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Use value innovation to create competitive advantages in Blue Ocean

A case study of IKEA in Nanjing

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Abstract

This present thesis aims to contribute to a better understand about how to use value innovation to get competitive advantages and get leading position in the market.

This theoretical approach is supported by an empirical case study about IKEA in Nanjing, China. This case is based on a qualitative research method of in-depth interviews with the local customers, co-workers and managers. The outcome is IKEA uses a unique strategy execution in Nanjing, and it fits Nanjing’s market very well.

The competitive strategy of IKEA is based on its vision of “create better everyday life for many people”, combined with the value-based service culture, and use value innovation to create more value for both customers and company. This present thesis will show its unique strategy operation way together with value creation, which leads IKEA successful apply its Blue Ocean strategy in a foreign country and gets leading position in the market.

So far we have the opinion that IKEA has been successful in Nanjing by implementing a Blue Ocean strategy, which is crucially supported by good value innovation for both customers and company. It is quite a good example of successful Blue Ocean strategy operator in globally.

Key works: Competitive strategy, Competitive advantage, Value creation, Blue Ocean strategy
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1. INTRODUCTION

This chapter is the background of the study. First it will illustrate the social background, the certain contemporary conditions and the problem area. Then it will motivate the research question and hypothesize. In the end of this chapter will show the outline of the whole study.

1.1. Background

After China adopt opening-up policy since 1978, Chinese economic situation experienced a great change. Boasting an average Gross Domestic Product (GDP) annual growth rate of 9.4% in the past 30 years, China’s annual per capital growth rate has still reached 8.1% even with a large population of 1.3 billion (China Development Research Foundation and UNDP, 2005). In addition, after joining the World Trade Organization (WTO) since 2003, China has certainly become an important country, which absorbs a large amount of foreign investment. And as the enormous market potential, the Chinese market is becoming the main focus of competition for foreign companies (HIS, 2010).

For the recent years, competition has been at the heart of corporate strategy. Traditional competitive strategy states the company could get only one from cost or differentiation advantages. While Blue Ocean strategy emphasis the value innovation and claim the company could break the traditional trade-off and get both competitive advantages, which is quite suitable for current competitive situations around the world (Kim & Mauborgne, 2005).

The size and success of IKEA is why it is chosen for this study. By looking at the experience of such company, other international companies, especially retailers can learn something from it. Then the authors select Nanjing city as the target market, as the reason of authors’ personal experiences with it and the data availability.

1.2. Problem statement & Research question

The world largest furniture retailer-IKEA has been in China for more than ten years until now. But only from recent years, IKEA’s expansion in China become especially rapidly. According to their financial year report the sales increased by 7% to €23.5bn ($33.6bn) in 2010 (IKEA, 2010).
Chinese market is a very different market than previous market IKEA has entered before, which are the European, Australian and North American market, both culturally and economically (Herdianti, 2010). Impressively, IKEA has been successful in China. IKEA holds the largest market share of China’s furniture and fittings market in 2008 (Euromonitor International, 2009). So our research question is:

“What and how IKEA apply its competitive strategy and get competitive advantages in Nanjing, China?”

IKEA has not only achieved an incomparable status in the Chinese home furniture industry, it has also developed a “culture symbol” for Chinese customers encouraging the liberalism of consumption (Sklyarova & Kobets, 2011). As Kim and Mauborgne (2005) states the Blue Ocean strategy is emphasis the value innovation to create uncontested market space and make the competition irrelevant. So we hypothesize that:

“IKEA’s competitive strategy is Blue Ocean strategy, which leads IKEA create leading position in local furniture industry.”

1.3. The main purpose

The main purpose of this paper is to use Blue Ocean strategy framework to analysis how to use value innovation to create competitive advantages and get market leader position. We use a case study from IKEA in Nanjing, and interviewed local people. In more general aspect the authors will use SWOT analysis to see; what are the conditions for macro environment of local market, and then having the general look, the deeper investigation will be presented, done by usage of Blue Ocean theory with support of differentiation theory. This will be done to clearly see how IKEA operates in an Asia market and what its strategy to adjust to the market circumstances.

1.4. Structure of the thesis

The structure of this thesis is as the follow steps:

- Chapter 1 – Introduction

This chapter is to introduce the background of research, the main purpose, the research question and the structure of the thesis
• Chapter 2 – Methodology
This chapter is to demonstrate the process that we find the question and the use the methodology to solve the question.

• Chapter 3 – Theoretical framework
This chapter is to describe the theory of competitive strategy, value innovation and Blue Ocean strategy, which is the basic theory of this study.

• Chapter 4 – Case study of IKEA in Nanjing
This chapter is to illustrate the results that get from our research. The case study includes the perceptions from the Nanjing local customers, co-workers and managers. And the general information about social factors and local competitors’ situations will be shown in the end of this chapter.

• Chapter 5 – Analysis
This chapter is to use SWOT analysis and Blue Ocean strategy principals as the model to analysis the empirical results and answer the research questions.

• Chapter 6 – Conclusion
This chapter is to reach a conclusion, and give some implications and recommendation about future study.
2. METHODOLOGY

This chapter will demonstrate what kind of technique will use to investigate the research problem. And it will describe procedures and give explanation why this approach is thought to be to deal with given problems.

2.1. Research design

This section will give an overview about the study, which has been build up in conceptual order. The study starts from setting the theoretical problem area connects with a Swedish company operating in China. After determining the problem area the authors began with extensive literature study and collection of secondary data about IKEA and its competitive strategy, the Nanjing furniture market situation, and the theoretical frameworks for our study.

2.1.1. Qualitative and quantitative approach

According to Holme & Solvang (1997) describe the research methods should be based on the objectives of the study and research question is a key factor, that determines whether to use qualitative or quantitative research method. And the main difference between the two different ways is the use of statistical methods in the analysis.

- **Quantitative method** which transforms data into number, figures and digits that possible to analyze and use the statistical to give an increasing understand of the problem (Holme & Solvang 1997). Moreover, Quantitative research is to develop and use mathematical models to show the relationship of the variables involved (Fisher 2007).

- **Qualitative method** provide a holistic view of the situation and also add to understanding of social processes and context which emphasis on the researcher’s view and explanation of the complex textual situation and unable to change into digits or numbers (Holme & Solvang 1997). Therefore, Qualitative method tends to be considering with words rather than numbers (Bryman & Bell 2007).

However, this paper used qualitative approach as research method; due to the fact, that the strengths of qualitative research can give a comprehensive detail of problem which raises
understanding to the research findings. Moreover the research sources that used in the thesis were secondary data come from books, literature review, news, internet, and organization’s document.

According to Holme & Solvang (1997), interviews or observation are the most common way to processing the qualitative research. As the purpose to get more accurate information, the authors perform interviews with IKEA’s manager, co-worker and customer.

For the questions to ask customer (See Appendix 9.1), the authors plan to find what factors that motivated customers to go to IKEA, what factors get most impression for the customers when they compare with other furniture companies, with the purpose to find IKEA’s competitive advantages from customers’ views. For the questions to the co-workers (See Appendix 9.2), the authors plan to find the strategy execution situations in Nanjing store from co-workers’ views. Then for the questions to ask the store managers (See Appendix 9.3), the authors want to deeply study about why IKEA select Nanjing as one location, how IKEA apply its strategy in the different market, and how it face to the competition in local market. And these question answers would give better understand how IKEA gets competitive advantages and how IKEA execute the strategy from the management level.

2.1.2. Case study approach

In addition, case study approach was used as another research method to gather in information because it is a most useful as it allows studying many aspects in a specific case. Besides, the case study approach enables the researcher to draw conclusions about reality from a limited number of respondents. According to Yin (1994) “the unique advantage of a case study is its ability to deal with a full range of evidence”. The selection of IKEA in Nanjing for the case target because it opens more than two years and have dramatically influenced Nanjing furniture’s market. IKEA has successfully set up competitive advantages in Nanjing market. Then the case study will be conducted by following the step, first of all, determining and defining the research questions; consequently, determining data gathering and analysis techniques; next prepare to collect the data; then collect data in the field and evaluate and analyses the data from collection data based on research questions; lastly, comparing the result with theory to answer research questions (Yin 1994).
2.2. Data collection

The data collection method is important in the research process after choosing the method. In order to capture the process of how IKEA create competitive advantage in a foreign market, a case study of IKEA Nanjing. We gather information from different sources with the primary data and secondary data and then combine it (Christensen et al 2001). Primary data were collected by conducting the interview while secondary data were collected from extensive study of case study, literature review and reliable information of the company as the following details.

2.2.1. Collection of Secondary Data

The secondary data is coming from different sources such as books, case study, literature review, news, and internet and also company document in order to set the theory and expected theoretical results by answering the question. The scope includes the IKEA development situation in Chinese market and specifically in Nanjing market, the general information of local market and the local competitors’ situation. And the advantages of secondary data are cost effective, time effective and wide range of sources. These secondary data is served as starting point for understanding the contextual background of IKEA, and to develop a profound basis for our further empirical study.

2.2.2. Collection of Primary Data

According to Fisher (2007) says,

*Interviewing is the most commonly used method in Master's level research into business and organizations and it will be used to provide examples of good practice in open and semi-structured research.*

And as Christensen et al. (2001) described, the several types of interviews can be divided into three different structures for example structured, semi-structured and unstructured.

Refer to the research purpose, it will use semi-structured interviews, because this method could use open questions and give the respondent comments not just say yes or no or choose from the choice. There is focusing on question and theme interview in order to collect responses from respondent (Christensen et al., 2001). These kinds of questions could help the authors for deeply understand the research area.
2.2.3. Interviews

For collecting the data from the customers, the authors decide to select the customers from IKEA (Nanjing)’s biggest BBS in XICI, the most popular social network in China. With the purpose to make the work with high reliable, the researchers decide to choose the real fans of IKEA, which means they could know IKEA (Nanjing) better. And the method is to search from the BBS and send requests on the BBS to those high level members, which mostly like to share their feeling or pictures about their room decorations on the BBS. Finally, 15 out of 45 customers accepted the interview requests. And the interview approach was using the on-line interviews. And their ages were around 22 to 47 years old, mostly have already been in work, and have the economic foundation to buy the furniture in IKEA.

For deeply study from insight of the company, the interview co-workers and managers are necessary. Fortunately, based on private relationship, the authors have successfully contacted with one co-worker of IKEA (Nanjing), and also other colleges, with her help. Moreover Alison Zeng, the store manager of Nanjing IKEA, also accepted the interview requirement. Before that, the authors also interviewed the Susanne Jensert, the store manager of IKEA in Karlstad, as the information from other store could bring a reference for this study. During the interviews, the record is accepted, which greatly increased the data validity.

2.3. Data analysis

There is several possibilities way to analysis gathered research data. And the grounded theory will be used as it is good at capturing the complexity of context as action unfolds (Locke, 2001). According to Spiggle, S. (1994) describes the goal of analytical techniques “is to build theory that is grounded in data”. Due to the fact, this research is the qualitative research and the data was gathered from in-depth interview method. So the Miles and Huberman analysis method would be suitable for this study. According to Miles and Huberman (1994) describe data analysis, “as consisting of three concurrent flows of activity: (1) Data reduction, (2) Data display, and (3) Conclusion drawing/verification” (See Figure 1). Therefore, we perform data analysis is mainly in three steps (Miles & Huberman 1994).
Step 1: Data reduction. Underline the key terms in the responses after gathered data, and repeat the key phrases and then reduce similar phrases and create clusters. Consequently, generalize the phrases in each cluster.

Step 2: Data display. The next step is to take the reduced data and displaying it in an organized, compressed way, so that conclusions can be more easily drawn.

Step 3: Conclusion drawing/verification. It is to integrate theories in an explanatory framework and comparing the result that we found with previous study to answer research questions in this research.

2.4. The credibility of our research

Reliability and validity are two key aspects of the research practice and the elements of the credibility of our research result.

2.4.1. Validity

Validity can be defined as how well one has managed to achieve what one set out to achieve. Validity can be divided into internal and external validity.

Internal validity is the extent to which the results found in the research reflect the views of the respondents. As it have already mentioned the study were using online interview method, which is convenient to make record. And Chinese was the main language during the interview with the Nanjing customers, co-workers and managers, which is easy for the interviewees and
authors to catch the point, as one of the authors is Chinese people. So researchers claim that the most data we collected from the interviews are of high validity.

External validity refers to the ability to generalize the results of our study to other settings. It is difficult to judge if the collected primary data can serve for more general conclusions. Concerning the big amount of local customers, the researchers did not reach a big number of the people in the limited time. While the authors narrowed the research target into only one of Chinese city-Nanjing, and selected the customers very carefully, as most of them are selected from the IKEA fans internet group from BBS of XICI. And most of the customers and co-workers the authors interviewed are the first time to talk, so there is no bias from their respondents. Then the authors suppose the external validity is relatively high.

2.4.2. Reliability

According to Worthen et al. (1993), reliability is “the measure of how stable, dependable, trustworthy, and consistent a test is in measuring the same thing each time.” In this research, there are different factors that can affect the reliability of measurement for instance the sample of population, the number of respondents, the questions researchers ask in order to infer company could affect the attitude or bias of respondents that researchers are measuring may change across time as well. And Christensen (1998) said, the reality is characterised by constant change and therefore no one can repeat a study and obtain same results. With the reference to Christensen, the authors think that the reliability of the study is low, as the limited number of respondents and the time influence factors.
3. THEORETICAL FRAMEWORK

This chapter will firstly demonstrate the previous research on competitive strategy theory. Following is the value creation theory and Blue Ocean Strategy theory, which is the basic theoretical framework of the study.

3.1. Competitive advantage

Competitive advantage (CA) is a management concept that has a long tradition in literature (Ansoff, 1965; Porter, 1980, 1985; Barney, 1991, 2002; Peteraf, 1993; Besanko, Dranove and Shanley, 2000; Ghemawat and Rivkin, 1999; Grant, 2005; Barney and Hesterly, 2006) and popular in temporary literature in nowadays. Additionally, the more recent concept of sustained competitive advantage (SCA) has become also a major area of research mainly in theoretical and empirical studies based on the resource-based view of the firm (Barney, 1991; Wiggins and Ruefli, 2002; Foss and Knudsen, 2003; Peteraf and Barney, 2003).

Antecedents of SCA suppose industry, corporate and business-unit factors that could explain the final performance of a given firm. Porter’s generic competitive strategies and the resource-based view have provides a general framework for better understanding and classify some of these antecedents at different levels. The definitions of SCA are somehow influenced by Porter's original conceptualization of competitive advantage (1980, 1985) and have been developed mainly by Barney (1991) and Peteraf (1993). According to Barney (1991: 102),

"a firm is said to have a CA when it is implementing a value creating strategy not simultaneously implemented by any current or potential competitors and a SCA when it is implementing a value creating strategy not simultaneously implemented by any current or potential competitors and when these other firms are unable to duplicate the benefits of this strategy".

Peteraf (1993) defines SCA as "sustained above normal returns", mixing somehow the definition of SCA with its outcomes. Finally, the outcomes of SCA refer, in general, to different measures of financial performance. The question of operationalization and measurement of SCA outcomes has proven to be very challenging (Rumelt, 2003; Barney and Hesterly, 2006). When look at current operationalization of SCA outcomes it could realize that
value creation is a common theme (Rumelt, 2003). Value creation has been defined in previous research as “above-normal returns” (Peteraf, 1993); “a higher rate of economic profit than the average rate of economic profit of other firms competing within the same market” (Besanko, Dranove and Shanley, 2000); “being able to create more economic value than the marginal competitor in its product market” (Peteraf and Barney, 2003: 314) or “having an above-average performance in the long run” (Porter, 1985; Ghemawat, 1999; Barney and Hesterly, 2006: 22).

3.2. Value creation strategy

The notion of “value” has been a subject of interest since ancient Greeks (Ramirez, 1999). While when the economics became a field of study in its own right, the economic and ethical aspects of the concept of "value" have been separated. On the economic side, value is about utility, while, on the ethical side, it is about judgment (Edvardsson & Enquist, 2008).

Firms must learn from and collaborate with customers to create values that meet their individual and dynamic needs (Prahalad & Ramaswamy, 2000). While encouraging customer participation may represent the next frontier in competitive effectiveness (Bendapudi & Leone, 2003), and it reflects a major shift from a goods-centered to a service-centered logic for marketing (Vargo & Lusch, 2004). This new service-dominant logic defines customers as proactive co-creators rather than as passive receivers of value and supposes companies as facilitators of the value co-creation process rather than as producers of standardized value (Payne et al., 2008).

Gustafsson & Johnson (2003) have analyzed how to compete in a service economy and emphasize the customers is the key role in value co-creation. And Normann & Ramirez (1998) suggested that "the key to creating value is to co-produce offerings that mobilize customers". So it is apparent that the logic of value creation is changing. The traditional view was that the value is defined and created in the value chain, while the emerging view conceive value as something that is co-created with customers, and then assessed by them on the basis of value-in-use and consumption experiences (Kim & Mauborgne, 2005).

3.2.1. The concept of customer value

According to Holbrook (2006), customer value rests on four pillars. First, customer value is interactive in that it involves a relationship between the customer and goods or services.
value exists without this interaction. Second, customer value is relativistic. In this regard, value is: comparative, situational and personal. Third, value refers to a judgment of performance or outcome. In this regard, value can be expressed in terms of: attitude, affect, valence, evaluation, opinion, satisfaction, behavioral tendency and choice. Fourth, customer value resides in a consumption or use experience (rather than in a physical product or service).

Rintamaki et al. (2007) suggest four situations in which the key dimensions of customer value as the basis for value propositions will be different. First, if economic value is the key motivator for the customers, the value proposition should focus on price. Second, if functional value is the key motivator, the value proposition should focus on solutions. Third if emotional value is the key motivator for the customers, the focus should be on customer experiences. Fourth, if symbolic value is the key motivator, the value proposition should focus on meaning.

In summary, the value creation is the common theme for the outcome of SCA. While based on the traditional competitive strategy, the value creation strategy emphasis to offer new solution for customers, which has no relationship with management and competition, and replaces the sum-zero game between rivals in the market with developing more markets (Kim & Mauborgne, 2005).

3.3. Blue ocean strategy

According to Prahalad (2000), even provide products and service to public in the bottom of pyramid, the company also need to build differentiation with low cost thus to create competitive advantages. Based on 150 strategic moves over 30 industries, Kim & Mauborgne (2005) launch forward the Blue Ocean Strategy. This theory also challenges the traditional trade-off between low cost and differentiation, and state the company could get both these competitive advantages simultaneously.

3.3.1. Value Innovation: The Cornerstone of Blue Ocean Strategy

Value innovation is not only the common theme of SCA, but also the cornerstone of blue ocean strategy. From the figure 2, it can be sees that the creation of Blue Ocean is about driving costs down while simultaneously driving value up for buyers. And the value innovation makes this effort.
"Value innovation is created in the region where a company's actions favorably affect both its cost structure and its value proposition to buyers. Cost savings are made by eliminating and reducing the factors an industry competes on. Buyer value is lifted by raising and creating elements the industry has never offered. Over time, costs are reduced further as scale economies kick in due to the high sales volumes that superior value generates." (Kim & Mauborgne, 2005)

![Figure 2: Value Innovation: The Cornerstone of Blue Ocean Strategy](source: Kim & Mauborgne (2005), Blue Ocean Strategy)

3.3.2. Compare red ocean strategy and blue ocean strategy

Compare between the Red Ocean and Blue Ocean strategy, Kim and Mauborgne (2005) defined: Blue Ocean Strategy is:

"a creative battle where the players of a particular segment don’t compete with each other remaining in the same market space; instead explore, create and acquire new market spaces by dealing with new demand through the principle of 'value innovation'."

While the Red Ocean Strategy is:

"a head to head battle where the players of a particular segment compete with each other remaining in the same market space i.e. within the boundaries of the same industry on the principle of 'competitive advantage'."
3.4. Six principals of Blue Ocean Strategy

The Blue Ocean Strategy launches six principles: Reconstruct market boundaries; Focus on the big picture, not the number; Reach beyond existing demand; Get the strategic sequence right, Overcome key organizational hurdles, and Build execution into strategy (Kim & Mauborgne, 2005). The first four are formulation principles, and the last two are execution principles.

3.4.1. Reconstruct Market Boundaries

The first principal is re-constructing market boundaries to break from the competition to create blue oceans. And Kim & Mauborgne (2005) describe 6 paths: look across alternative industries; look across strategic groups within industries; look across the chain of buyer; look across complementary product and service offering; look across functional or emotional appeal to buyer; look across time.

It means when the company designs the service offering, it should not only concern the core service for customers’ primary needs, but also the supporting services for customers’ secondary needs (See figure 3). While Kim and Mauborgne (2005) open the scale and define the secondary needs may from the alternative industries, complementary product or service, and the contemporary trend, which could help the company looks beyond the contemporary competition and increases the market edge.

![Figure 3: Customer needs and design of the service offer](image)

Source: Bo Edvardsson (2009), Value creation for through service and service innovation.

3.4.2. Focus on the Big Picture, Not the Number

A company should know the great strategic insight is the result of closing the grassroots level and challenging the competition boundary (Kim and Mauborgne, 2005). It should listen to the customers and make the strategy map as visual forms, which could open the creativity of
employees and create value together (ibid). According to Kaplan & Norton (2004), the strategy can be used, e.g. to illustrate how an increase in employee motivation improves productivity and profitability or show how an employee’s operative activities contribute to achieving company-level objectives. From the view of strategy implementation, strategy maps could contribute to bridge the gap between strategy formulation and strategy implementation by, e.g. visualizing the connection between an organization’s strategic objectives and operative ones (Antola et al., 2006). So doing the research from the customers and then make the strategy in a visual form, could not only lead the company draw a right strategy but benefit for the following execution.

3.4.3. Reach Beyond Existing Demand

To attract and keep customers, and thus make a profit, companies are always searching for new and better ways to create value and differentiate their market offerings (Shaw & Ivens, 2002; Bendapudi & Leone, 2003). While to maximize the market scale, companies need not only focus on the customers, but also need to focus on non-customers. Moreover, companies should not blindly through customization and segments to meet the customers' need of difference, but to look for the common ground of buyers. According to Johnston and Clark (2001), excellent companies are often distinguished from average companies by these experiences, rather than by a logical cognitive assessment of for money. And Kim and Mauborgne (2005) recommend the company should consider the non-customers before customers, common points before different, and the merger market segments before the multi-level market segments. And they separate the non-customer into three tiers: "Soon-to-be" noncustomers who are on the edge of your market, waiting to jump ship; "Refusing" noncustomers who consciously choose against your market; "Unexplored" noncustomers who are in markets distant from yours (See figure 4).

Figure 4: The Three Tiers of Noncustomers
Source: Kim & Mauborgne (2005), Blue Ocean Strategy.

3.4.4. Get the Strategic Sequence Right

Get the strategic sequence right and build a strong business model could ensure the blue ocean idea become strategy operation, followed by gaining the profit. It means when the company
design the product or service should in a right way then the strategy will apply successfully. According to Kim and Mauborgne (2005), the right design way could separate into four steps: buyer utility, price, cost and adoption. Studies in the management of technology suggest that cooperation and communication among marketing, manufacturing, engineering and R&D leads to greater new product or service success and gets higher product profitability (Griffin & Hauser 1992). According to Rindova & Petkova (2007), the term ‘design’ expresses the different aspects of an object, as well as the choice of various parameters by means of which the object is created. When design the new product and services to customers, the company should try to obtaining data from customers, with the aim of understanding and identifying customers’ needs and expectations, also include the cost expectations (Zirger & Hartley, 1996). When the services or products design combined with the thinking of concerning the customers’ cost expectation, it could lead the strategy design in a right consequence (Kim & Mauborgne, 2005).

3.4.5. Overcome Key Organizational Hurdles

According to Henry Mintzberg (1987), crafting strategy need pass the “mind and hand” gap and makes the strategy in company’s daily work. When company has developed a good strategy with a profitable business model, it must execute it. The challenge of execution exists, of course, for any strategy. According to Kim and Mauborgne (2005), there have four organizational hurdles to strategy execution: Cognitive Hurdle, An organization wedded to the status quo; Resource Hurdle, Limited resource; Motivational Hurdle, Unmotivated staff; Political Hurdle, Opposition from powerful vested interests. And the Tipping point leadership is a good way to overcome these four hurdles fast and at low cost while winning employees' backing in executing a break from the status quo (ibid). The theory is that:

"to change the mass, focus on the extremes — people, acts, and activities that exercise a disproportionate influence on performance to achieve a strategic shift fast at low cost" (See Figure 5).

According to Edvardsson & Enquist (2008), modeling leaders’ behaviors is a particularly powerful way of cultivating leadership values and skills. As Berry (1999) observed:

“placing a true leader in charge helps to transform followers into leaders themselves.”
3.4.6. Build Execution into Strategy

According to Berry (1999), “personal involvement in service improvement builds insight, fosters commitments”. A company is not only top management, nor is it only middle management. A company is everyone from the top to the front lines. When execute strategy, a company will eventually need to resort to the most fundamental basis for action, that is, the employee attitudes and behaviors (Kim & Mauborgne, 2005). Because the employment leads to creating a position in the marketplace is undertaken over time through deployment of marketing practices including advertising, public relations, promotion, sales inducing efforts, publicity, etc., brand management, firm image and reputation, product development, and cost controls (Burton & Easingwood, 2006; Hooley et al., 2001; Porter, 1996).

Then, it must create a culture full of trust and loyalty to encourage people to identify strategy. Because the trust culture will permeate throughout the organization through authentic leadership; if leaders trust their employees, they will, in turn, trust their customers (Edvardsoon & Enquist, 2008). To build trust and loyalty at the grassroots level, encouraging collaboration of resources, a company needs to build execution into strategy, and use "fair process" to develop and implement strategies (Kim & Mauborgne, 2005). And the trust could avoid the fears from the employees and people who feel that they are trusted want to improve the business and work harder (Edvardsoon & Enquist, 2008).
4. Case study of IKEA in Nanjing

This chapter will illustrate our research result from multi resources. It includes: the general information about IKEA and its development in China, the interview results and the general information about Nanjing market.

4.1. Contextual background

4.1.1. IKEA

IKEA is world famous Swedish household furniture company. IKEA stores have operated by the IKEA Group and other franchisers grand total of 280 stores in 26 countries which customers a total of 626 million visitors during the year (IKEA, 2009). IKEA Group had operations in 41 countries those 29 trading service offices in 25 countries and 27 distribution centres and 11 customer distribution centres in 16 countries all over Europe, Asia, Australia and North America (ibid). According to its report, the IKEA have approximately 13.8 thousand co-workers worldwide (ibid). And the sales in 2010 is reach to pass $33.6bn (IKEA, 2010).

4.1.2. IKEA development in China

IKEA started to entre Chinese market until the end of 20th century. From 1998 until now, IKEA has settled 8 stores in 8 fast developing cities in China (See Figure 6). According to IKEA finance report, in 2009 fiscal year, IKEA (China) sales has over ¥3.7bn ($569mn), increased 23% by last year, which only account for 1.7% of IKEA global sales (IKEA, 2010). When compare with Germany and UK (See Table 1), which are two main markets of IKEA, it could be found that the sales of IKEA in China is quite less, and each store in Chinese market (0.20%) only contributes just around half of these two markets (0.35% and 0.39% respectively).

<table>
<thead>
<tr>
<th>Country</th>
<th>Sales</th>
<th>Purchase</th>
<th>Stores</th>
<th>Sales/Stores</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany</td>
<td>16%</td>
<td>6%</td>
<td>45</td>
<td>0.35%</td>
</tr>
<tr>
<td>UK</td>
<td>7%</td>
<td>NA</td>
<td>18</td>
<td>0.39%</td>
</tr>
<tr>
<td>China</td>
<td>1.7%</td>
<td>20%</td>
<td>8</td>
<td>0.20%</td>
</tr>
</tbody>
</table>

Table 1: Sales, purchase and stores comparison of IKEA in 2009
Source: www.ikea.com

While when compare with the GDP PPP of Germany, UK and China (See Table 2), it could be found that the GDP PPP of Chinese ($7,600) is only nearly one fifth of these two countries ($35,700 and $34,800 respectively).
Table 2: Economy & population comparison in 2009

<table>
<thead>
<tr>
<th>Country</th>
<th>GDP</th>
<th>GDP PPP</th>
<th>GINI INDEX</th>
<th>Population</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany</td>
<td>$2.94 trillion</td>
<td>$35,700</td>
<td>0.27</td>
<td>81.5 million</td>
</tr>
<tr>
<td>UK</td>
<td>$2.17 trillion</td>
<td>$34,800</td>
<td>0.34</td>
<td>62.7 million</td>
</tr>
<tr>
<td>China</td>
<td>$10.09 trillion</td>
<td>$7,600</td>
<td>0.41</td>
<td>1.3 billion</td>
</tr>
</tbody>
</table>

Source: www.CIA.gov

So, in other words, even Chinese people’s annual income is only nearly 20% of the other two countries, while each store of IKEA in China could contribute nearly 50% of each store in these two countries. It shows the potential of Chinese consumers’ purchasing power.

IKEA has said it plans to set more than double its number of stores in China by 2015. It announced last year it would invest $1.2bn in the next five years to build the three regional shopping centres in Beijing, Wuxi, and Wuhan (IKEA CN, 2011).


![IKEA store in China](image)

**Figure 6: The Timeline of the IKEA expansion in China**

Source: www.ikea.com/cn/zh/

### 4.1.3. IKEA development in Nanjing

At present, there are eight IKEA stores in China. And IKEA (Nanjing) is the fifth one opened in 2008 (See Figure 6). And from the Table 3, it can be seen that, the income of the local people would have some influence when IKEA selects the city to set store, as the three cities are all the first level cities in China, as the GDP PPP of these cities are all in the high level in China.
### Table 3: GDP per capital comparison between Shanghai, Beijing and Jiangsu Province in 2009

<table>
<thead>
<tr>
<th>Province</th>
<th>GDP PPP (2009)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shanghai</td>
<td>$11320 (NO.1)</td>
</tr>
<tr>
<td>Beijing</td>
<td>$10298 (NO.2)</td>
</tr>
<tr>
<td>Jiangsu(Nanjing)</td>
<td>$6437 (NO.6)</td>
</tr>
</tbody>
</table>


The same as other IKEA store in the world, the general layout of IKEA in Nanjing is probably the same. The total area is 300,000 m², consists of three floors, with a 645-seat restaurant providing Swedish food and café (IKEA Nanjing, 2011). The entrance from the third floor, which products display according to the function as living room; dining room; bedroom; halls; kitchen; Children room. On the second floor are textile, tableware, carpets, lamps and other household items. There have some rest rooms on each floor and two levels of parking place in the basement. IKEA (Nanjing) is located in Kazimen (See Appendix 9.8), which nearby the downtown, instead of suburbs in most of the developed countries. And this due to several reasons, the most important one is not every Chinese consumers have private cars, the convenient transportation is important. There are around 300 co-workers employed. The annual sales of IKEA in Nanjing are ¥ 260mn ($40.2mn), ¥ 240mn ($37.1mn) and ¥ 340mn ($52.6mn) respectively from 2009 to 2011 (IKEA Nanjing, 2011). The annually visitors is reported as more than 100,000, average 8000 visitors per month (ibid).

As for giving the reader an impression of the IKEA store in Nanjing as comprehensive as possible with a clear structure, the presentation of the results will be separate into four parts: the perspective of IKEA by its customers, the perspective by its employees, interview with the managers, and Nanjing furniture market competitors’ situation.

#### 4.1. Customer Perception of IKEA

Chinese people has deeply influenced by the Western lifestyle, products and culture (Paul & Yu, 2003). People are already like foreign company just because it is an international company. As authors interviewed with many customers, most of them shown their enthusiastic about their favor of IKEA. And as modern and fashion which IKEA shows to public, shopping in IKEA makes local customers feel they are fashionable and modern.

According to the interviews, there are mainly seven kinds of reasons that give the customers deep impression of IKEA and also the reason for shopping in IKEA (See Table 4).
### Table 4: Summary of Nanjing Customers’ perception of IKEA

#### 4.1.1. Leisure activity

One reason that makes customers to shopping in IKEA is Nanjing people like shopping. Every night and weekend, people would like to go out if they are free. And customers think shopping in IKEA is quite a leisure activity especially for household wife, youngsters and any segments of customers. As one respondent described,

“Most of the time, when I go to IKEA is coming with my family. Sometime is for having meal and sometime for taking a look. It’s a good place for a family activity. (…) I only take my son to IKEA once, as he is too small that many things could not play. While the children center is quite good, that parents could relax and let child play there.”

Not only for family activity, have Nanjing customers also thought IKEA as a fashion place to take photos. Like one respondent mentioned,

“I had seen a crowd of people took high level of digital camera went to IKEA at weekends, and took pictures very carefully. They just looked like entering the museum, their faced shown the curiosity. In some weekends, some young people even driven car to come to take pictures.”

This is only one aspect. And the main reason is they think shopping in IKEA as a good place for leisure activity, while taking the photos could make it memorable. While relate to the
location, some young people still claimed it is not convenient for them to go shopping there every often. According to the respondent stated,

“I only have been to IKEA for several times, as it is located near Jiangning, which is far away to my living place. It is not convenient to take buss from here, as it will need a long time.”

Even IKEA’s location in Nanjing is not in the suburban, while as not every Nanjing customers have private cars, and they familiar with shopping in city center, especially young people, so the claim is reasonable.

4.1.2. The IKEA Restaurant

The IKEA restaurant is one main reason that attracts customers to come to IKEA, which has mentioned by all the customers. As one respondent said,

“The first time I went to IKEA is only a short time for shopping, then is to go to restaurant and have food there, as I heard there have many import food there. And the next time I just directly go to the restaurant to have food, as I really like the foreign food there.”

Shopping is a thing need spend time and energy, then, IKEA restaurant gives a good place for customers to have a rest and add energy. In IKEA (Nanjing) store, the restaurant not only supplies the typical Swedish food, such as meatball, salad, pasta, but also the popular Nanjing local food. And the price is very close to Nanjing local consumption. And in weekdays, IKEA (Nanjing) even gives 50% discount for some special deal: Swedish meatball is only ¥7.70 ($1.2); mushroom rise is only ¥9.90 ($1.5). And it supply a happy meal with plush toys for children (under 12-year old), the price is only ¥9.90 ($1.5). And the soft drink is free for refill (IKEA Nanjing, 2011), which has been praised by many customers. Just like one customer mentioned,

“In IKEA you only need to buy a cup then you could drink many cups as you wish. Actually you only could drink for two cups, while you could feel the trust feeling.”

There have many different responses for the motivation to go to the restaurant. While one common thing is that, the typical Swedish food is unique in Nanjing. Some customers said they
only want to try to taste Swedish meatball. When compare the price with other western restaurant, most customers consider the food in IKEA is relatively cheap.

In addition, the decoration of the restaurant also makes customers feel comfortable. One customer described,

“Every time when I come to IKEA, I must go to the restaurant to have something. Sometimes I just invite friends to have meal there and free for chatting after meal, as the restaurant design and atmosphere is quite cozy.”

Another highlight is the restaurant also includes a playhouse for children to play located in the middle. So the parent could have a break and enjoy the time.

4.1.3. Wide range of products
IKEA has been criticized for selling the exact same products on the total global market (Bjork, 2000, Lewis, 2005). While in China, there have more products like chopsticks and cleavers, which also have been introduced as products designed for Chinese market. As one respondent mentioned:

“IKEA has much Chinese stuff. Such as the IKEA’s chopsticks are designed quite nice. (...) And in some Chinese festivals, IKEA will also sale some Chinese mascots in the store. For example, during the spring festival, I saw many posts all have the rabbit symbol as this year is rabbit year (in Chinese tradition). And you could find many rabbit toys in the store..”

And the display is also designed for local customers. One respondent stated the IKEA (Nanjing)’s insight display is quite different from other places,

“From the display, such as sofa and table, to products, such as wok and Chinese symbols, are shown in a different picture. I used to study abroad, so when I sit in the sofa of IKEA in Nanjing, I find it display you see more like ‘Chinese home’s feeling’. ”

Besides the special display and additional Chinese products, the Nanjing customers gave the wide range of products as a good mark. They said they could find everything they need for different “life situation”. For example, the sitting room not only display the sofa and table, it
also have some beauty carpet in the ground, flower vase on the table, and some cute bench set around that place. One customer stated,

“Mostly I go to IKEA because I have some feeling to buy something, while most of the time it could beyond your imagine. You could find more valuable things there which you didn’t imagine before. For example, one time when I shopping in IKEA, I find a bedside lamp, which is quite suitable for me, as the light is focused that I could reading in the night without disrupt my husband.”

Some time, one customer said, when she plan to buy some bowls, cups or small stuffs to add to their kitchen or dining room, she would directly some to IKEA, as most stuff you need in daily life could find here.

4.1.4. Well-design with functional furniture

For Nanjing local customers, the IKEA furniture is quite unique with well-design. As the Scandinavia style furniture is renowned for its innovative, contemporary, and streamlined qualities, Nanjing customers like its characteristic by a focus on function or utility. Compare with Chinese traditional furniture style, which focus on the elaborate ornamentation and embellishment, some respondents said the IKEA’s clear and simple patterns make their eyes shining. According to one respondent,

“I think the IKEA’s furniture is quite suitable for white-collar workers, especially the young people, as they like simple streamline style and there have variety of colors and styles for different furniture in IKEA. Such as my brother, his room is full of IKEA’s decoration. He tells me the sofa and bed is quite comfortable to sleep. While when I decorate my room, there haven’t found IKEA in Nanjing, so I only buy some small stuff to my room. And I plan to buy some big furniture from IKEA to decorate the new room for my son.”

While some customers held a reverse idea, as one customer claimed,

“Actually I don’t think IKEA’s furniture is an art, as something, such as a chair is so simple while so expensive, like 2-300 Yuan. I think this style of chair could easily found in supermarket.”
Then turn to the price, many customers think it is still higher than their expectation. As one young customer stated,

“Don’t let me stop at the price. Actually, every time when I shopping at IKEA, I was influenced to have the desire for shopping. While when I saw the price tag, I would stop, as the price is higher than my expectation.”

While some other customers hold different idea about the price. As one customer mentioned,

“I suppose the IKEA’s price is not so high. When you compare with Macalline or other market, you will want they sale more expensive than IKEA. Importantly, some small stuff in IKEA is really cheap, and when you meet some festival or discount products, you will find extremely cheap things there.”

Anyhow, according to the responds, it can be seen that nearly every customers appreciate IKEA’s well-designed products, even some customers, with some reasons, think the price is higher than their expect.

4.1.5. Experience room

Experience room maybe the most famous thing for IKEA, as nearly every respondent might talked about that. Giving the inspiration is no doubt. Besides that, some customers also mentioned that the experience room could save their money. One respondent described,

“Actually the experience room is very attractive, as it provides different sizes which could suitable for variety area of rooms. When my sister plans to decorate her new room, she just come to IKEA and compare with different model room and decide the final plan. It could bring many choices for you.”

Beside the intangible artifacts, the physical artifacts also attractive, especially the different color collocation. Just like one customer mentioned,

“Relate to the experience room, I think it is quite excellent, as you could find how to best use of all the area. And the color is bight, and the collection between different colors is also quite suitable and harmonious. It would make people have a happy feeling to shopping there.”
Moreover, customers also highlight the flexible technic of the experience room. According to one customer’s respondent,

“And the experience room has different size, and the chest is suitable for different length of room as it is modular furniture, which is quite flexible. So you don’t need worry that the chest you like not suitable for your kitchen.”

The IKEA’s experience room combines the intangible artifacts, physical artifacts, technology, and also customer involvement. Thus it provides a good level shopping experience for the customers.

4.1.6. Freedom to touch

Chinese customers are used to extreme service-orientation in all kinds of purchasing situation. Just like one customer described,

“When you get into any other furniture market, there must come a sales person to ask and help you select the product, some of the time is ‘over enthusiastic’.”

So IKEA’s self-service is quite different from Chinese service-orientation, and brings good impressions to the local customers. Compare with other furniture market, Nanjing customers really like IKEA’s freedom to touch shopping place. One customer said:

“The store (IKEA) service is quite good, as it gives you a free and comfortable feeling when you shopping there. And if you try to use something, the employee will say nothing. This thing maybe only could happen in IKEA. I used to see one father take off the child's shoes and let him sleep in the bed, as the child is really tried. While there is no employee say: ‘no’.”

Actually, all the interviewees mentioned they had the experience for sleeping the bed or sitting in the sofa. And the “free for touch” policy makes them quite like IKEA’s service.

4.1.7. Environment-friendly products

As an international famous company, the Nanjing customers mostly believe the IKEA’s quality. As in recent years, China has happened some poisoning events relate to furniture industry, as some company’s furniture have high level of Chemistry formaldehyde. Some
customers mentioned they were willing to pay premium money to protect their health. As one young mother demonstrated,

“My room is now just like the IKEA experience room. I would like to buy IKEA furniture, as the quality has guarantee and environment-friendly products have less impact on people. Especially when I have the baby now, I would like to pay premium price to buy the good furniture for him.”

While relate to the furniture’s raw martial, customers’ respondents shown in a different view. One person supposed,

“The quality is not good, as the same price I could buy the solid wood furniture in a local furniture market near my accommodation.”

However, the furniture tag has already mentioned the materials components, so the customers could assure to buy. Use one responder’s words,

“Even the material is not solid wood, but I have already known that before I buy it, and I could afford some small problem relate to the material. (…) And until now, I have no experience to change or retake the products to back to the company.”

As a world famous furniture brand, Nanjing customers all trust IKEA’s environment-friendly stuff, even some people pointed it do not use solid wood as raw material, many had accepted and concern its quality is quite good.

**4.1.8. Question for service**

According to the customers, not every aspect of self-service is good point. Some customers complained about the restrict service such as home delivery service. As one customer mentioned,

“Most of time I would only buy some small stuff, as I don’t have private car, then delivery process would be difficult if I buy big things.”

While as many Chinese consumers are familiar with this policy, then some of them had notice that this is a kind of saving money and saving time. So some customers support this policy and one says:
"I could take the furniture directly to my room without waiting for several days’ waiting."

Another source of complaint is self-install. Because some furniture contains so many component or screws, that customers could not assemble it by themselves or do it in a wrong way as they misunderstand the instructions. In some situations, if the component was broken, it needs the customers to go a long way to get there. However, thanks to the flexible changing police, nowadays customers could return the items and get the same value vouchers at the store.

Besides that, the communication is also another problem. As there have many old generation buyers shopping in IKEA, they do not familiar with the purchasing process. They would like to ask for help. As one respondent said,

"IKEA is quite big, sometimes it might be lost. And sometime when you have question for some products it is not easy to find the people (co-worker) to ask."

As for giving customers clearer guide within the store, IKEA (Nanjing) has developed several ways to help them. One effective way is IKEA use many big posts with clear detail about their process and useful information. As one customer said:

"The most impression thing for me is the humanization of IKEA. When you enter the store, the guide board could clearly guide you."

In addition, the customers could see from the home page of IKEA (Nanjing) to get to know the information about the store, such as how to prepare, how to buy and how to serve themselves. And the quite detail introduction, even conclude the designers’ name, would help customers to understand the product more clearly.

4.2. Employee Perception of IKEA

IKEA has just been in Nanjing for more than two years, while it immediately attracts and wins the customers’ heart. The continuing growth of profit and visits can be indirect prove. The success of IKEA in Nanjing is not only relates to the trends of social development and management, the co-worker also contribute a great effort. And IKEA nowadays even put human resource idea as a key element for support the company’s vision and business idea. According to respondents stated, there were six key items from the interviews (See Table 5).
4.2.1. Non-hierarchy working environment

The democratic hierarchy is a typical culture for IKEA’s service strategy. There are only few managers who take responsibility to help the co-workers to grow up, work well and to give them confidence. In IKEA, everyone will wear the blue and yellow uniform. You could not separate the manager from the co-workers, as they wear the same clothes with only difference in the name label. As Candy said:

“The most enjoyable thing for me is the “non-hierarchy” philosophy, and operate working atmosphere, which is unique characteristic compare with other companies. In the peak period, the leaders will serve customers in the store with the co-workers. Even the store manager also wears the uniform to work, and if you have questions for manager’s behavior you could bravely speak out.”

In addition, people call each other only by their English name without any position in front. Leo demonstrated like that:

“When I start join IKEA, I feel calls for people here is quite fresh for me. As I used to call people like ‘teacher Wang’ or ‘manager Li’, while in IKEA, you don’t need to. You could just call the English name, even the manager. It makes me feel more comfortable to work with other group members.”

In IKEA, it emphasizes human equality, which is precious and fresh to Chinese employees. As Julie represented,

“Everything is the same except salary, position and meetings. Co-workers get the same fair treatment to take a three-star hotel and to fly economy class.”
Based on democratic culture, co-workers are feeling more comfortable and willing to share information and experience. For employees, it means greater sense of teamwork and community.

4.2.2. Engagement

In IKEA (Nanjing), it regularly has some meetings. The contexts is variety, while the purpose is to let everyone could understand the company’s development and let them join the strategy. For example, as Julie represented,

“Each annual year meeting, the company will illustrate the company’s development and set a target for the current and next financial year. For example, the current year’s (until August of 2011) sales target is 340mn, and we believe we could achieve it. (...) And emphasize the low price strategy is one essential part of the meeting.”

It shows the company not creates strategy only in top manager, but also demonstrates to every co-worker, let everyone engage the strategy and accept the company concept and culture. As Bruce illustrated,

“I like the company’s promotion of diligence and thrift in work habits. Here, even one pencil or one paper should be best use of and could not be waste. The valuable for this concept is that it let people have a better understand for environmental protection and strengthen the cooperation and assistance spirit between us. Particularly, under the energy crisis of the earth, I think it is a stylish and healthy way of working, because when the saving becomes a respected concept, it indirectly shows the promotion of human civilization and social progress.”

It could be seen that, in IKEA, it not only describe its “low cost strategy”, it also explain the necessary and the social responsibility for this strategy. Then the employees are willing to follow this concept or the strategy of the company. Besides that, IKEA also encourage people to work in different departments, thus could help the co-workers to better understand the company’s process and better engage the company’s strategy. Just like Jessica described:

“IKEA gives us changes job within one department and trans-department, which let us understand the process between different departments within the store. Besides that, the
company also arranges us to see the distribution store in Shanghai, which gives us a most straight picture about the relationship between the company and the upstream sector.”

Also, as Alison, the store manager of IKEA (Nanjing), told the authors, managers IKEA would regularly have meeting and also spend time with co-workers to demonstrate some valuable information, with this could make the co-worker better understand the company and their work.

### 4.2.3. Trust-based relationship

A company cannot achieve sustain success without trust its employee who they rely on to create value (Edvardsson & Enquist, 2008). In IKEA, the co-workers are encouraged to accept and delegate responsibility, and IKEA accept co-worker making mistakes. Ingvar Kamprad (1976) states “only those who are asleep make no mistakes”. Mistakes and failure is inevitable in daily life and work. While the unique value-based enterprise culture deeply affect its co-workers, who are learned to build up trust-relationship knowing that everyone would make mistake sometime. According to Candy,

“In the first half year, I was used to be encouraged to work in different departments within the store, which is not familiar for me. However, the company trusts us. They afford us make mistakes. And after several job rotations, I could know my works better.”

In addition, IKEA also takes care of people’s daily life, which could makes people have the feeling be trusted and thus increase their work efficiency. Just like Bruce described:

“Company does not encourage employees to work overtime, as it believes the staff work-life balance is important. While it encourages employees to challenge at work, even if they make mistakes occasional will not be punished. This makes me feel the company so different and commendable. It looks every person to join her as a member of closely related, not simply a migrant workers. It concerns the working status of employees and also the quality of life for employees. And this trust based culture will be more or less excited everyone's enthusiasm and creativity. I could feel my work more efficient, while it did not reduce the pleasure time of my life with the family.”
In fact, IKEA encourage co-workers take responsibility and accept their mistakes have shown their trust for co-workers. And this trust also helps co-workers to open mind and create value for the company.

4.2.4. Togetherness and enthusiasm

Ingvar Kamprad (1976) states in his “a furniture dealer’s testament” that,

“A team spirit is a fine thing, but requires that everybody on the team be dedicated their tasks. (...) They do their duty and undertake their responsibility without being notices. (...) They are the very embodiment of the IKEA sprit.”

This human resource idea of IKEA is quite new for Chinese co-workers, while Nanjing co-workers are willing to accept it as they believe the foreign company’s idea must have advance factors. Relate to their work in IKEA, the “teamwork” had been mentioned by many responders. As Candy identified:

“IKEA just likes a big family. When I started going to the workplace, encountered confusion and challenges was reasonable. While the honest working environment and different thinking ways of colleagues made me got more work and life inspiration, thus made me got the feeling of family.”

Bruce also described:

“I still remember three years ago, when I start join IKEA, me, my colleges and our team togetherness and encourage each other in the following days, and fighting for the same target. This is my life's most precious asset.”

Jessica, who is a group leader in sofa department, stated “we work within a team, and we have responsibility to help each other”. Working in this environment, everyone could feel be support by others and “prepare to lend a hand”.

As Zeithaml & Bitner (2000) stated,

“Within a teamwork environment, employees who feel supported and that they have a team backing them up will be better able to maintain their enthusiasm and enhance their work abilities and quality of work life.”
4.2.5. Motivation

The co-workers are generally satisfied with their job. The working environment and personal development is what the co-workers most looking forward. And all these results could not without the contribution from the managers. As Leo told authors,

“I think IKEA is not the company use high salary to attract young talents. As I first joint the company, with the help of the department leader and direct leader, I start to have a clear career planning and career goals. And with the personal L&D plan and Buddy training system from the IKEA, I could find a more clear development way. It has to say IKEA’s training system is quite perfect and the resource is abundant.”

In fact, the interaction between the leader and co-workers make the co-workers feel they are important. And a complete training system makes co-workers get in spirit and personal development, which motivate them like to work here. In addition, IKEA also encourages “leadership by example”. The modeling leader’ behaviors is a particularly powerful way of effecting co-workers’ motivation. And this motivation would transmit from “generation to generation”. As Leo mentioned:

“During this year, with the help of direct leader and other colleges, I grow rapidly to become the direct leader in logistic department. It means, I am not only responsible for the department’s daily operations, but also bear the responsibility of employees’ future development in the company.”

It shows the new managers are also willing to motivate and help new employee to grow, just like they experienced before. As Berry (1999) observed, “placing a true leader in charge helps to transform followers into leaders themselves”.

4.2.6. Desire for challenge

IKEA gives “down to earth, straightforward people the possibility to grow, both as individuals and in their professional roles” (IKEA, 2011). IKEA encourage co-worker continue learning actively. In IKEA, just if you want to learn, people are willing to share their experience with you, which could help you grow quickly. As Candy described,

“When I started to work here, my learning is so slowly, as I familiar with the one-way learning at school. I confused for that. Then one of a senior colleague taught me that I
should learn actively. Then I find if I desire to keep learning, IKEA would give you a good chance to grow. IKEA is just the place, which like share experience, give you chance to take responsibility, and if you use heart you will learn many things that could not find in other places.”

In IKEA, everything is needed to desire for, if one want to learn other people would like to share their experience, if one active enough the manager would like to share responsibility to you and even promotion chance. Indeed, IKEA cultivates co-workers to move ahead by constantly asking themselves how well they are doing today and can be done tomorrow. The positive value gives employees more desire for challenge. As Linda, a direct leader in sofa department, demonstrated,

“When I was a basic co-worker, I was used to inspire by my manager. She gives the feeling to everyone that if you ready to be able to master a challenge then you could have the chance to be promoted by the management. And you would capture repay and reach the goal if you pay best effort for it.”

The ambitious value of the company drives the co-workers to take responsibility, and have positive inspiration for both the employees and company as well.

4.3. The interview with managers

After describing the interview results from the customers and co-workers, the following is the information got from the manager level. And these results could organize into: strategic price setting method and long-term development plan in China.

4.3.1. Strategic price setting method

IKEA’s price setting method is different from traditional method, which decide the final price consider the whole cost in the product process. According to Alison, the store manager of IKEA (Nanjing):

“When IKEA’s designers decide to make a new product, it would set a primary price at the beginning. Then the designers would tell the suppliers and together with them to think how to get this kind of price. Sometime the suppliers says require for buying new machines and update technology if IKEA want price like that low. And IKEA would consider helping the suppliers to increase their technics or help them change the tools
and machines if necessary. Sometime the IKEA’s designer would invite some customers to get some feedback about the price of new product before showing on the market.”

After setting the primary price, the designers and suppliers would consider how to make cost as that low. As Jensert, the store manager of Karlstad, stated:

“The IKEA’s designers are working side by side near the suppliers and with the aim of best use of their experience and ability. And with working together with suppliers, the designers could find some way for reducing waste and even design out new products with composite materials or recycle materials. LUSY BLOM cushion is a good example. Its packing is the waste materials in bed production process.”

Moreover, IKEA encourage co-workers to think new method to make the logistic or process more efficiency. Jensert used one example from California store to present to authors that

“There is a co-worker thought an improved method of ALÅNG lamp packaging. Now every shelf can accommodate 24 ALÅNG lamps instead of 18 lamps, which save cost and save a lot of carbon dioxide emissions in the logistic process.”

In addition, as IKEA (Shanghai)’s distribution center has been used from 2008 (IKEA, 2011), the logistic cost has greatly reduced and increased the logistic efficiency in China. Use Alison’s words:

“Nanjing IKEA’s products are mostly coming from Shanghai distribution center or local suppliers. As IKEA increased the suppliers in China, the logistic cost has reduced obviously. And by working with product development, production, purchasing, distribution and sales we can keep costs down at every stage in the process. (...) and the flat packages and large volumes are only part the secret behind the low prices at IKEA. ”

Besides that, Alison told the authors that IKEA also encourage and accept co-workers’ good suggestion for improving the “low cost strategy”, and using communication to adopt its new product concept to the customers and other stakeholders, such as the detail introduction and the advertisement in subway of Nanjing.
4.3.2. Focus on long-term development

When IKEA entered China is 1998 in Shanghai, until 2005, it only two stores in China (IKEA, 2011). And after that, IKEA increased its expansion speed in China, nearly one new store one year (ibid). Not like another foreign furniture company- B&Q, which expansion so quickly that have 64 stores in China (BNQ, 2011), IKEA use a steady method to develop in China. Use Ian Duffy (2007)’s words,

“We need this time to build a solid foundation, understand local taste, and to develop more suitable unique business model and operation way in China. For IKEA, the customers’ expect price and shopping experience are two important factors. In the first several years, many products’ price does not have competence in China. If we develop too quickly, it will bring negative effect on our corporate image. While until now, IKEA is basically or on the way to achieve the goal: provide best products with good price to customers. (...) IKEA is a company has long term consideration, only build the solid foundation in the beginning, then it could bring long-term interests, and time would tell us everything.”

IKEA chooses location is very carefully, as it wants to several cities to cover the whole region. Related to why IKEA selects Nanjing as a location, Alison answered:

"The main reason is that we value the great potential of the city of Nanjing. Of course, the choice of the city, we need at the right time to find suitable sites. And there have many important factors, such as large enough block, sufficient support facilities, and the surrounding municipal conditions, traffic, etc. Meanwhile, the local government gives us very important support, and we now have a good relationship between the Nanjing Municipal Government. That is why we chose Nanjing."

And facing the fierce competition from other well-known brand companies in Nanjing, IKEA uses unique market position with better understanding of customers need, thus experiences a continue growing of profit, which from ¥260mn ($40.2mn) to ¥340mn ($52.6mn) during the two years (IKEA Nanjing, 2011). As Alison mentioned:

“IKEA (Nanjing) has many unique aspects, what we provide to the market could not be replaced. Compared with other shopping malls, IKEA more emphasis the "house life" concept and you can buy different home styles under one roof. IKEA's design is mostly
come from the understanding of customers. With these ideas and design, we can make a
good combination between different products, such as the sofa, we can design the textile
to match and support. And this advantage is what our competitors do not have.”

And the long-term co-operation with suppliers also contributes the unique advantages of IKEA.
As for global development, IKEA choose suppliers world widely, which has more than 1500
suppliers over 50 countries (IKEA, 2011). IKEA gets advantages from the suppliers and also
takes care about their long-term development also. As Alison stated:

“IKEA gives a long-term contact to selected suppliers, which could guarantee their lone-
term profit. And we lets one supplier to product more ranges of goods to reduce the risk
from the market. And IKEA also launches an IWAY, which set the code of conduct of
suppliers and help our suppliers’ evaluation in a long way.”

IKEA (China) annual sales is only ¥3.7bn ($569mn), which only accounts for 1.7% of IKEA
global sales ($32.7bn) in 2010 (IKEA, 2011). While as Duffy (2007) mentioned before:

“From the profit aspect, IKEA in China still needs a long way. However, IKEA (China)
means to IKEA globally not for profit, but others. Take two points for example that is,
how to get public acceptation in a new market, and how to establish a new and good
corporate image. We hope our customer’ satisfaction in China would be one of the best in
the world. We hope our co-workers’ satisfaction in China would be one of the best in the
world. We hope that in many respects to the IKEA as one of the best.”

It shows IKEA in China is focus on the big picture, not only numbers. It wants to get better
understanding of local customers, build good corporate reputation and thus concern the long-
term development in China. And as the continue reduce the price of the products together with
increasing development of local economy, there would have more customers could afford the
IKEA’s price. And with the good brand image, IKEA’s future development in China is very
bright.

4.4. The general situation of IKEA in Nanjing at this stage

This section will present some influencing factors which paved the way for IKEA to attract the
local customers.
4.4.1. The Nanjing economy is growing

With the health and continue growth of Chinese economics, Chinese customers’ income is increasing obviously. The GDP of Jiangsu province in 2009 has reached to ¥417bn ($64.5bn), which increased 11.5% by last year. The GDP per capital in Jiangsu province is $6437, which increased 13% by last year, ranking at 6th in China (CNKI, 2011). And in the end of 2011, Nanjing South Railway Station will open to traffic. This railway station is the biggest railway station in Asia at present (NSRS, 2011), which will drive Nanjing economy continue growing. Fortunately, the location of the train station is quite near IKEA, which help IKEA to get continue increasing visitors in future.

4.4.2. The demand for new furniture remains high

The real estate industry in China is particularly prosperous at present, and Nanjing is no exception. Even the price of the accommodation is increasing, more and more young people loan money to purchase a living place (Raoping, 2010). And the spread urbanization in Nanjing has continued to suburb. Also some old houses’ furniture needs to upgrade. So, the demand for new furniture remains high with no doubt.

4.4.3. Increasing awareness of environment-friendly products

In recent years, many Chinese companies were revealed poisoning scandals, such as milk with melamine, furniture with formaldehyde or fry food with waste oils. More and more Chinese customers are willing to pay more money to select a high level of products with even high price as less impact on health (Guirong, 2009). And because many local companies were revealed the quality problem, many local people are pay attention to forging brand, as they believe the foreign company’s quality. As IKEA continue transmit their company’s information in China. Most customers have known that IKEA’s furniture is less impact on environment and people.

4.4.4. Good reputation of IKEA in Nanjing

According to Forbes, IKEA brand value is ranking at 28th of the world company with 12 billion high (See Appendix 7.5). In Nanjing, IKEA has a good reputation from customers with no exception. This value is reflected in the price premium that customers are willing to pay for the branded product over that for an unbranded or unknown brand.
4.4.5. More and more young people and abroad study background

IKEA is come from Sweden, and very famous in European countries. The company’s culture and products are widely accepted by the young people in that area. So when more and more young people come back from abroad they are more willing to buy the furniture in IKEA, as they quite familiar with this brand.

4.4.6. The IKEA customer survey in China

In 2009, IKEA launched a customers’ survey in China. The result shows the customers still think IKEA is for the middle or high-end market segment. And it shows IKEA’s main customers in China is the people under 33-year old and average month income over ¥3500 (Ifeng, 2009). There may have several reasons. First, IKEA set price globally, while the average income of Chinese public is quite lower than in European countries, if consider the exchange rate. Then, the European countries’ young people could get subsidize from government while most Chinese young people need support from their family. So Chinese customers still feel the price is a litter higher. While Ian Duffy (2007), the CEO of IKEA in Asian-Pacific region, said the price would continue reduce in China. And as IKEA Shanghai logistic distribution, the largest one in Asia (IKEA, 2009), started to use from 2009, it will greatly increase the IKEA’s logistic capacity and reduce the cost from import and store in China.

4.5. The competitors’ situation in Nanjing

As we mentioned before, IKEA (Nanjing) has to face the fierce competition. Many local companies imitate the design of IKEA, and even the insight display. Some local factories might even copy the IKEA’s design and sell in a lower price. Relate to this, Alison said, they could do nothing but only continue evaluate their company. Ian Duffy (2007), the CEO of IKEA in the Asian-Pacific region, said “IKEA closely observe their competitors. And we know who our competitors in different categories are.” Turning to Nanjing market, after IKEA and some furniture shopping malls’ entering, the Nanjing furniture market has separate into five big commercial clusters, which located in east, south, west, north and middle of Nanjing city (Raoping, 2010). Based on the interview and research, authors found there have several big furniture shopping malls in Nanjing, which might be the competitors of IKEA.
The most close one is Macalline, which located opposite with IKEA in Nanjing, and even the aspect from outside is quite similar as “the cube”. Then the authors compared the price between five typical kinds of furniture with similar design and material and delivery fee (See Table 6), and find the price between the two companies are not shown big gap, even some products may sale higher in Macalline. Macalline has been in China for 25 years, and has got a lot of reputations in China during these years (Raoping, 2011). And it is also the first Chinese furniture company launched the “one-stop shopping” in China. So it may have a deep understand about the Chinese local customers.

<table>
<thead>
<tr>
<th>Name</th>
<th>Modular sofa</th>
<th>Dining table(6-seat)</th>
<th>Double Beds</th>
<th>TV stands</th>
<th>Wardrobes</th>
<th>Delivery fee</th>
</tr>
</thead>
<tbody>
<tr>
<td>IKEA</td>
<td>$510</td>
<td>$740</td>
<td>$278~417</td>
<td>$260~386</td>
<td>$463</td>
<td>$6~15</td>
</tr>
<tr>
<td>Macalline</td>
<td>$470</td>
<td>$673</td>
<td>$301~401</td>
<td>$231~432</td>
<td>$415</td>
<td>$5~12</td>
</tr>
</tbody>
</table>

Table 6: Prices comparison between similar products in IKEA & Macalline (2011)
(Currency rate: $1 = ¥6.47)

In addition, from the customers’ interviews, many customers mentioned they like IKEA design while some of them are willing to buy the furniture in the local furniture market, which relate to the price issues. Just Jia Ju Le, which is a local furniture warehouse, the prices there are lower as well as service delivery is included but there is no after-sales service or guarantee available. Furthermore, the sellers are all well-served. So this kind of furniture market is somehow by middle and low-income consumers prefer.

4.6. Summary

So far, we have presented our empirical findings of IKEA in Nanjing. Under the continue growing of economy in Nanjing and multiple reasons, such as government cooperation, sufficient support facilities, IKEA select Nanjing as a location and set a store in 2008.

With its good corporate reputation and good brand image, IKEA attracts a great many of local people to become its customers. Based from the interview result, the well-collected experience room, together with wide range of well-designed, environment-friendly products gets customers great compliments. The IKEA restaurant and “freedom to touch” experience also contributes more positive efforts to the customers’ shopping experience.

From Nanjing co-workers’ interviews, it could be found that the non-hierarchy culture and working environment gets all the good reputation from the co-workers. Together with the
encouraging and motivation from the company and mangers, the co-workers are mostly satisfied with their work, which also supports the strategy execution of IKEA in Nanjing.

From the managers’ interviews and information searched from the internet, which let us understand better about IKEA’s unique strategic pricing setting method, and its long-term development plan in China (See figure 7).

Figure 7: Summary of the information getting from manager interview of IKEA
5. Analysis

In this chapter is the interpretation of our empirical findings connected to theoretical conceptions. We will answer our research questions and describe what can be learned from this case study.

5.1. STOW analysis of IKEA in Nanjing

According to Qawasme and al-Rousa (2009), “SWOT analysis denoting strength as a competitive advantage”. So first of all, the SWOT analysis will be utilized to investigate the both internally and externally factors that impact IKEA in Nanjing.

Opportunities

According to China Development Research Foundation and UNDP (2005), the average Gross Domestic Product (GDP) growth rate of China is 9.4% per year in the past 30 years, China’s annual per capital growth rate has still reached 8.1% even with a large population of 1.3 billion. In 2011, the GDP of China has reached to 10.09 trillion, the GDP per capital has reached to 7600 (CIA, 2011). The high development of economy is a good chance of IKEA to increase their sales and expand their branch. According to Qawasme and al-Rousa, (2009), opportunity condition is appropriate time to achieve organizational goals.

In addition, according to the national population census of China (2010), “The total population was 1,339,724,852 persons”, and the top 5 provinces in China by the size of resident population are Guangdong, Shandong, Henan, Sichuan and Jiangsu (Stats, 2011). The large amount of population in China, even Nanjing, together with the increasing purchasing of real estate in Nanjing also increased the furniture demand in local, which is also contribute the opportunity for furniture industry development in Nanjing (Asia-home, 2011).

Strengths

According to Best Global Brands 2010, IKEA was ranked 28th with a brand value of 12.5 billion dollars (See Appendix 2). And the globally valuable reputation asset gives the confidence of local customers to purchasing in the company (Grant, 2008). As IKEA as built a good reputation in Nanjing, together with the increasing awareness of environment-friendly concept in local customers' mind, more and more local customers are willing to pay premium
money to enjoy healthy furniture and even healthy life. According to Passemard and Kleiner (2000), the company should offer customers the products with a better quality with the differentiated brand and products.

Moreover, based on the previous research, the unique store service and wide range of well-designed products and well-collected experience room has contributed the quite good shopping experience for local customers and received the general public favorite comments. According to Johnston and Clark (2001), excellent companies are often distinguished from average companies by these experiences, rather than by a logical cognitive assessment of for money. Use Alison's words, those are the "unique aspects" that other competitors could not replace.

**Weakness**

From the previous empirical results, the authors found there still had a number of customers have questions for personal delivery and self-install service as many old generations familiar with the local companies' service, which the price of product has included the deliver and assembling fees. While as continue better communication with local customers together with more detail products instructions, this kind of service would become unique aspect in Nanjing market, as it would bring the co-create value for the local customers.

In another aspect, based from the research, there have many local people still think the price of IKEA’s product is higher than their expectation. The reason include several aspects, such as the income of Nanjing customers is far lower than Beijing consumers (See Table 6) and even European countries' people, and also the heavy import taxes. According to Smedberg (2011), “IKEA faces three main challenges in China such as pricing, high duty rates, and the PRC bureaucracy. It has been difficult for the company to set prices at a level that is good for both customers and the company. IKEA has been hit with heavy import taxes in China.” While Ian Duffy (2007), stated many products in China have already been the lowest price in the world, and the price would continue reduce in the future. So the price aspect would be become less influential aspect.

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1 PRC is People’s Republic of China
Threats
In addition, there have many international well-known furniture stores and domestic furniture shopping malls in Nanjing market already, which the competition in the furniture industry is in the “white hot period” (Longhoo, 2011). Some of these companies have been in China for a long time and get good reputation, such as Macalline (Raoping, 2011). And some could provide cheaper price with solid wood furniture which attracted many local customers' purchasing, even mostly the quality is lower. While according to Alison responds, IKEA is confidence for its deeply understanding of "household life", which could contribute the well-collection between different items based on that concept and design. It is also their unique competitive advantages that other local competitors do not have.

5.2. Blue Ocean Strategy and IKEA in Nanjing

In order to answer how IKEA could successfully apply its Blue Ocean strategy in Nanjing, we used the Blue Ocean’s formulation and execution principals to analysis our empirical results (See Table 7).

<table>
<thead>
<tr>
<th>Blue Ocean Principals</th>
<th>IKEA</th>
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<tbody>
<tr>
<td>Reconstruct Market Boundaries</td>
<td>Leisure activity</td>
</tr>
<tr>
<td></td>
<td>The IKEA restaurant</td>
</tr>
<tr>
<td></td>
<td>Wide range of products</td>
</tr>
<tr>
<td></td>
<td>Environment-friendly</td>
</tr>
<tr>
<td>Reach Beyond Existing Demand</td>
<td>Well-designed furniture</td>
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<tr>
<td></td>
<td>Experience room</td>
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<tr>
<td></td>
<td>Freedom to touch</td>
</tr>
<tr>
<td></td>
<td>The IKEA restaurant</td>
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<tr>
<td>Build Execution into Strategy</td>
<td>Engagement</td>
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<tr>
<td></td>
<td>Trust-based relationship</td>
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<tr>
<td></td>
<td>Togetherness and enthusiasm</td>
</tr>
<tr>
<td>Overcome Key Organizational Hurdles</td>
<td>Motivation</td>
</tr>
<tr>
<td></td>
<td>Desire for challenge</td>
</tr>
<tr>
<td>Get the Strategic Sequence Right</td>
<td>Strategic pricing making method</td>
</tr>
<tr>
<td>Focus on the Big Picture, not the Number</td>
<td>Focus on long-term development</td>
</tr>
</tbody>
</table>

Table 7: Blue Ocean strategy & IKEA

5.2.1. Reconstruct Market Boundaries
Based on previous research, it could be found that, from the customers’ point of view, IKEA’s function is beyond a traditional furniture company definition. Some customers shopping in IKEA because they are attracted by the unique and cheap foreign food in the restaurant; some customers are coming for the cute or beauty household decorations or toys; some customers go IKEA as they suppose IKEA is a good leisure place to enjoy the weekend holidays with the
whole family. It can be seen that the IKEA has beyond a traditional furniture company in Nanjing customers’ feeling. Its functions combine entertainment, food, decoration shop and even baby care center.

As Shaw & Ivens (2002) said, to attract and keep customers, and thus make a profit, companies are always search for new and better ways to create value and differentiate their market offerings. To break of red oceans, Kim and Mauborgne (2005) stated,

“Companies must break out of the accepted boundaries and look systematically across them to create blue oceans. They need to look across alternative industries, across strategic groups, across buyer groups, across complementary product and service offerings, across the functional-emotional orientation of an industry, and even across time”.

It means when the company designs the service offering, it should not only concern the core service for customers’ primary needs, but also the supporting services for customers’ secondary needs (Edvardsson, 2009). Thus would give companies a keen insight into how to reconstruct market realities to open up blue oceans.

In addition, to insight into blue ocean strategy, the company should look across time and understand how the trend will change value to customers and impact the company’s business model (Kim & Mauborgne, 2005). From the empirical result, it can be found that people in China have more awareness of protect environment, many customers have noted the company’s external behaviour when they purchasing products. As IKEA has emphasis on environment protection and environment-friendly products for a long time, thus makes Nanjing customers all trust IKEA’s products (Guirong, 2009).

Edvardsson & Enquist (2008) state a “sustainable business” could be understood as “a long-term successful business built on co-created competitive customer value combined with ethical, social, and environmental responsibility”. And the value-based company such as IKEA combined the corporate social responsibility as a part of its overall strategy of interaction with its stakeholders to co-create customer and stakeholder value (Enquist et al., 2006).
5.2.2. Reach Beyond Existing Demand

To attract and keep customers, and thus make a profit, companies are always searching for new and better ways to create value and differentiate their market offering (Shaw and Ivens, 2002; Bendapudi and Leone, 2003). From the empirical result, it can be seen that the customers give a very high level of comments for the well-designed furniture in IKEA. According to Prahalad and Ramaswamy (2000),

“simply being customer oriented is not enough, firms must learn from and collaborate with customers to create values that meet their individual and dynamic needs”.

The best way to cultivate customer loyalty is to combine the functional and emotional characteristics together, use product as a media to transmit corporate culture to customers, from the emotional to meet customer needs, thereby to ensure the customer’s brand dependence (Hagenaar et al., 2003).

Not like traditional furniture company only focus on the functional of the products, IKEA concerns the special value of the furniture in people’s daily life, and put the artistic element to the furniture, to provide a cozy, warm home atmosphere, thereby distinguish with other competitors. Moreover IKEA provides a “free for touch” shopping atmosphere, which makes people more relax and more like a leisure playground.

As Normann and Ramirez (1998) suggested that “the key to creating value is to co-produce offerings that mobilize customers”. Besides the enjoyment, “customers who perceive more value from their service encounters tend to be more satisfied”. (Ouschan, Sweeney, and Johnson 2006; Patterson and Smith 2001; Sharma and Patterson, 1999) And Bendapudi and Leone (2003) find that “participating customers are more satisfied than non-participating customers when the service outcome is better than expected”.

Additionally, IKEA provides free children care service and a really cheap foreign country’s food, which attracts many non-customers become customers of IKEA. Moreover, unique from other competitors in Nanjing, IKEA provides the well-designed experience room, together with the unique Scandinavia style and well collection, IKEA in Nanjing experience great popularity from the customers.
As Normann (2001) stated, that surpass the existing demand is a key element for value innovation. As Edvardsson & Enquist (2008) said,

“a ‘value-based service experience’ thus refers to a service experience that the customers associate with attractive values, rather than merely associating the service with consideration of price-related functional qualities only.”

By aggregating the biggest demand for this kind of offering will greatly reduce the scale risk associated with a new market. According to Kim and Mauborgne (2005), to maximize the size of their blue oceans,

“companies need to build on powerful commonalities in what buyers value. That allows companies to reach beyond existing demand to unlock a new mass of customers that did not exist before.”

It shows the deepen understanding of the universe of non-customers will help the company convert this huge latent demand into real demand in the form of thriving new customers.

5.2.3. Overcome Key Organizational Hurdles

When a company gets a good strategy with a profitable business model, it must execute it. And, the challenge of execution is existed for any strategy. According to Kim and Mauborgne (2005), there are four organizational hurdles to strategy execution: Cognitive Hurdle, An organization wedded to the status quo; Resource Hurdle, Limited resource; Motivational Hurdle, Unmotivated staff; Political Hurdle, Opposition from powerful vested interests. And one useful method introduced by them is called “tipping point leadership”, which said “in any organization, fundamental changes can happen quickly when the beliefs and energies of a critical mass of people create an epidemic movement toward an idea” (Kim and Mauborgne, 2005).

From the previous research, there is no respondent clearly mentioned IKEA the “tipping point leadership” in Nanjing store. While IKEA has a shared value named “leadership by example”, which provides the similar effort, as most co-workers’ behaviors have been motivated or influenced by some key person, the leadership. The managers used to work together with the co-workers, and most co-workers have the experience to be encouraged by the managers. IKEA’s leaders’ model behavior has more or less influenced the team or other co-workers,
which drives the company’s strategy operation smoothly. As IKEA only enter in Nanjing for just two years, the Chinese co-workers may not quite familiar with the company’s culture and strategy. So when IKEA applies its strategy in Nanjing, it may face some hurdles, such as, waking the co-workers up to the need for the strategy, motivate key players to move fast and break from the status.

According to Edvardsson & Enquist (2008), “modeling leaders’ behaviors is a particularly powerful way of cultivating leadership values and skills”. As Berry (1999, p.17) observed: “placing a true in charge helps to transform followers into leaders themselves”. As Berry (1999) observed, “placing a true leader in charge helps to transform followers into leaders themselves”.

5.2.4. Build Execution into Strategy

According to Edvardsson & Enquist (2008),

“personal involvement with IKEA is emphasized at every level of the organization”.

Leaders and co-workers are expected to identify with the company, its products, and its service to customers. Based on the empirical result, most co-workers have the feel about trusty by each other, prepare to lend a hand to each other and would like to share their experience to each other. When people’s mind and heart align with the strategy, people embrace it and willingly go beyond compulsory execution (Kim & Mauborgne, 2005). It gives the chance to straightforward people the chance to challenge them, takes more responsibility and affords them to make mistakes. The co-workers feel free to talk to the managers and the managers are willing to help the co-workers to grow. It creates a culture of trust and commitment at the beginning that motivate people to execute the agreed strategy, not to the letter, but to the spirit.

According to Edvardsson & Enquist (2008), trust inspires a sense of “ownership”, and “people who feel that they are trusted ‘owners’ of IKEA values want to improve the business and work harder”. Kim and Mauborgne (2005) said,

“A company is everyone from the top to the front lines. And it is only when all the members of an organization are aligned around a strategy and support it, for better or for worse that a company stands apart as a great and consistent executor.”
And when execute the blue ocean strategy, the three-“E” (Engagement; Explanation; Clarity of Expectation) will lead the employees’ trust and loyalty in the attitude, and voluntary to cooperation in the behaviors, thus help the strategy result beyond the expectation (Kim and Mauborgne, 2005).

5.2.5. Get the Strategic Sequence Right

Successfully apply a Blue Ocean strategy need right strategic sequence. Based on the empirical result, it can be seen that when IKEA plan to develop new products, it will use a right process: first, consider the utility of the products for the customers, such as the function, simplicity, convenient, environment friendly, fun and image; then, IKEA will decide a strategic price which could guarantee the many people could afford it, and tell the suppliers; thirdly, IKEA will discuss with its close relation suppliers about how to reach the target prices, the methods could include using the recycle materials, using alternative materials, encourage suppliers’ competition for low price, updating technology, and best use of suppliers’ experience and spare capacity; lastly, IKEA will adopt its products idea to the co-workers, suppliers and public.

According to Kim & Mauborgne (2005), with understand the right strategic sequence and how to assess the blue ocean ideas along the key criteria will dramatically reduce the business model risk. According to the “buyer utility map”, the buyer utility can cut into six levers: Customer productivity, simplicity, Convenience, Risk, fun and image, and environment friendliness, which within the whole stages of the buyer experience cycle. To test for exceptional utility, the company might find the greatest blocks, while “greatest blocks to utility often represent the greatest and most pressing opportunities to unlock exceptional value” (Kim & Mauborgne, 2005). When the young purchase furniture, they mostly focus on the fashion design and function, not the raw material and complex curve art. So compare with Chinese traditional furniture, IKEA’s product looks more fashion, simple, colorful and people could take to home after paying.

The next step is setting the right strategic price. The price should attract the mass of customers that they have a compelling ability to pay for the offering. Because the design will be imitate by other free riders, so the “strategic price must not only attract buyers in large numbers but also help you to retain them” (Kim & Mauborgne, 2005). As Zirger & Hartley (1996) said, when design the new product and services to customers, the company is usually try to
obtaining data from customers with the aim of understanding and identifying customers’ needs and expectations, also include the cost expectations.

These two steps create a leap in net buyer value, which is the utility that buyers receive minus the price they pay. The third step is leading the company control the cost to achieve the target price. According to Venkataramani (2008),

“All members of the design team should play an active role in defining and controlling project costs, and using cost control as a design tool to minimize the risk of cost overruns”.

To maximize the profit potential of a blue ocean idea, a company need deduct its desired profit margin to arrive at the target cost, thus the cost structure could help the company get both profitable and hard for potential followers to match (Kim & Mauborgne, 2005).

The last step is adoption. According to Kim & Mauborgne (2005),

“even an unbeatable business model may not be enough to guarantee the commercial success of a blue ocean idea”.

The company needs to adopt their idea to stakeholders, such as employees, business partners and general public. Because the adequately communication could overcome such fears from stakeholders, and then guarantee the success of the strategy application.

5.2.6. Focus on the Big Picture, Not the Number

After understanding the path to create Blue Ocean, then a company needs to align the strategic planning process to focus on the big picture and draw the company’s strategy in the unique position thus arrive at a blue ocean strategy.

As its vision said, “to create a better everyday life for the many people” (IKEA, 2011). IKEA in Nanjing positioning itself to focus on the middle and low income customers, and try to provide more valuable products and services to this level of customers, which is different with other local competitors. IKEA (Nanjing) usually have discount for members and hold activities.
As Porter (1996) said, the secret of IKEA’s success is from the different market poisoning. According to Brooksbank (1994),

“to be successful over the long term, a firm's offering must well position in the marketplace.”

In addition, the relationship between a firm's adoption and use of positioning strategies and their effect on profitability has long been noted by Fisher (1991) who wrote that a differentiated position generates superior returns,

"for achieving a superior competitive position is beneficial to the firm but only as long as it can be preserved and that a major marketing objective for firms is to attain a differentiated competitive position."

In addition, IKEA regularly do a customers’ survey and continue reduce price in local market. And under the non-hierarchy culture, managers could easily hear the voice from the ground level, which could better improve its strategy. Kim & Mauborgne (2005) said, the company should listen to the customers and make the strategy map as visual forms, which could open the creativity of employees and create value together.

As Duffy (2007) mentioned,

“IKEA is a company has long term consideration, only build the solid foundation in the beginning, and then it could bring long-term interests.”

From the previous study, it could be found that IKEA would firstly understand local customers, get local customers acceptation and build good reputation before future expansion in China, which clearly shows IKEA’s long-term development plan, not only focus on numbers.

5.3. Summary

Based on the empirical research, the authors found IKEA use value innovation to co-create value with customers and bring value to customers, co-workers and company, which quite match the Blue Ocean principals, and by which has proven IKEA has successfully applied the Blue Ocean strategy (See Figure 8). And based on its unique strategy operation way, IKEA uses value innovation successfully create value for the three key elements within the strategy, thus gets competitive advantages and achieve leading position in local market.
Figure 8: Summary of findings

IKEA provides cozy shopping atmosphere and typical Swedish restaurant, which has reconstructed the traditional market boundaries. And IKEA settles well-collected experience room together with wide range of well-designed furniture and give customer opportunity to test them freely, which beyond consumers’ demand and brings more value to customers. Moreover, based on the non-hierarchy culture, IKEA makes co-workers feel engagement, be trusted and willing to “lend a hand” to each other, which makes the execution into the strategy. And the motivation and encourage from the leadership and company has lead co-workers desire for challenge, voluntary to execution and break the organizational hurdles, thus makes the strategy apply smoothly. Together with close relationship suppliers, and advanced strategic price setting method, IKEA could confident to apply its long-term development plan in local and future expansion.

In addition, the growing economy and population of China gives IKEA great opportunity to expand in the country. Together with its good corporate reputation and culture, this motivated
Nanjing customers to go shopping there. Facing the fierce competition from local companies, IKEA regularly does survey within Chinese customers and with the feedback from customers to continue improve their strategy actions in Nanjing, such as providing good discount in restaurant and continuing reducing price of products.

Under the long-development concern, IKEA considers the external and internal factors in local, and combines the customers, co-workers and managers three key elements to create value for both customers and company, which successfully build its competitive advantages and all these factors have contributed to its industry leader position in Nanjing market.
6. Conclusion

In this chapter finally summarizes the key factors that contribute IKEA successfully apply its Blue Ocean strategy and lead to get leading position in Nanjing even Chinese market.

To conclude, it is found that IKEA has been successful in Nanjing by implementing a Blue Ocean strategy that is crucially supported by good value innovation. It uses value creation as the cornerstone for its competitive strategy, which concerning both cost and buyer’s value. And by which, it gets the competitive advantage in the Blue Ocean, not only locally but globally. IKEA continue improves its production process, seek news environment-friendly material, helps suppliers get competences, thus control its cost meet the expect pricing. On the other hand, IKEA consist unique value-based design concept, to achieve superior for both functional and emotional aspects, thus maximum meets the customers’ needs. Also based on the value-based culture, IKEA makes co-workers feel engagement, be trusted and willing to “lend a hand” to each other, which makes the execution into the strategy. These three aspects have positive interaction with the promotion of the strategy, and have promotion effect for IKEA long-term success.

While creating competitive advantages is not a strategic achievement but a dynamic process. So facing the tremendous opportunities in the growing international market, IKEA still need to value innovation concept to create more value to customers to sustain its leading position and get more loyalty customers in global market.

6.1. Implications and Further research recommendations

This practical insight to a successful venture in an emerging economy, like China, has several implications. Firstly, this study has proven that good value innovation is crucial for Blue Ocean strategy success, and that need to deeply understand local customers and co-workers and create value for them. For the further research, it is suggested to increase the interview scale and get deeper understand the local people’s different tastes and comments. Furthermore, from the managerial point of view, to ensure the Blue Ocean strategy efficiency it needs have right strategic sequence and close cooperate with its suppliers. For the further research, it is also suggested to get to understand the suppliers’ needs and their comments from both locally and globally.
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http://www.stats.gov.cn/
http://www.njredstar.com/kazimen/.
8. Abbreviations

IKEA- Ingvar Kamprad Elmtaryd Agunnaryd

SCA- Sustain competitive advantage

GDP- Gross Domestic Product

WTO- World Trade Organization

SWOT- Strengths, Weaknesses, Opportunities, Threats

CEO- Chief executive officer

FSC- Forest Stewardship Council

CASS- Academy of Social Sciences

UNICEF- United Nations Children's Fund

UNDP- The United Nations Development Programmer

CRM- Customer Relationship Management

BBS- Bulletin Board System
9. Appendix

9.1. Interview of customers

In order to study the effect about IKEA’s market positioning in locally and local customers’ social motives the following questions will be asked:

- What is your motivation to go shopping in IKEA?
- How often do you go to IKEA?
- Did you choose to go to IKEA because of the cost advantage that IKEA claims to have compared with other furniture stores? Or do you think the products’ price is cheaper than the same level ranges in other company?

In order to study the effect of IKEA’s Blue Ocean strategy in local market the following questions will be asked:

- Was the visit to IKEA planned or something you did spontaneously?
- What do you think about the design of the product of IKEA?
- What do you think about the experience room in IKEA?
- What do you think about the quality of the product of IKEA?
- What do you think about the price of the products when compare with other furniture company?
- What do you think about the restaurant and Swedish food?
- What does IKEA mean to you?

9.2. Interview of co-workers

In order to study the effect about the operation of competitive strategy of IKEA in Nanjing the following questions will be asked:

- Please, tell us your job in IKEA (position, professional background, reason to choice to work in IKEA).
- How do you like your job?
- How is the working atmosphere at IKEA?
- How is the relationship with your leaders and you group mates?
- Does leadership’s behavior have any influence to the company?
- Does the company illustrate its strategy and target clearly to the employees?
9.3. Interview of Managers

In order to study how IKEA apply its competitive strategy in a different market with long-term concern and how it create value for both the customer and company the following questions will be asked:

- Compared with other cities, why IKEA choose Nanjing as the location?
- Compared with other stores, what are the characteristics of IKEA in Nanjing?
- There are many international well-known home stores in Nanjing already, how IKEA face of such fierce competition?
- In Europe, IKEA is cheaper domestic brands in China, while IKEA in China has become a popular brand for white-collar workers and fashion people. How do you view this phenomenon?
- IKEA has entered the Chinese market for more than 10 years, what is the current development situation and strategic planning of IKEA in China?
### 9.4. Top 30 of BEST GLOBAL BRANDS 2010

<table>
<thead>
<tr>
<th>Rank</th>
<th>Previous Rank</th>
<th>Brand</th>
<th>Country of Origin</th>
<th>Sector</th>
<th>Brand Value (Sm)</th>
<th>Change in Brand Value</th>
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<td>Coca-Cola</td>
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<td>Beverages</td>
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<td>IBM</td>
<td>United States</td>
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<td>3</td>
<td>Microsoft</td>
<td>United States</td>
<td>Computer Software</td>
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<tr>
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<td>Electronics</td>
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<td>Japan</td>
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<td>Alcohol</td>
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</table>

9.5. The chart of disposable income and consumption expenditure of urban household by provinces / region for the year 2009

9.6. The photos at IKEA Karlstad Sweden

Source: Interview Susanne Jensert (Department Store Manager) on May 6, 2011 at IKEA Karlstad, Sweden Email: susanne.jensert@ikea.com

9.7. The location of IKEA in Nanjing