

Analysis of IKEA's Internationalization Strategy

Saud Alenezi¹, Nouf Al Mutairi², Saif Alenezi³, Sarah Maresa Münzer⁴

University of Kuwait, Kuwait City, Kuwait¹

Correspondence Email: s3od27al3nzie@gmail.com

University of Kuwait, Kuwait City, Kuwait²

Email: noofnawaf7@gmail.com

University of Kuwait, Kuwait City, Kuwait³

Email: s.f.a.9778@gmail.com

Universidad EAFIT, Medellín, Colombia⁴

Chapter 1: Introduction

ABSTRACT

IKEA is one of the most recognizable home furniture brands worldwide.

Its concept focuses on combining high functionality with quality and design in its products, while keeping prices as low as possible, especially by keeping the assembly of the furniture directly at the customer. Its stores usually also include a kid's area and a restaurant, where you can buy besides others their in-house brands of food and snacks. It's goal from the beginning was to provide furniture that makes everyday life easier and is available to everyone and not only a few people, all of this while keeping sustainability in mind. IKEA is a very family-oriented company, with the belief that children are the most important people and the home is the most important place.

It was founded 1945 by Ingvar Kamrad in Sweden, who handed the Ownership of the company over in 1982, to ensure the companies independence even after he wouldn't be able to take care of it anymore. (*IKEA Foundation, 2019*)

The IKEA Group works with a franchise System and multiple different companies, all under the IKEA Brand. (*Inter IKEA Systems, 2017*)

The company has grown significantly over the past decades, with revenues reaching a billion dollars recently. IKEA has over three hundred stores in 55 different countries, and become the third largest consumer of wood worldwide. (Jamila Sidhpurwala, 2018)

While expanding at a very fast rate and with huge success in the european market, it faced many challenges, some of them within their company structure and others while trying to enter markets outside of Europe.

One of the major and critical problems IKEA faced in recent years is uncontrolled child labour in countries that supply woven products like carpets to the company. Child labour in countries such as India and Pakistan is a common phenomenon and the company lacks effective ways to control its suppliers in these countries. Child labour is often accepted in societies with high poverty rates and parents are having a hard time to support the family on their own. Since Institutions are often weak in those areas too, the company cannot rely on local authorities for assistance. So far, IKEA's attempts to control this issue have been unsuccessful.

IKEA can try to limit or prevent the use of child labour by strengthening and working to amend its agreements with suppliers and put strikt contracts in place that prohibit the exploitation of children and their families.

Another huge problem they faced while expanding their markets was the understanding of different cultures and needs.

Culture varies from society to another, so they have to adjust their product range and service according to the needs of the customers in each country. (Hultman et al., 2012)

In some cases, the company wasn't able to adjust to the market the way they needed to. One of the most prominent examples for that was the first time they entered the Japanese market in 1974. Because they misunderstood their audience regarding quality as well as service and product requirements among other things, they even closed down their store completely after a couple years. They came back to Japan in 2006, after they adjusted their strategy and adapting their products to the living conditions in the country. (LA Times, 2006)

The purpose of this paper is to analyze the challenges IKEA has faced in the past regarding their international expansion, showcase which solutions the company has found so far.

Chapter 2: Company Background

History

IKEA is a worldwide furnishing retailer, founded in Sweden in 1943 by Ingvar Kamprad.

He first started by delivering useful items for friends and Neighbors on his bicycle around the area. (Ikea Foundation, 2019)

The Name originates from his initials (I.K.) and the name of the Farm and Village he was raised at, Elmtaryd and Agunnaryd (E.A.).

Until this day, IKEA is still very family oriented and calls itself a 'values-driven company', with the belief that children are the most important people, and the home is the most important place. The founder's vision was to offer functional furniture, with prices so low that everybody can afford them. Ingvar Kamprad signed the ownership of the company over to the IKEA Foundation in 1982, to ensure that it will continue to be independent even after he leaves the business. (Ikea Foundation, 2019) At this point, IKEA already had stores in 20 different countries and was continuing to expand even more. (Inter IKEA Systems 3, 2018)

The Ikea Foundation

The IKEA foundation is the philanthropic arm of INGKA foundation, which is the mother company for all IKEA businesses.

The goal of the foundation is to improve opportunities, by creating long-term programmes that help young people that live in the poorest societies around the globe.

A greatest historical incubation has taken place in the history of IKEA which making it a global company, it played role in combating child labor and promoting education. (Ikea Foundation, 2019)

When it was founded in 1982, it focussed mostly on architecture and interior design. Today, the foundation plays a major role in combating child labor and its roots, promoting education and fighting for children's rights. It wants to achieve those goals on a large scale, so it works with strategic partners to achieve the most important pillars of children's lives: a place to call home, a healthy start in life, a quality education and a sustainable family income. (Ikea Foundation, 2019)

The IKEA Concept

The main concept of the IKEA idea is still to offer affordable products 'for the many people' and not just a small percentage, by creating furniture with good design, functionality, quality and value. The company also tries to operate in every aspect as sustainable as possible.

One of the ways it is keeping the prices as low as possible, is that they basically share the workload with the customers. By delivering their products in their typical flat packages and leaving the assembly part to the buyers, they save a lot of working hours within the company and save storage and transport space for everybody.

In the end, they want to make the homes of as many people as possible more liveable and help them improve it. Ikea is trying to reach their customers through their stores, web and applications and through all of their customer's houses. (Inter IKEA Systems 3, 2018)

Sustainability

IKEA is trying to create a sustainable Business, by balancing all three pillars of Sustainability. They analyzed their Climate Impact, and see their biggest chance to reduce their carbon footprint in reducing their raw materials and the life of products in the households. To work on that, they want to build a circular lifecycle for their products. They are trying to reuse and recycle old furniture to get closer to their goal to completely stop sending waste to landfills. Additionally, they continuously work on a reduction of absolute greenhouse gases by reducing energy consumption, switching to renewable energy sources and an improving the entire value chain. While sourcing new materials, they also try to act environmentally and socially cautious and keeping animal welfare in mind. Their Goals for 2030 are to enable sustainable and healthy living for their customers, grow their operations while creating a circular business and becoming climate positive by protecting resources and ecosystems, and to have a positive social impact during the entire value chain of IKEA. (Inter IKEA Systems 4, 2018)

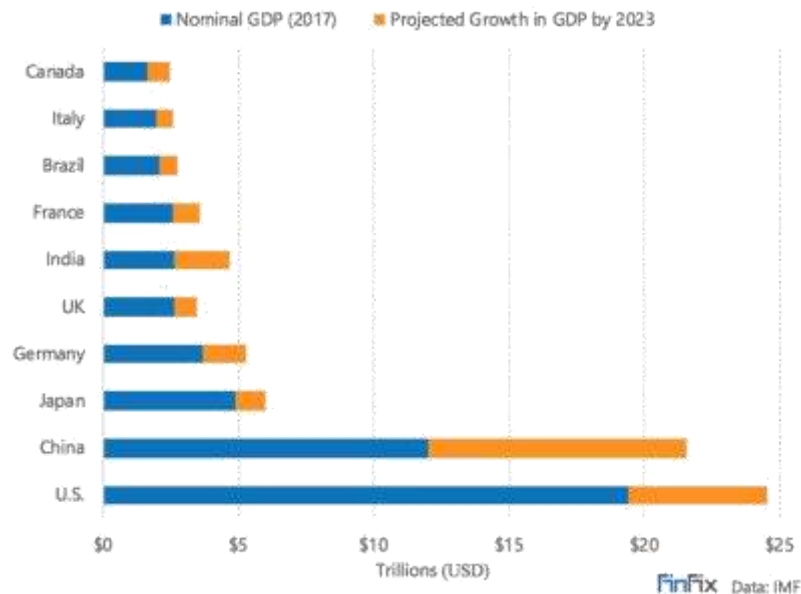


Figure 1: Investopedia, 2019

Chapter 3: Data Collection

To conduct the research and analysis for this paper, we relied on official information and on reliable and academic secondary sources to ensure that our analysis is as accurate as possible. Our main source of information was the company website, academic studies, articles and news. By analysing the market environment and the past of the companies in different markets, we seek to identify strategies that are profitable and appropriate for the company's internationalization strategy.

Chapter 4: Analysis and Findings

As the Companies growth slowed down in Europe and North America, Ikea began pushing to join markets in Asia and South America.

In Asia, Ikea has faced various challenges trying to penetrate the markets as well as continuing its operations.

In the biggest Asian consumer markets Japan, China and India, it faced significant problems trying to appeal to the population. This is a major issue for the expansion of the company, since those Nations, have really high market potential for IKEA.

In Asia, IKEA today is represented in are Bahrain, China, Cyprus, Hong Kong, India, Indonesia, Israel, Japan, Jordan, Kuwait, Malaysia, Qatar, Russia, Saudi Arabia, Singapore, South Korea, Taiwan, Thailand, Turkey and the United Arab Emirates.

Market Opportunity Analysis Asia

Asian economies are getting more and more important for international trade, due to technological advancement, a growing population and accelerated GDP growth.

As of today, China is the second largest economy, right after the U.S., with an expected nominal GDP of 12.02 Trillion USD. In terms of GDP PPP, China already became the biggest economy worldwide, with 23.15 trillion USD compared to the United States with 19.39 trillion USD.

When it comes to GDP Purchasing Power Parity, India is the third strongest country, with 9.45 trillion USD, when it comes to nominal GDP though, they come in 6th, but are close to taking the UK's 5th spot. It is the fastest growing trillion-dollar economy, with continuously rising GDP growth rates.

Both India and China have high GDP and growth rate, but due to their high population, the per capita are still pretty low. Yet, both countries offer great investment opportunity, due to their growing middle class, favorable demographics and high saving rates.

In fourth place according to GDP PPP, is Japan, with 5.42 trillion USD, in terms of nominal GDP, they are even the third biggest economy. (Prableen Bajpai, 2019)

IKEA's Competition

1. Porter's 5 Forces Analysis

The five competitive forces Analysis by Michael E. Porter are an important tool for our research to analyze the competitive environment in the furniture retail market.

It helps us understand where the biggest threats for IKEA comes from and which areas it has to focus on to stay competitive in the market.

Bargaining power of suppliers: IKEA's suppliers do not possess substantial bargaining power, as there are numerous factories around the globe with the capabilities and resources to form partnership with IKEA. At the same time, the company pursues the strategy of forming strategic long-term relationships with its suppliers. The Company has a very strict code of conduct their suppliers have to obey, but since they are a strong business partner, their suppliers are willing to

Bargaining power of customers: Since IKEA has to compete with other companies or local manufactories, the bargaining power of customers is very high. Especially in countries with a very price sensitive population, they have to be very aware about their customers and be very sensitive about their needs and demands.

Threat of new entrants into the industry: The current market is saturated by global furniture companies, but it is a basic good almost everybody needs. IKEA has to compete with local as well as international manufacturers, so it is relatively easy for new furniture producers to enter the market. Especially in the Asian markets, it is easy for small firms to offer cheaper and more convenient products and service for their customers.

Threat of substitute products and services: IKEA's self-assembly culture is pretty unique in the market, this however means, that basically all traditional furniture retailers that offer those services for you, are offering substitute products and services. Other retailers also offer custom made furniture, so IKEA has to convince their customers to buy their products by offering alternative Selling points and services.

Rivalry among existing Competitors: IKEA is one the biggest furniture retailer in the world, but that there are a lot of other global and local companies that are competing in the market. Some of the biggest global companies it is directly competing with are Walmart, Wayfair, Tesco and American Woodworks.



2. Global Competitor Analysis

As we already mentioned in the five-forces analysis, the industry in which IKEA operates is highly competitive. In Asian markets, the biggest competitors are often the local furniture makers, because they can often provide cheaper products and can copy designs from mayor companies. It faces fierce competition by many companies, the most important ones are: Walmart, Tesco, Sears, American Woodmark and other companies.

Some of the shares of these companies in the market is larger compared to Ikea, and therefore pose a direct threat to the company.

Walmart is a San Francisco-based company that provides a wide range of products that are considered of the best quality among competitors.

The company offers its furniture products in all categories which are suitable for any home, including office furniture, living rooms furniture, kitchen furniture, children's furniture, etc. As the company is one of the most famous selling furniture companies, it is classified as the strongest competitor to IKEA (Kanaka, 2013).

Wayfair is an e-commerce company located in USA that provides home appliances for various types of home online requirements.

Wayfair focuses on decors and furnishings and has more than 10m products distributed to more than 10,000 suppliers.

Their website interface show users a very wide kinds of both in and outdoor furniture. The user interface allows a search option to enter the product for faster searching. Wayfair customer service are provided in a way of selecting, placing items, tracking items, and afterwards a free shipping is provided. A return policy is granted for customers too. Due to its wide product portfolio and quality of service, Wayfair is definitely one of Ikea's competitors (Yesnowitz & Lutz, 2018).

Allows customers to place orders, and provides them with delivery and installation. It also provides a viable way for payment options through debit / credit cards. Due to its various products and services, Sears is one of Ikea's competitors.

Tesco is a company that is headquartered in UK. It is considered the largest retailer ever in England and in the world. Tesco's stores are distributed over seven countries and their employs reach to more than 476,000.

Tesco offers home and furniture a great discount and customer services. Tesco is known for its top-quality items and the good consumer's services that they provide. They offer suitable prices for people as much as they can no matter which products are purchased. They offer furniture such as sofas, chairs, tables for coffee, cabinets for display, children's room, display racks, dining room tables and other home furniture. Due to its expansion and products, Tesco is among the strongest IKEA's competitors (Evans & Mason, 2018).

American Woodmark is also an Ikea competitor, a company in USA that is specializing in the manufacture of kitchen and bathroom cabinets. Its operations are located in different manufacturing sites throughout USA.

It provides about 500 types of reservoirs that can be depended on building new and restructuring homes.

American Woodmark is renowned for its four major brands: American and Landmark, Timberlake cabinets, Shinagawa cabinets and Waypoint living spaces.

The Cabinet of AW offers unique, varied designs, and materials. Their cabinets are the only ones throughout the country via a network of home builders. Because AW offers uniqueness in their tank design, it is without a doubt among Ikea's competitors (Volpe, Cheri & Banfi, 2017).

Challenges faced by Ikea when penetrating the markets

IKEA's most memorable failure in regard of their Internationalization, was probably their first try to cater the Japanese market 20 years ago.

Because Japanese living culture is very different from the European lifestyle, they had huge difficulties connecting to the population, and even had to close up their stores completely after unsuccessfully trying to convince the country of their brand from 1974 and 1986.

Japanese homes are in general smaller and rely on simplicity. The customers were also new to the self-assembly process that is typical for the IKEA brand, and had trouble getting used to it. Before giving the market, another tries in 2006, they had to change their strategy and learn from their mistakes. To understand their customers, they visited and studied the habits of the population and are now focusing on small-space living in their showrooms and stores across the country. They decided to cut a quarter of their product range -mostly large and bulky pieces that are typical for European and American Households- out of their catalogue in Japan and offers additional delivery and assembly services. (Associated Press, 2006)

The two biggest consumer markets in Asia besides Japan, are China and India. The challenges they faced were very different from the ones they had in Japan, since both of them are still considered developing Nations, and therefore show other characteristics than Japan as one of the developed triad countries.

One of the problems facing IKEA in the two Nations, was pricing. Prices considered low in Europe and America were still too high for the markets in China and India.

In both countries, furniture services are also offered by family-owned shops who visit the homes and built furniture based on the specifics of the buyers and do this at a lower price level than IKEA is able to offer (Tai, 2016). One reason for this is that the local shops have access to cheaper raw materials, labor and additionally have zero design costs.

To overcome the pricing problem, IKEA needed a long-term solution, since they still wanted to stay true to their 'For the many people' philosophy.

To compete with the low furniture prices from local producers, the company increased the sourcing of local material and build more factories to keep production costs low.

In China, around 65% of sales volume is produced locally, which reduces their prices there by more than 60%. In comparison, only 30% of products are manufactured in China for the global market.

They also arranged quality inspections closer to the factories to avoid high repair costs after sales.

The price reduction brought up another dilemma for the company; since western products are perceived as aspirational in the Asian market, the low prices created confusion among the consumers. This led to the company changing its target market to focus on the young middle-class population with higher income and more awareness of the western styles.

This change in strategy was a big step away from their philosophy, since they were not catering the mass markets like in other parts of the world. (Business Today, 2013)

The second challenge was the store location of Ikea's trademark large stores. Unlike in Europe and America where individuals use their vehicles, most people in India and China rely on public transport. In this case, Ikea had to locate its store in the outskirts of the city that are connected by metro networks and rail. Additionally, land acquisition in China was not cheap nor straightforward given the bureaucratic challenges that posed delay. While Hyderabad significantly matches the Ikea trademark, its other sites are considerably small (Goel & Garg, 2018).

Lastly, do it yourself culture that is widespread in Europe and America is relatively new in Asia. Given the availability of cheap labor translates to the absence of DIY culture. It was off-putting to the consumers given that they have to assemble their commodities (Goel & Garg, 2018).



Graphic1: Business Today, 2013

Other Challenges

As the furniture stores continue to carry out its operations in China and India, there are various challenges it continues to face. For one, Ikea is known for using its product catalog as a marketing tool; however, in China and India, the catalog provides a chance for the competitors to replicate the company products and offer them at low prices. The company has to change its marketing strategy given that the two markets lack strong laws counter such activities (Tai, 2016). As an alternative, they are trying to reach urban youth by using social media and blogs instead. (Business insider, 2013)

Secondly, Ikea has been leaning towards being eco-friendly which has been challenging to pan out in Asian markets. The company requirements include paying for plastic bags, requesting green product supplies and also increasing the use of renewable energy in the stores (Tai, 2016). They had to lower their expectations on being eco-friendly in those markets. Since the consumers are more price sensitive, paying extra for plastic bags was something their audience was not used to and their local suppliers did not have the technical advancements to produce at IKEA's sustainable standards. The company decided that they wanted to continue to stay in the market anyways, so they adjusted to their environment stay competitive. (Business Today, 2013)

Another Issue it faced in the past and is currently trying to overcome, is child labour. It exists in a lot of IKEA's producing countries and is hard to control, especially since the company also has a

lot of Sub-Contractors, too. To battle this issue, they developed their own code of conduct, called 'The IKEA way on preventing Child labour' and includes unannounced visits at the Suppliers and Subcontractors in South Asia.

They also hold Workshops and try to understand their problems and understand how child labour develops. If they find out that a manufacturer is not working according to their guidelines, they are required to take corrective action, education and training. IKEA will also visit the Child's school and intensify the unannounced visits. If the supplier doesn't manage to eliminate that problem, their collaboration with IKEA will be terminated. (Inter Ikea Systems 2, 2018)

To better the life of Kids and to reduce this issue worldwide, the IKEA Foundation also expanded its charter and is working with strong partners to achieve better results in this area and was able to collect €142 million to them in 2016 with the help of coworker and customer donations. (IKEA Foundation, 2019)

Chapter 5: Recommendations

1. Embracing different cultures

Due to the different cultures and countries IKEA is integrating itself in, the whole company is becoming less and less cohesive in its product range and store design. In our Opinion, IKEA should embrace those differences even further.

One virtue IKEA has in Europe, is that customers set foot into the store and immediately feel understood. There is an area for kids to play while the parents are shopping, but also carts big enough to take them with you. IKEA understands that you probably spend a lot of time in the store, too, so it includes a restaurant with a variety of food options for the entire family, for a while now, they even started including more vegetarian and vegan options. The products themselves are designed to make your life easier, furniture is made with a lot of storage room and a lot of options to help you organize your life. All in all, they are very practical and convenient with a simple design and available in a range of different colors to fit into every home and offer something for every taste.

For most Asian markets, they already edited their product offer, since some of the products are too big to fit into the relatively smaller apartments that are common in certain areas and cities. In some cultures that IKEA is currently serving, there are certain pieces of furniture that can be found in every household, but since they are unknown in Europe or North America, you cannot find them in their stores.

In some cultures, religion plays a bigger role than it does for most Europeans. Ikea has already recognized that in some way, and offers prayer rooms in their stores. However, it seems to leave out other believes, in which religion is often a big part of the customer's home.

By integrating a basic home shrine for example, they could serve a lot of different religions and cultures, including Buddhism and Hinduism, where home shrines are very common, it can serve as a 'Kamidana' typical for Japan or an offer table to celebrate your ancestors during 'Día de los Muertos' in Mexico, where the opening of a new store is planned this year. The design of those items could be simplified in the typical ikea manner, so that they have a universal use around the world.

A similar set of furniture that is connected to culture, are chairs and tea tables, especially typical in chinese and japanese culture, but also found in round or octagon shapes in arab countries, like morocco or turkey. You usually sit around those not on chairs, but rather on pillows or small stools.

Most of the coffee and side tables they sell at the moment, are either so high that you need a chair to use it, or have a second rack underneath the tabletop, which doesn't leave a lot of legroom during the tea or coffee ceremony. To implement those into the product range would only need little adjustments to the basic furniture they already offer, but would show IKEA's interest and inclusiveness of their customers culture and customs.

It is little details like those, that made IKEA a success in Europe in the first place, and would show that it also embraces other cultures and wants them to be part of the IKEA Family.

2. Celebrate all our customers

To celebrate their inclusivity, they could launch country specific furniture collections for limited amounts of time. Every country has specific designs that are typical for their culture or history, and IKEA could celebrate those by e.g. giving each country a designated month in which it educates and promotes about the different designs and culture of the country.

With this, it can also highlight the versatility of their pieces, by not adjusting the shape or construction, but more by using certain prints or patterns that celebrate heritage.

To keep the costs even lower, this could also be achieved by printing those designs on stickers, that are designed to cover certain pieces or parts of furniture. Since Ikea uses similar sizes and shapes for a lot of the closets and drawers, it won't need to many versions of them.

Since versatility and expression of individuality are becoming more and important especially amongst Millennials, this could be a good way to reach and market to them.

Another item they could switch out for those country themed months, could be prints on bed linen or promoting curtains in the typical colors of the nation's flag. Even the restaurant could be part of this, by offering typical food items.

A long-term marketing Event like this requires a lot of planning and of course cooperation with country experts, but in the end, this could have a huge global and local marketing effect, especially if the company also decides to work together with social media influencers.

It could connect the company with young and creative audiences by improving their online presence, which can rapidly multiply the brand exposure and at the same time show interest in their international audience. In some countries, the simple designs don't fit into the traditional furniture of the people's homes, so this could help with the internationalization, because this could help close the gap between cultures and also boost worldwide sales.

3. Employ local Management

When it comes to Internationalization, management is one of the keys to success or failure. IKEA is a huge international company, but most of the time it employs european managers in the upper management levels.

Hiring local managers is beneficial to global firms since they have almost all of the required information for a successful entry. Therefore, IKEA should employ local managers because they know the culture and the market.

As a result, it would give the company an upper hand as far as knowing the most preferred products or services, market dynamics and which place to introduce what product. The local managers can help the company cut on the market research budget since they can be sources of information, which can be verified as the company moves forward.

They are also in a better position to build solid relationships with existing clients or assist in expanding the market through reaching new customers. Moreover, local talent would assist the firm to start building a high-quality international labor force, which can contribute to the firm's international growth goals.

With local management, IKEA might also have an easier time finding and working with local suppliers, which can open up new investment and partnership opportunities for them.

They might have an easier time directing the company to suppliers with more affordable prices or to areas where it is easy to find raw materials.

Managers that understand their customers on a cultural level can also make sure to avoid certain mistakes and problems before they occur. A Japanese Manager for example, might have spotted the mistakes IKEA made during their first time in Japan and might have focused on small-space living earlier on. In the case of China and India, they would have been aware of the price sensitivity of the locals and can help the firm in pricing its products to ensure they match up with the competitors.

Additionally, the relationship between the employees and local managers is also often much closer compared to managers and expats from the mother company, since they don't share the same culture and values, which can create difficulties in communication.

In general, local management would help IKEA navigate the cultural disparities with vendors and clients as well as giving market insights.

With the idea of 'acting local, thinking local' through management, IKEA might be able to adapt enter and adapt to new markets with more ease and capture a significant market share with no time.

4. Being sustainable everywhere

Ikea can ensure sustainable living which encompasses reduction of the climate footprint through an increase of investment in greener supply chains.

Ikea faces a great challenge in becoming eco-friendly because of the need to maintain affordability among price-sensitive customers. Ikea can achieve this by increasing investment in their suppliers to ensure that they have the right technology for the production of green products.

While this may cost a lot of money for the business, it is a one-time investment that will also bring the company closer to achieving its goal of reducing climate footprint by 70% for each product.

In order to deal with the issue of plastic bags among price-sensitive consumers in Asia, Ikea can invest in reusable bags that are made from cotton or polypropylene. The cotton bags are called totes and can be used numerous times. Polypropylene, on the other hand, makes durable plastic compared to the HDPE bag; hence it can be reused as many times as possible. These bags have a rigid insert at the bottom which only strengthen them, so they can be used long term.

This will be suitable for the Asian Market as they pay for the bag only once and can use them many times without having to purchase more.

Conclusion

IKEA has learned a lot from the mistakes it made while entering global markets. It continues to grow in these markets and was able to grow their market share by changing their strategy and marketing and has plans to further expand even more in the future.

However, to stay profitable in countries like China and India, they weren't able to stay true to some of their core beliefs, like operating as sustainable as possible and offering products affordable for everybody. Our suggestions for their future internationalization are, to include culturally important pieces of furniture into their assortment, to make more cultures feel included in the IKEA Family. To highlight its inclusivity, a marketing campaign that educates about different countries and highlights their culture with individually usable stickers or adjustments on basic pieces of furniture shows that the company cares and wants to learn about all of their global customers and can give the company huge social media exposure.

To be able to enter new markets like Latin America etc. it will be useful for the company to employ local managers, that already have a high understanding of the market and might be able to establish connections to suppliers to ensure low production costs.

Since Sustainability is a big part of IKEA's identity, they should invest into their suppliers, especially in the markets in which they are unable to keep up their standards thus far. The company is trying to operate in a sustainable manner all around the globe, and to do so they will have to invest into local production. Being an environmentally friendly company is part of their Company Identity, so they might lose credibility over time if they are not able to adjust their supply chain everywhere in the world.

Overall, the Franchise groups in different countries are differentiating more and more from the Swedish original, so those suggestions can help IKEA to celebrate differences and similarities between cultures while holding on to a common core and staying true to its Identity in the long term.

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