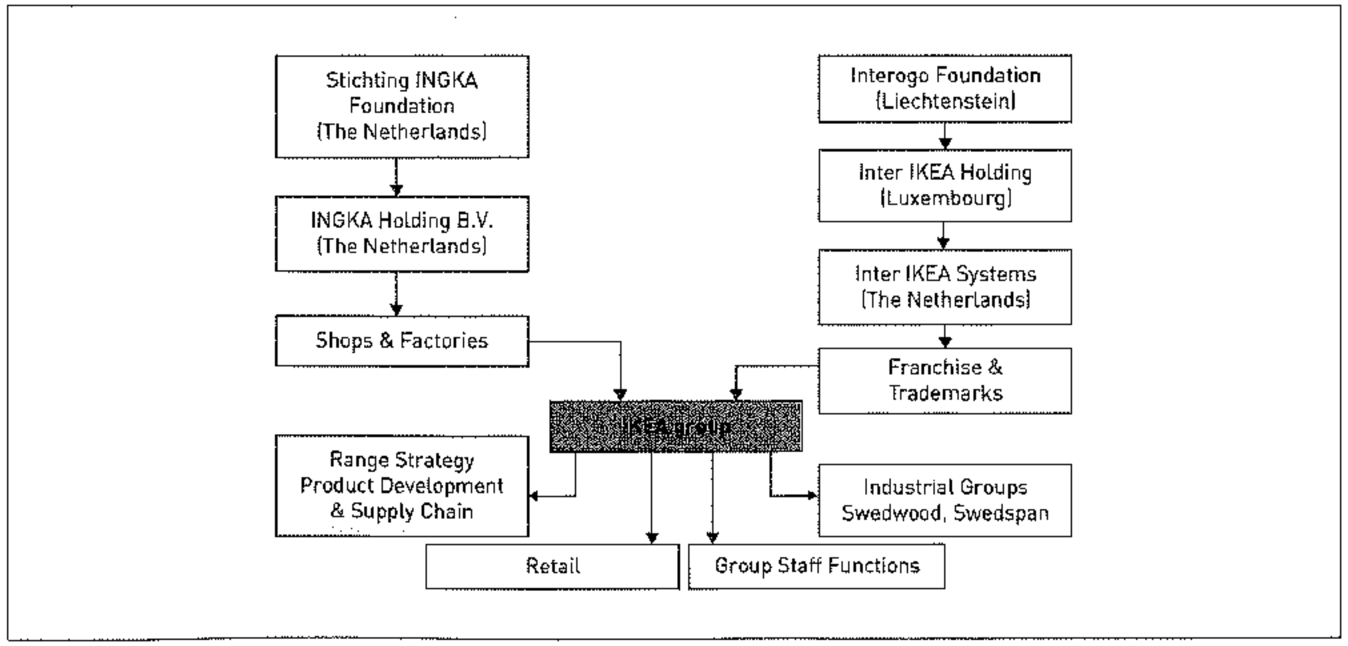
IKEA was structured in such a way as to prevent any kind of takeover of the company and to protect the Kamprad family from taxes. Though Kamprad was the founder, he did not technically own IKEA. He wanted an ownership structure that stood for independence, a long-term approach, and continuity. Therefore, in 1982, Kamprad created Stichting INGKA Foundation, a non-profit organisation registered in Leiden in the Netherlands. In 1984, Kamprad transferred 100 per cent of IKEA equity as an irrevocable gift to the foundation. IKEA was privately held by this foundation. Its purpose was to hold shares, reinvest in the IKEA Group, and to fund charity through it. It also protected IKEA from family squabbling and its inheritance in whole or part by the Kamprad family. Kamprad said, 'My family will never have the chance to sell or destroy the company'.[5] The foundation was controlled by a five-member executive committee that was chaired by Kamprad and included his wife and attorney.

The foundation was only controlled (not owned) by the Kamprad family. The foundation, however, owned INGKA Holding BV, a private, for-profit Dutch company that controlled IKEA's operations.

IKEA's structure was a complicated array of not-for-profit and for-profit organisations. It had two main components: operations and franchising. Operations included the management of its stores, the design and manufacture of its furniture, and purchasing and supply functions, which were overseen by INGKA Holding. As of 31 August 2012, only 30 of the 298 IKEA stores were franchisees, while the remaining stores were run by INGKA Holding.[6]

The franchising part (trademark and concept) was owned by a separate Dutch company called Inter IKEA Systems. All IKEA stores (franchised and those run by INGKA Holding) shared 3 per cent of their revenue with Inter IKEA Systems as a franchise fee. Inter IKEA Systems was owned by Inter IKEA Holding of Luxembourg, which in turn belonged to Interogo Foundation in Liechtenstein. This foundation was also controlled by the Kamprad family. Apart from these holdings, the food joints that operated in IKEA stores were directly owned by the Kamprad family and represented a major part of the family income. This corporate structure allowed Kamprad to maintain tight control over the operations of INGKA Holding and IKEA stores (refer to Figure 2 for IKEA's corporate structure).

IKEA's corporate structure



Source: Adapted from IKEA, 2009, *Welcome inside: Yearly summary FY09*, http://www.ikea.com/ms/en_CN/about_ikea/press/press_releases/Welcome_Inside_2010.pdf

Going global

In 1943, after founding IKEA, Kamprad increased his product range to include pens, wallets, picture frames, table runners, watches, jewellery and nylon stockings at reduced prices. He initially made individual sales calls to sell the merchandise. When his business grew, he advertised in local newspapers and operated via a mail-order service, using the local milk van to deliver the products to his customers. In 1948, he introduced furniture into the IKEA range. The furniture was made by local manufacturers close to his home. The furniture met with a good response and Kamprad decided to expand his range. However, the company's sales were threatened by price wars among competitors. Therefore, in 1953, he opened a showroom in Älmhult, Sweden, so that his customers could have a look at the furniture before placing an order. This helped the company as customers chose the products with the best value for money. However, the pressure that competitors exerted on suppliers to boycott IKEA led to the company deciding to design its own furniture. When IKEA began exploring the packaging of its furniture, one of the workers disassembled a table to fit it into a car for transportation. This led to the invention of flat packs and the self-assembly concept, which became a huge success.

In 1958, the company opened its first IKEA store, 'Möbel-IKÉA' in Älmhult, Småland, Sweden, with 6700 square metres of home furnishings – the largest furniture display in the Scandinavian region during those times. In 1960, it added a restaurant to the store, which over a period of time became an integral part of the store concept and layout. However, after this the company began looking at markets other than in its home country. In 1963, the first store outside Sweden was opened in Oslo, Norway. Later, in 1969, it entered Denmark with its store at Copenhagen. The company then spread to other parts of Europe in the 1970s. In 1973, it went outside the Scandinavian region and opened a store in Switzerland, followed by a store in Germany in 1974. The global expansion of IKEA stores took place at a rapid pace during the 1970s and 1980s. Stores were soon opened in other parts of the world, including Japan (1974), Australia and Hong Kong (1975), Canada (1976) and Singapore (1978). In the 1980s, IKEA further expanded its store network to France and Spain (1981), Belgium (1984), the USA (1985), the UK (1987) and Italy (1989), among other areas. It expanded into more countries in the 1990s and 2000s. In 1998, it entered China by setting up a store in Beijing. In 2010, the company also entered the Latin American region with a store in Santo Domingo, Dominican Republic. However, the company did not have much of a presence in the developing countries.

Germany, with 44 stores, was IKEA's biggest market, followed by the USA with 37 stores. The IKEA store at Stockholm Kungens Kurva, Sweden, with an area of 55 200 m², was the largest in the world, followed by the Chinese stores in Shanghai (49 400 m²), Shenyang (47 000 m²) and Tianjin (45 736 m²), and the German store in Berlin Lichtenberg (45 000 m²).[7] The IKEA store located in Tempe, Sydney was the biggest store in the Southern Hemisphere, with an area of 39 000 m².[8] By the end of 2013, IKEA planned to open its first warehouse in Croatia and its first shopping centre in Vilnius, Lithuania, which would be the biggest furniture-selling mall in the Baltic states.

Manufacturing and other initiatives

Unlike the traditional retail stores where the customer could directly go to the needed section, IKEA encouraged its customers to go through its store in its entirety. Therefore, its stores were designed in a one-way layout in the anti-clockwise direction. Most of the IKEA stores were very large buildings decorated in blue and yellow patterns. However, the newer stores used more of glass for functional and aesthetic purposes – to give a better impression of the product and a better look to the store, and to use more natural light to reduce energy costs. The stores required customers to first go through the display making note of the required items, then proceed to the open shelves to make smaller purchases, and then go to the self-serve warehouse to collect the previously noted products. They were then directed to the in-house warehouse or external warehouse to collect the products and make a payment.

All the IKEA products were designed in Sweden but were largely manufactured in developing countries. The company had 50 suppliers, mostly in Europe and Asia. China, Poland, Italy and Sweden formed the top production centres for IKEA. Most of its products were identified by single-word names which were Scandinavian in origin – like names of places, men and women, rivers, lakes, flowers, plants etc.

'People flock to IKEA stores because of price', said Debashish Mukherjee, partner and vice-president at AT Kearney, a global management consulting firm.[9] For instance, in China, the company had cut its prices by 60 per cent since it entered in 1998. The secret lay in its designing, sourcing and packaging. The company's product developers and designers worked directly with suppliers, and the concept of DIY drastically reduced its cost. Devangshu Dutta, CEO of Third Eyesight, a retail consultancy, explained, 'When they sell flat packs, there are no assembling costs, no shipment costs and mostly products are sold on catalogues, which helps them reduce operational costs and lower prices. Those flat packs work well with young consumers whose budgets are normally tight'.[10]

Most of the IKEA stores included restaurants serving traditional Swedish food. However, in some countries, a few varieties of the local cuisine and beverages were served besides the Swedish staples. For instance, the IKEA restaurant in Austria offered a free refill policy for soft drinks, a practice that was otherwise unknown in the country. Another important feature of the IKEA stores was Småland (Swedish for 'Small Lands'), where parents dropped off their children at a gate to the playground and picked them up at another gate after shopping. IKEA also launched a loyalty card called IKEA Family, which was free of charge and could be used to gain discounts on a special range of IKEA products.

IKEA was involved in various charity and social initiatives. The INGKA Foundation was involved in several international charitable causes, like helping tsunami victims in Indonesia, Sri Lanka and India; the cyclone-affected in Myanmar; Somali refugees; earthquake victims in Pakistan and China; donating to schools in Liberia; saving and restoring forests; and reducing pollution. In September 2005, the IKEA Social Initiative was formed to manage the company's social involvements on a global level. The main partners in IKEA's Social Initiative were UNICEF and Save the Children. IKEA also took a proactive stance on environmental issues and developed an Environmental Action Plan in 1990, which was adopted in 1992. The company's environmental measures included the elimination of polyvinylchloride (PVC) from its products and packaging and minimising the usage of formaldehyde, chromium, cadmium, lead, PCB, PCP and Azo pigments. The company used wood from responsibly managed forests, stopped providing plastic bags to customers, and offered reusable bags. In August 2008, it created IKEA GreenTech, a €50 million venture capital fund, to invest in 8–10 companies with a focus on solar panels, alternative light sources, product materials, energy efficiency, and water saving and purification. In February 2011, IKEA announced plans for a wind farm in Dalarna County, Sweden to achieve the goal of running on 100 per cent renewable energy. As of June 2012, IKEA had 17 stores powered by solar panels in the USA, with 20 additional installations in progress.

In 2004 and 2005, IKEA was named one of the '100 Best Companies for Working Mothers' by *Working Mothers* magazine. In 2006, it ranked 96 in *Fortune*'s '100 Best Companies to Work For'. In 2008, IKEA Canada LP was named one of 'Canada's Top 100 Employers' by Mediacorp Canada Inc. and was featured in *Maclean's* news magazine.[11] In addition to these, the company received many more awards and recognitions.

Global furniture industry

The global furniture industry had changed over the years. It was not restricted to the making of chairs, tables and beds but had expanded into the production of a wide range of furniture, furnishings and designed interiors which spelt style and elegance. With the world economy developing at a faster rate since the beginning of the new millennium, the furniture industry had witnessed a boom with new markets opening up. While every country had a unique style in its furniture design and usage, globalisation, increasing migration, changing lifestyles and disposable incomes all contributed to the increased demand for stylish and quality furniture and, in turn, to the growth of the furniture industry.

Because of long-established production capacity, advances in science and technology, greater availability of funds, and management experiences, the traditional furniture-making countries in the West took up over 70 per cent of the global market. However, developing countries like China, the Philippines, Indonesia, Malaysia, Singapore, Thailand, South Korea, Taiwan, India, Poland and Mexico were growing and showing great potential in furniture production. With their newly identified competitive advantages, these countries took up the remaining 30 per cent of the world market. The European region, on the other hand, accounted for about half of the world's furniture production, valued at around €82 billion, with Germany taking the lead with 27 per cent of the total European Union production, followed by Italy (21.6 per cent), France (13.5 per cent) and the UK (10.4 per cent).[12] While the USA and Canada were the largest importers at 15 per cent purchase of the global production, China was the world's largest exporter, recording exports of US$39 billion in 2011, up by 15.31 per cent year-on-year and accounting for 35.3 per cent of the global furniture trade.[13]

By 2015, the global furniture market was expected to reach US$436.5 billion.[14] With a steady improvement in the economy and living standards, Asia was expected to become the centre for the long-term growth of the global furniture market. According to a study by the World Bank, the organised furniture industry was expected to grow by 20 per cent a year,[15] and the demand for luxury furniture was expected to rise in countries such as China, Russia, Brazil and India.

Furniture industry in India

India was home to rich traditional handicrafts and artistic works in wood. Indian art and design had earned a worldwide reputation for themselves. The supreme quality, exceptional designs and luxurious trends lent elegance to the Indian furniture segment. However, with the passage of time, the preferences of the Indian consumer had changed and the furniture industry too had changed to suit consumers' needs. The industry produced a wide range of products related to the office, living room, bedroom, kitchen, garden and schools, as well as mattresses, furnishings, upholstery, parts of furniture etc., using a wide variety of raw materials like wood, rattan, steel, plastic and metal, and more recently silver.

Based on the raw material used, the furniture market in India was regionally concentrated. According to research by IKON Marketing Consultants, the furniture market in India was estimated at around Rs 700 billion in 2010.[16] However, it was considered an unorganised sector, as handicraft production accounted for about 85–90 per cent of the total furniture production in the country.[17] The market was highly fragmented: production came from small regional firms or individual artisans, and only 10–15 per cent came from the organised sector comprised of leading manufacturers, importers, dealers and distributors. Within the Indian furniture market, home furniture was the largest segment, accounting for 65 per cent of the industry sales, followed by the office segment with 20 per cent, with the contract segment taking the remaining 15 per cent.[18]

However, Indian imports of furniture were growing at a considerable rate, catering to the need of the urban middle class for stylish homes in compact apartments. Countries like Germany, Italy, South Korea, Japan and recently China and Thailand had been major suppliers of furniture to India. With a promising market potential in place, several international brands like Arredo Classic, Art Design Group, B.T.C. International, Bizzarri, Cantori, Desirée, Girasole, Gold Line, Presotto and Reflex were trying to enter the Indian market. Top domestic companies like Godrej, BP Ergo, Featherlite, Hanworth, Style Spa, Zuari, Durian and Millennium Lifestyles also had a presence in the industry (refer to Table 2 for the top 10 furniture companies in India). The entry of international brands and changing consumer preferences had led to the emergence of furniture retailing in India. IKON Marketing Consultants estimated that with India's robust economy, a spurt in real estate and housing activity, burgeoning information technology and services, and the Indian middle class aspiring to better lifestyles, there would be a further boom in the Indian furniture industry in the near future, the demand mainly coming from the metropolitan cities of the country.

Top 10 furniture companies in India

	Brand	Company	Head office	Product categories	Store locations
1	Godrej Interio	Godrej &Boyce Mfg. Co. Ltd	Mumbai	Bedroom, living room, study, dining, kids, kitchen, home accessories, mattresses, seating, desks, storage, carpet, health care, lab, marine	Across India
2	Usha Lexus	Usha Shriram Enterprises Pvt. Ltd	New Delhi	Bedroom, living room, dining room, study, office	Srinagar, Delhi, Jammu, Dehradun, Noida, Lucknow, Muradabad, Jaunpur, Varanasi, Allahabad, Patna, Guwahati
3	Zuari*	KK Birla Group	Chennai	Home furniture, soft furnishings, home accessories, lighting, kitchens	Across India
3	Home Town*	Future Group/Pantaloon Retail	Mumbai	Home furniture, soft furnishings, home accessories, lighting, kitchens	Across India
4	Durian	Durian Industries Ltd	Mumbai	Home furniture, office furniture, laminates, veneers, turnkey solutions, plywood, doors	Across India
5	Damro	Damro Furniture Pvt. Ltd	Chennai	Bedroom, living room, study, dining, kids, seating, storage	Across India
6	Wipro Furniture	Wipro Group	Bengaluru	Home & office furniture and interior products	Across India
7	Evok	Somany Group/ Hindware(HSIL)	Gurgaon	Home furniture, soft furnishings, home decor, flooring, modular kitchens, bath, decorative lighting	Across India
8	@home	Nilkamal Ltd	Mumbai	Home furniture, soft furnishings, home accessories, lighting, kitchens	Pune, Surat, Vadodara, Mumbai, Kochi, Hyderabad, Ghaziabad, Ahmedabad, Chennai, Coimbatore, Bengaluru
9	Style Spa	Adventz Group of Companies	Chennai	Home furniture, soft furnishings, home accessories, lighting, kitchens	Across India
10	Housefull	Housefull Furniture Pvt. Ltd	Mumbai	Bedroom, living room, dining & kitchen, office & study, storage, decor	Ahmedabad, Vadodara, Bengaluru, Chennai, Hyderabad, Mumbai, Nashik, Pune, Surat

*Two companies tied for number 3.

Sources: Adapted from T. Palhade, 2013, Top 10 home furniture brands in India, *Top 10 Companies in India*, http://top10companiesinindia.com, 27 May; Prem, 2012, Top 10 home furniture companies in India, *Blogs & U*, http://blogsandyou.com/top-10-home-furniture-companies-in-india, 13 December.

IKEA's entry into India

Retailing accounted for 14 per cent of India's GDP. The industry consisted mostly of small shops, with organised retail stores accounting for only 4 per cent of the industry. After liberalisation in the 1990s, many foreign companies had set their sights on the Indian market. However, until 2011, FDI in multi-brand retail was forbidden by the Indian Government, and FDI in single-brand retail was permitted only up to 51 per cent. In November 2011 the FDI reforms were announced, but due to opposition from different political parties and activists they were kept on hold. In January 2012, India allowed 100 per cent FDI in single-brand retail on the condition that the retailer should mandatorily source 30 per cent of their goods from India's micro, small and medium enterprises (MSMEs). And 51 per cent FDI was allowed in multi-brand retailing in December 2012. After the reforms, in June 2012, IKEA, which had been trying for a long time to expand into the Indian market, applied for permission to invest US$1.9 billion (€1.5 billion or Rs 105 billion) and set up 25 retail stores in India in two stages.[19]

However, this was not IKEA's first tryst with India. India had served IKEA as a low-cost sourcing destination since the 1980s. Every year, the company sourced around US$600 million worth of goods (textiles, rugs, lighting, ceramics and carpets) from 70 suppliers and 1450 sub-suppliers in India.[20] In August 2003, when the company was on an expansion drive, it set up a raw material trading division in India to ensure better cost management. As the yield of cotton (per hectare) was very low in India (therefore higher priced), IKEA sourced cotton from Australia and China where yields were much higher. This reduced price pressures on its exports from India. The set-up in India was its first trading division to offer the service of raw material sourcing.

Later, in May 2007, IKEA set up an office in Gurgaon in northern India to carry out market research and initiate talks with Indian players for an alliance. IKEA was then planning for an Indian debut in 2009. IKEA group president and CEO Anders Dahlvig said, 'We will be there eventually, I'm sure. It is a question of how and when. I think it will mostly depend on things like legislation and infrastructure development'.[21] However, there were FDI restrictions and local sourcing conditions prevailing during those times. IKEA tried to persuade the Indian Government to ease the FDI rules and seemed hopeful of a breakthrough in 2008, but the company failed. The company anticipated that the opening of the Indian sector would take more time and abandoned its efforts to set up stores in India with an investment of €300 million. However, IKEA could not ignore the Indian furniture and furnishings market. According to some estimates, the market was Rs 925 billion,[22] of which only 7 per cent belonged to organised retail. IKEA made it clear that it would only enter India when 100 per cent FDI would be allowed.

In the meantime, IKEA continued with its production and sourcing in India. In September 2010, the company's CEO, Mikael Ohlsson, visited India to ensure that its suppliers were not employing young children or forcing people to work in difficult conditions. IKEA had spent millions of dollars to create sustainable audit and transparency networks in India. It also worked in partnership with the United Nations Development Program and UNICEF on grassroots development programs like female empowerment, health awareness, education, water and sanitation, and industry-based programs that benefited 100 million women and children. Ohlsson also proposed doubling production in India. Speaking about the possibility of IKEA setting up its stores in partnership with Indian firms, Ohlsson said, 'A joint venture is simply not an option. IKEA has spent years streamlining costs, making investment money go further, and cutting out middlemen. As a result, introducing a foreign partner into the mix now is not something that is under consideration'.[23]

In January 2012, India approved reforms to allow 100 per cent FDI in single-brand retail. Welcoming the change, an IKEA spokesperson said, 'The IKEA Group welcomes the Indian Government's decision to allow 100 per cent foreign direct investment for single brand retailers. We will now over the next few days look into the details of the decision and we expect to present more information shortly about our intention to establish retail operations. India is a strong and growing purchase market for IKEA'.[24] Industry experts were expecting that IKEA might announce its Indian entry any time soon. Ohlsson too welcomed the change but stated that India's requirement that 'foreign single-brand retailers' source 30 per cent of goods from local small and medium-sized establishments' came in the way of its proceeding with its investment. IKEA spokeswoman Josefin Thorell said, 'India is still a very interesting potential retail market for the IKEA Group, but we need to understand what the guidelines will mean for us. We have found that the conditions applied to local sourcing from [small and mid-size enterprises] might be difficult for us to live up to'.[25] Some other companies and analysts voiced the same concern. Abhay Gupta, CEO and founder of Luxury Connect, a retail consultancy, said, 'Companies like IKEA and Nike have raised concern on the sourcing clause. Every brand would like to go [it] alone, but this is a major bottleneck as it is difficult to find expertise among small vendors. Also, companies will have to go to more suppliers so that they are less than $1 million. This will create supply chain inconsistencies'.[26] Arvind Singhal, chairman of retail consultancy Technopak, also supported the concern and said, 'This condition [on sourcing] is highly impractical and illogical. Big brands entering India would not like to source from SME players as they cannot match up to the standards of global retailers. We believe that the government cannot force this condition on brands wishing to scale up in India'.[27] But the Indian Government ruled out any changes in the local sourcing clause.

On 22 June 2012, Ohlsson met the Indian commerce, industry and textiles minister, Anand Sharma, at St Petersburg in Russia and confirmed his company's investment and sourcing plans. IKEA filed its application seeking the Indian Government's permission to establish 25 stores. The application also sought permission to engage in import, export, distribution, marketing and warehousing, and to have standard IKEA store features like cafés, restaurants, food marts, nursing homes, children's play areas and publications under its brand name. In the first tranche, the company planned to invest €600 million (Rs 42 billion) in opening 10 stores, followed by the remaining €900 million (Rs 63 billion) for setting up 15 more stores later.[28] However, stating its concerns over sourcing norms, the company in its statement said, 'We will source at least 30 per cent of the purchase value of products sold in India from our direct and indirect supply chain comprising Indian small industries. In the longer term, however, the mandatory sourcing of 30 per cent of the value of goods sold in India from domestic small industries remains a challenge'.[29]

IKEA's decision to enter India was met with mixed reactions. While the backers of the reforms opined that this investment would help modernise the country's infrastructure and manufacturing and supply chain, the critics said that the entry of such companies would put millions of small-time shops out of business. In addition, the country's GDP growth was only 5.3 per cent during the first quarter of 2012, and there was a widening trade gap with a current account deficit of 4 per cent of GDP, requiring international capital to overcome the gap. Hence, the pressure on the Indian Government to implement the economic reforms announced earlier that year continued, but this move faced opposition from critics. Seema Desai, India analyst for the risk-advisory firm Eurasia Group, said, 'It doesn't take the pressure off the government. India's balance-of-payments situation requires some more reforms for foreign-direct-investment flows to strengthen'.[30] However, it was still not clear as to when India would respond to the proposal.

Overcoming regulatory and political roadblocks

In July 2012, IKEA sought a 10-year window (instead of one year) to comply with the sourcing rules. IKEA also expressed concerns that if it procured from MSMEs (firms with a total investment less than US$1 million), they would soon grow and become large set-ups. Then the company would have to find other MSMEs, which would affect its product quality and supply chain set-up. There was speculation in the media that the sourcing clause might be relaxed. On the other hand, industry experts announced that India had laid out a welcome mat for single-brand retailing, but only theoretically, and that a compromise solution had to be found. Saloni Nangia, president of Technopak, said, 'Keeping in mind IKEA's stature, I'm sure the government will work out something. Meeting the 30 per cent sourcing target will take time – IKEA just wants some latitude'.[31]

In September 2012, the Indian Government tweaked its sourcing clause. It changed 'mandatory sourcing from MSMEs' to 'preferably from MSMEs' and said that foreign firms expecting a relaxation in the 30 per cent procurement norms would have to set up a manufacturing facility in India. After these reforms, the government asked IKEA to revise and resubmit its application. On 8 October 2012, IKEA submitted the final paperwork to start retail operations in India. The company, in its application, also gave the assurance that the old furniture collected from Indian customers in exchange for new ones would not be resold in the market but donated to needy families or third-party small businesses through charitable organisations. Ohlsson said, 'Once our application is approved we will develop a solid plan for the establishment of IKEA stores for many years to come, generating investments and new employment. At the same time, we will continue to increase our sourcing in India from both existing and new suppliers building on long-term relations and shared values'.[32]

A day after it filed the application, IKEA appointed Juvencio Maeztu as its country manager for India, with a responsibility to find the right real estate and hire talent for its India foray. The outskirts of Indian metropolitan cities such as Delhi, Mumbai, Bangalore, Hyderabad and Chennai were expected to be its store locations. Maeztu said that the Indian market was different in terms of its varied tastes: 'So we have to slightly tweak our model with designs and pricing, keeping in mind the Indian consumers and the dynamics of the retail industry here'.[33]

On 20 November 2012, India's Foreign Investment Promotion Board (FIPB) approved IKEA's proposal to start operations in India. However, it imposed the following conditions: IKEA should not operate food and beverage outlets within the store; it should not sell 18 categories of items (of the 30 initially applied categories) like gift items, home and office products, apparel, leather products, fabrics, textile goods, books, toys, travel and lifestyle items, and consumer electronics; and it should not sell any products that it did not brand, including second-hand furniture. Citing the reason for the conditions, a government spokesperson said that according to the norms, a single-brand retailer could not be a marketplace with such a wide range of products and could not sell food items.

Citing the restrictions, some analysts thought that the company might have to change its business model. Ankur Bisen, vice-president (retail and consumer products) at Technopak, said, 'IKEA is known to open "big-box" stores [more than 200 000 square feet] with a standardised design. So far, they have not tweaked the model anywhere in the world. But India is such a strong pull, they will not mind opening stores without food courts'.[34] Other industry experts said that a restriction on so many categories was not a good idea. Harminder Sahni, managing director of Wazir Advisors, said, 'Home improvement is still the bread and butter for IKEA. The home furnishing category is all about experience. People do not mind travelling extra to buy IKEA products'.[35] The company also announced that all its product categories were sold across stores in 44 countries and it was not demanding anything extra from India. Replying to the government's concerns about in-house cafés, the company mentioned that as the stores would be located on the outskirts of the city, there would not be any displacement of small food retailers. The company wrote to the Department of Industrial Policy and Promotion, stating that to keep the 'IKEA experience' intact, the company must be allowed to operate its global model.

On 22 January 2013, FIPB cleared IKEA's business proposal and permitted it to sell non-furniture items and run cafés in India. While FIPB permitted food and beverages to be sold at IKEA's in-store restaurants/cafés, it restricted the retailing of any food item off the shelf in any other part of the store. It also said that IKEA could not use its global procurement of products to satisfy the Indian demand of mandatory sourcing (30 per cent) from the country. However, India had given a five-year window (from the time of the company's initial launch in the country) to fully comply with the sourcing requirements. Other conditions included the restriction of e-commerce sales and used furniture sales. After FIPB's clearance, the proposal was put before the Cabinet Committee on Economic Affairs (CCEA) for final approval as the FIPB had the authority to take a decision only on investments less than Rs 12 billion. On 2 May 2013, CCEA approved IKEA's investment proposal. Maeztu added, 'We feel very welcome in India. This is a big step in our journey to open IKEA stores in India'.[36]

Working with suppliers

After the company got the approval to set up its stores in India, IKEA spokesperson Ylva Magnusson said, 'It will be another four to five years before Indians can purchase the company's iconic flat-pack furniture'.[37] IKEA's planned investment was until then the largest by a foreign retailer in India. IKEA spokesperson Josefin Thorell said, 'The Swedish retailer's presence in India will, in a major way, help improve availability of high-quality, low-price products, increase sourcing of goods from India, and increase the competitiveness of Indian enterprise through access to global designs, technologies, skill development and global best practices'.[38] But the promoter of a Ludhiana-headquartered home furnishing unit (an ex-IKEA supplier) was not too enthusiastic about IKEA's entry: 'IKEA engages in predatory trade practices. In the first year, they offer excellent margins. In subsequent years, the margins reduce to a level that turns a unit into an unprofitable venture'.[39]

After the approval of its application by the CCEA, Ohlsson, while commenting on the development, said, 'This is a very positive development. IKEA already sources products from the country and will continue to increase our sourcing in India from both existing and new suppliers, building on long-term relations and shared values'.[40] India had been IKEA's sourcing destination for textiles and carpets for a long time. However, the company was interested in further linking up with Indian suppliers in the plastics, steel, lighting and natural fibre categories as well. Analysts said that this investment by IKEA had come at a time when the Indian furniture market lacked big brands and was sure to shake things up for the benefit of the Indian consumer.[41]

IKEA already had 70 suppliers and 1450 sub-suppliers in India. After the company got clearance from the cabinet, it invited all its suppliers to its Gurgaon office and discussed its plans for the future. It focused its discussion on growth and doubling its sourcing from Indian suppliers. In response to these developments, IKEA's Indian suppliers began gearing up to face the sudden surge in order volumes. For instance, V. Ashok Ram Kumar, managing director of Asian Fabricx, said, 'We certainly need more people when there's a sudden increase in order volumes. To beat labour shortage, automation is being focused on'.[42] Some change in the processes was also taken up by the suppliers. For instance, earlier, 80 per cent of the yarn was dyed before weaving into fabric, but now, to reduce costs, most of the weaving was done without the yarn being dyed.

Apart from these benefits, analysts expected that IKEA's entry would have a great impact on the industry as a whole. They expected that big-box retail formats, which would be located on the outskirts of big cities, would be introduced and gain popularity with other retailers in India. An increase in the competition between big-box furniture retailers that had little or no differentiation and a partial or total wipe-out of the low-cost imported furniture market was also expected. However, retailers or brands that maintained sharp differentiation in their products and services were expected to survive the competition. IKEA, since its founding, had played on the price sensitivity of the customer and low-cost furniture. The company's website stated, 'We design the price tag first and then develop the product to suit that price'.[43] According to Thorell, 'Product developers and designers work directly with suppliers to ensure that creating the low prices starts on the factory floor'.[44]

Challenges

IKEA lobbied hard with the Indian politicos and bureaucrats to overcome the initial hurdles and obtained permission to open its stores in the country with its global model intact. However, this was only one part of the problem; the company was expected to face more challenges after its entry.

A major challenge for the company in establishing its stores was the availability of retail space and its cost. IKEA stores in India were unlikely to be smaller than 350 000 square feet. Some of its biggest stores around the world had an area of 606 000 square feet. The accommodation of such a huge area in any mall in India was highly unlikely. Moreover, any IKEA store had 6–8 unloading bays and 300–400-foot-long customer vehicle loading bays, with 20-foot-high ceilings.[45] IKEA's 2006 initiative of 100 per cent renewable energy usage required its stores to be supplied with either wind power or energy from solar panels. Its stores in Germany, France, Sweden and at 40 more places used either power from their own wind turbines or from solar panels. The possibility of Indian real estate developers meeting such stringent energy requirements was also doubtful. IKEA planned to open nine stores in seven years – two stores each in the National Capital Region (NCR), Mumbai and Bangalore, and one store each at Chennai, Hyderabad and Pune. Therefore, with the existing space constraints, analysts said that it was more likely for IKEA to opt for standalone suburban stores. 'In India, the cost of real estate is high, retail space availability is an issue and overall store efficiency is a big challenge. They can't cut and paste their global model here. They have to develop [an] India-specific strategy', said Dutta of Third Eyesight.[46] Other industry players thought that though IKEA might opt for suburban locations, it would be difficult to obtain such large chunks of land and the price would also be high. D. K. Jairath, deputy managing director of Style Spa, pointed out, 'This kind of land tract will only be available on the city outskirts and IKEA will have to join hands with land parcel owners if it is keen to acquire such large land parcels for its use'.[47] Experts said that land acquisition through public auction through government or individual owners would turn out to be a greater challenge for the company in acquiring such huge chunks of land.

IKEA had started its hiring activities and vendor negotiations to begin its operations in India. However, the organised Indian players – including Landmark's Home Centre, Hindware's Evok, Future Group's Home Town, Godrej Interio, K. K. Birla's Style Spa, and others – claimed that they did not feel threatened by the entry of the ultra big-box retailer. Anil S. Mathur, COO of Godrej Interio, said, 'There will be initial euphoria on IKEA's entry into India. However, they will have to work hard on getting market share in India'. Jairath added, 'There is no collision course with IKEA. It will definitely add competition to the market as IKEA is an ultra big-box retailer. If it is to survive in India, it will have to play on the volume metrics. Real estate costs are highly prohibitive and they will have to create products suited for the Indian climate and style'.[48]

Apart from these two main challenges, IKEA was likely to face many others. As the stores were likely to be located in the suburban areas of big cities and customers had to travel long distances to make purchases from IKEA, AT Kearney's Mukherjee said that the company might have to face last-mile supply chain issues (from IKEA store to home transportation). People in Western countries have large cars, houses and parking lots where folded and packed furniture could be accommodated, but Indians have compact cars and homes which would make it difficult for the consumers to stock and transport their products. Moreover, low levels of car ownership and a patchy road network would make it harder for consumers to shop at IKEA and the company might feel the need to locate their stores nearer to urban centres, which in turn would increase its set-up costs and render real estate acquisition more difficult. Apart from that, IKEA's DIY concept might be a hit globally, but people in India prefer readymade furniture or getting it made by their carpenters. Moreover, Indians expect shop assistants to guide them around the store and the lack of such staff would come as a shock to them. Vivek Iyer, a 38-year-old lawyer from south Delhi, said, 'I'd go with my driver and he could be doing the loading and carrying I suppose. Then I could get someone in to build it all. But [the] point of a shop is that someone will be doing that for you, isn't it?'[49] Analysts thought that IKEA's DIY model might suffer if faced with such consumer behaviour.

It was felt that IKEA's anti-corruption policy might prove to be another hindrance to its growth in India. For instance, in Russia, the company could open only 14 stores in 12 years because of this policy. According to Transparency International's Corruption Perceptions Index, and the World Bank's *Ease of Doing Business* reports, India ranked 95th and 132nd respectively,[50] which indicated that IKEA might face difficulties with the Indian bureaucratic set-up. However, analysts suggested that the success or failure of the company lay in the hands of the next generation of customers, whose reception of the company's products was unpredictable.

Looking ahead

According to Technopak, the highly fragmented Indian furniture market was expected to grow from US$10 billion in 2009 to US$15 billion by 2014.[51] But the working of IKEA's core concept, the DIY model, in India remained a question.

However, IKEA still felt that its prospects were bright in the country and that it was ready to tweak its model to win over the Indian consumers. It was tweaking its product range and showrooms and adding services to accommodate a new culture. In places where people lived in smaller rooms, it modelled its showrooms smaller. Ohlsson said, 'Most people don't really know and can hardly imagine that we visit thousands of homes round every store in the world every year. We sit down in the kitchen and talk to them ... That's the way we try to learn and understand. "What are you annoyed with? What are your frustrations? What would you like to have? How much can you afford? What are your alternatives?"'[52] In developed markets, IKEA was positioned as a low-priced product, but in emerging markets like India, it planned to target its products at the growing middle class that aspired to an international lifestyle.

In India, the company planned to open 10 stores by 2023 and 15 more in the next phase. The company might also take into consideration consumers' concerns. As Ridhika Mandavia, a preschool teacher in Mumbai, said, 'I'm not sure if I will want to travel to the end of the city to buy their furniture. Plus I have heard about how you are encouraged to pack your furniture up and then take it home and set it up yourself, and that is not something we Indians are used to. So if they can change that model and help pack and deliver furniture at no extra cost, it may work'.[53] In India, should IKEA consider building larger stores closer to customers' homes like it did in China? Should it do away with the DIY concept altogether in India?

Country manager Maeztu also acknowledged the challenge that store locations posed in India. As the whole investment was made from internal accruals, Maeztu said, 'An ideal location for us would be 10 acres [of] space [it could be between 5 and 15 acres], close to a highway with good visibility so it is not 3 kilometres inside and with public transport infrastructure. When I talk of public transport, in India it has to be metro connectivity because you can have a bus stop and if you are struck in the traffic for two hours then you are not properly accessible. We are looking to cater to the real middle class in India. We will never compromise on a good location. So even if it takes five years to locate a place it is no problem. The future is much more important for us than 1–2 years. My job or my salary does not depend on how quickly I open stores. We try to do it right on a long-term basis. We don't depend on banks or on investors and we don't need to show [quick results] to our investors or banks'.[54]

As of July 2013, with the approval from the Indian Government on opening its stores in India, the company was busy understanding the Indian culture to introduce the best possible and workable IKEA model in the country. It had hired a consulting and market research company to map the demographics and economic parameters of consumers in the top 10 cities. Maeztu personally visited about 20 families in the Delhi region, Mumbai and Bangalore. The question was, could IKEA tweak its globally successful business model to suit the requirements of India without breaking the model?

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