

*Extended Essay in Business Management – Higher Level*

Effectiveness of IKEA's Marketing Strategies to penetrate the Indian Market

To what extent have IKEA's marketing strategies been effective to penetrate in the competitive Indian market for furniture?



(Chandler)

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## **Introduction**

IKEA is a Swedish furniture retail company founded in 1943 by Ingvar Kamrad. It has spectacularly expanded its global reach through 422 stores offering 9,500 types of furnishings products (Forbes).

### ***IKEA's India expansion***

Recently, IKEA opened its first Indian store in Hyderabad on 9<sup>th</sup> August 2018, pursuing flourishing middle-class of India's economy (Crabtree) as highlighted in its strategy of "affordability and accessibility" as per CEO Jesper Brodin (Reddy).

Preserving their vision, "To create a better everyday life for the many people", IKEA's strategy emphasises on offering quality products at affordable prices, with its mission, "To offer a wide range of well-designed, functional home furnishing products at prices so low that as many people as possible will be able to afford them" ("The IKEA Vision and Business Idea"). This extended essay aims at evaluating IKEA's marketing strategies to penetrate highly competitive Indian furniture market, using the research question, **"To what extent have IKEA's marketing strategies been effective to penetrate in the competitive Indian market for furniture?"**.

### ***Significance of research topic***

This research question is worthy of investigation in providing numerous aspects that MNCs must have within their marketing strategies to allow successful penetration in India's market.

## **Methodology**

### *Sources Used*

This study is principally based on **secondary research**:

<b>Secondary Research</b>	
<b>Type of Information</b>	<b>Sources Used</b>
Information about IKEA	IKEA's website, online newspaper articles, other websites.
IKEA's expansion in India	Research papers, online newspaper articles.
IKEA's and its Indian competitors' performance	Online newspaper articles, company websites, annual reports.
Business tools, theories, concepts	Business Management textbooks and online websites.

**Primary research** as an online survey was targeted to 108 Indians, aged 25 years and above.

This survey was to examine customers' viewpoints on the brand, marketing, and IKEA's market position compared to competitors.

<b>Primary Research</b>	
<b>Type of Information</b>	<b>Sources Used</b>
IKEA's Indian market position	Online survey of IKEA's existing and potential customers.

### ***Limitations of research methodology***

Although credibility and authenticity of all sources was considered, there are nevertheless certain limitations of methodology employed:

1. Biased information in newspaper articles driven by opinions of journalists on facts relating to IKEA's India expansion.
2. Primary research of customers may comprise influenced opinions.
3. Sample size chosen for primary research may not accurately represent whole market.

### ***Tools and Techniques Used***

This essay particularly focuses on content from Unit 4, Marketing. The table lists tools and techniques to be used:

<b>Tools</b>	<b>Purpose of Usage</b>
Porter's 5 Forces	Analysing IKEA's choice of expansion in India
Ansoff Matrix	Identifying and explaining IKEA's growth strategy
Product Position/Perception Map	Analysing and evaluating IKEA's market position compared to competitors
<b>Techniques</b>	<b>Purpose of Usage</b>
Extended Marketing Mix of 7 P's	Analysing IKEA's marketing strategies
Competition Analysis	Evaluating IKEA's market performance compared to competitors

IKEA's extended marketing mix will be used in evaluating its performance and penetration in India to answer the research question.

## Main Body

### *IKEA – Background and Performance Worldwide*

IKEA is the world's largest multinational furniture retail company (O'Connell) and one of the top 10 brands globally (YouGov). IKEA's Scandinavian styled products are known for ready-to-assemble (O'Connell). Its global bestselling products comprise *Billy Bookcases*, *Klippan Sofas* and *Poäng Chairs*. (Keller)

IKEA's annual revenue has been increasing since 2010: (Magnusson)

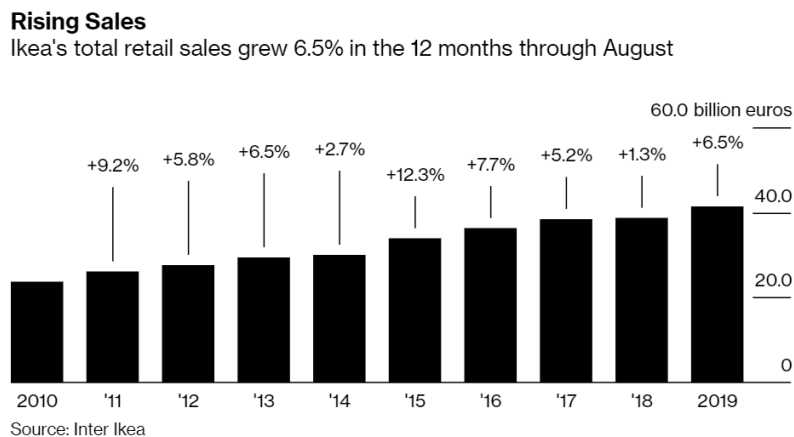


Figure 1

Globally, IKEA continues to face competition from Walmart, Target among others. (Craft)

### ***IKEA's Potential for Growth in Indian Market***

With **urbanisation**, India is one of the top emerging markets (Khemka). A youth population around 600 million (Jack) makes India a desirable marketplace for IKEA considering youths' preferences for ready-made furniture over customised designing. To understand possible reasons behind IKEA's expansion, Indian furniture market must be analysed.

Indian furniture market can potentially be around \$35 billion by 2020, with 20.0% year-on-year growth since 2018 (FI Online). Moreover, market size is expected to be \$61 billion by 2023 (The Economic Times), presenting a meaningful opportunity for IKEA to invest in India.

However, it is characterised by dominating unorganised sector, with handful of large furniture retailers in organised sector, demonstrated below (Mordor Intelligence):

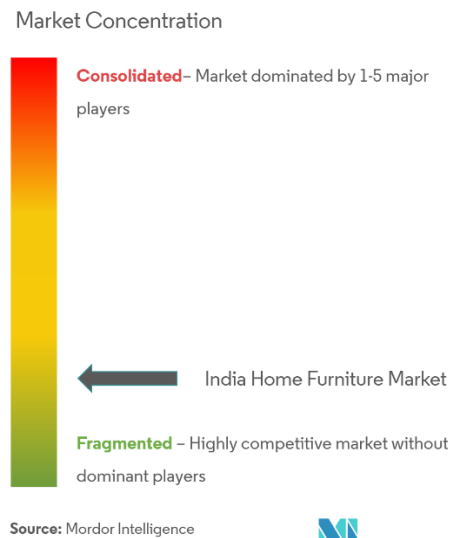


Figure 2

In 2018, unorganised sector contributed 86.0% of revenue while remaining came from organised sector. Nevertheless, organised sector is projected to increase by 5.0% whilst

unorganised sector expects to decline 5.0% by 2022 (Anand et al.), expanding market opportunities for organised retailers like IKEA.

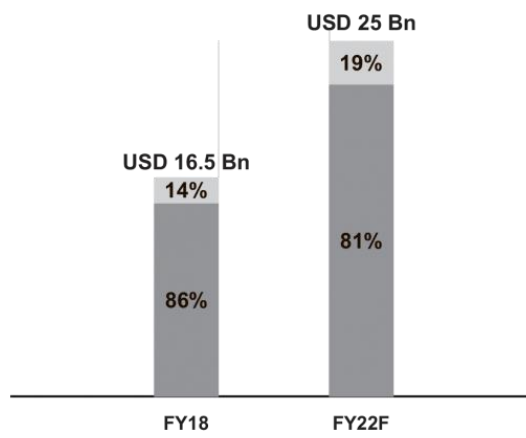


Figure 3 – Unorganised vs Organised share of sales



### Porter's Five Forces

**Porter's Five Forces** can be used to explain IKEA's choice of expansion in India, by determining profitability levels in industries with respect to competition levels (Ovidijus Jurevicius).

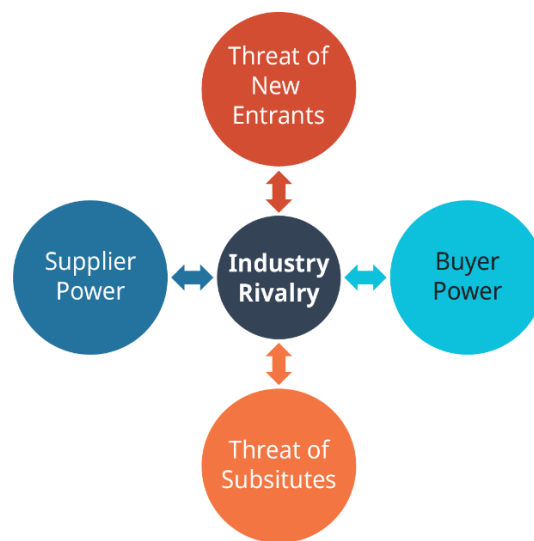


Figure 4 (Openstax)

Potential for growth due to **moderate competition** and chances of **higher profitability** could have encouraged IKEA's India expansion.

IKEA's brand image enables **moderate competitive rivalry**, yet it must consider Indians' loyalty towards other brands and unorganised sector.

**Low threat of new entrants** through IKEA's investments of Rs800 crore (\$107 million) on its Hyderabad store (Govind) and its voluminous production (TradeGecko) providing economies of scale, act as hindrances (Hayes) thus **barriers-to-entry** to organised furniture segment. With **lower threat of substitutes**, this would increase IKEA's profitability.

**Substitutability** for furniture products may arise through furniture styles. IKEA continuing to offer Scandinavian style furniture in India (Ringstrom) reduces direct competition nonetheless may face substitutability from hand-crafted “Maharaja” style furniture preferred by Indians.

**Low bargaining power of buyers** in organised sector due to furniture being sold at maximum retail prices (MRP) also increases profitability chances for IKEA but price-sensitivity of Indians (FE Bureau) would necessitate IKEA to launch its products with attractive prices.

With IKEA maintaining good relations with over 50 suppliers and sourcing raw materials since past 30 years (Ikea), **reduces supplier power**.

## *IKEA's Penetration in India*

### *IKEA's Growth Strategy*

IKEA's growth strategy can be identified and analysed using **Ansoff Matrix**:

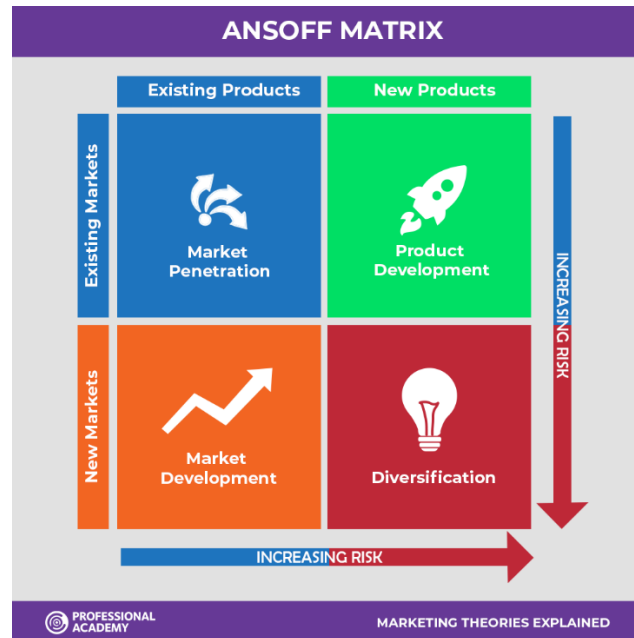


Figure 5 (Professional Academy)

**Ansoff Matrix** is used to evaluate growth strategies in terms of markets and products, classified as new or existing (Muchena et al.). IKEA penetrated India with approximately 90.0% globally sold furniture products and remaining 5-10% designed to accommodate Indian consumer's needs (Charu Lamba). Therefore, IKEA's growth strategy is **market development**, i.e., growing by expanding presence into new markets while selling same products, (Figure 5). While IKEA expanded its global footprint, selling same global products may act as limiting growth strategy over long-run.

## IKEA's Marketing Strategy

To understand the extent IKEA's marketing strategies have been effective to penetrate India, they must first be analysed using **extended marketing mix of 7P's**. This is because IKEA not only sells furniture and home furnishings, but also provides services through customer experiences.

**Extended marketing mix of 7P's** namely product, price, promotion, place, people, processes, and physical evidence is used for marketing goods and services (Hoang).



Figure 6 (tutor2u)

### **1. Product**

**Product** constitutes tangible goods and intangible services sold by businesses to satisfy customer needs and wants (Hoang). IKEA's products include tangible furniture, home furnishings and intangible services like furniture assembly at stores.

IKEA has extended its product line to offer 2000 goods specifically designed for India (Reddy) out of 7500 goods sold at its Hyderabad store. Goods adapted for Indian consumers include coconut fibre mattresses, masala boxes, pressure cookers and idli makers (Rishi

Iyengar), along with providing Scandinavian designed Billy Bookcases and Klippan Sofas (Charu Lamba).

IKEA's speciality is selling furniture goods in flat-packs, which customers assemble themselves (do-it-yourself). However, to adapt to Indian market, IKEA has contracted trained assemblers from UrbanClap, considering Indians' lack of acquaintance for do-it-yourself (Charu Lamba)

## **2. Price**

**Price** is money paid by customers in purchasing products (Hoang). IKEA's pricing for India is driven by "affordability and accessibility" (Reddy).

IKEA entered India using **penetration and competitive pricing** strategy by pricing 1000 products below \$4 and 500 products below \$2 (Mangaldas). Penetration pricing is entering markets with low prices, to attract customers, and competitive pricing is charging similarly to competitors' prices (Muchena et al.).

IKEA's pricing becomes ideal for India because average annual incomes are lower than \$2000 (Rishi Iyengar) and Indians are price sensitive (Yogita Limaye), seeking value for money, thus depicting IKEA's adequate adaptation for India.

IKEA's plans of obtaining 30.0% raw materials locally (Anand et al.), enables lower prices compared to higher-priced imported raw materials.

## **3. Promotion**

Promotion relates to communication with customers and/or potential customers about products, aiming to persuade them in buying (Muchena et al.). Approximately \$20-24 million (Rs150-180 crore) was spent by IKEA on advertising in year 2018-2019 (Tewari).

**Advertising** is **above/below-the-line promotion** involving paid communication of products via independent media (Muchena et al.). IKEA spent about \$1.6 million (Rs12 crore) for its first television advertisement “Make Everyday Brighter” (Tewari).

IKEA has used guerrilla marketing too, also known as stealth marketing entailing usage of non-traditional promotional methods (Hoang). IKEA used “bagvertising” in promoting its brand on cardboard boxes at Hyderabad airport to remind potential customers of its existence. (Kulkarni).

To familiarise its brand with locals of Hyderabad, IKEA offered auto-rickshaw rides to customers, furnished with VR goggles, enabling them to experience IKEA’s furniture and home-furnishings, thereby promoting its brand to those unaware and offering glimpses of its products (Kulkarni).

IKEA also opened an eatery at Hyderabad store, serving Indian and Swedish delicacies with capacity of nearly 1000 people. This helps IKEA to delight its customers and attract potential customers through word-of-mouth promotion (Kulkarni).

#### **4. Place**

**Place** describes methods of distributing products to consumers like through e-commerce, retailers, or wholesalers (Hoang). IKEA has experimented with multi-channel distribution by opening 400,000 square feet store in Hyderabad (Rishi Iyengar) and widening its customer reach through e-commerce to achieve its aim of reaching 200 million Indians within 3 years (Reddy).

Distribution through **e-commerce** enables firms to sell and customers to buy products via internet (Boomenthal). IKEA launched e-commerce stores in Mumbai and Pune recently

(Tandon), predominantly to establish its presence, considering Mumbai and Pune being metropolitan cities.

To combat high realty prices in Mumbai, IKEA plans on opening small-format stores in Mumbai malls by leasing shop space (Babar). This strategy is distinct from IKEA's traditional huge stores, however effective to expand its reach and save costs in an expensive market.

## 5. People

**People** refers to human capital, in terms of skills and knowledge, involved in producing and selling products (Muchena et al.). IKEA directly employs 950 co-workers and indirectly 1500 people in its provision of services at Hyderabad store (Charu Lamba). Since Indians are relatively unexposed to do-it-yourself, IKEA has trained 150 co-workers for assembling (Rishi Iyengar).

## 6. Process

**Process** describes how businesses provide their services like payment and after-sales services (Hoang). IKEA's key process adaptation to serve India is its furniture assembling services, which is also outsourced to local carpenters through UrbanClap. IKEA is also providing paid delivery and installation services (IKEA, Our Services).

## 7. Physical Evidence

**Physical evidence** comprises tangible aspects like ambiances reflecting quality of products offered (Muchena et al.). Physical evidence at IKEA's Hyderabad store include its modular homes, assisting customers in visualising their homes with IKEA's furnishings (Charu Lamba). These aspects may excite customers to visit IKEA and represent its high-quality goods.

### **IKEA's Targets for Indian Market**

Before expanding in India, IKEA researched extensively by visiting 1000 Indian homes, helping in product fitment like removing knives from cutlery set because Indians do not use knives at tables (Lasania).

IKEA has envisioned certain targets for short and long-term in India, including minimum 7 million footfalls in its first year of operations at Hyderabad store (Asia), reaching 200 million Indians post three years of establishing (Reddy) and securing 20.0% market share in organised sector over long-run (Srivastava).



## *IKEA's Performance in India*

### *IKEA's Position in Indian Furniture Market*

Primary data from online survey was used to produce a **product perception map**, highlighting IKEA's positioning in Indian market compared to its competitors. Perception maps identify customer perceptions of brands/products in relation to competitors (Hoang).

Two factors chosen for positioning were price and **quality**, considering Indian consumers price-sensitivity (FE Bureau) influencing their purchasing, and IKEA's penetration strategy of "affordability and accessibility". Quality was chosen as second factor as customers prefer quality products.

The positions of IKEA and its competitors were determined using results of online survey<sup>1</sup>:

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<sup>1</sup> Refer to Appendices 1 and 2



Figure 7

Godrej Interio's position was recognised as ideal with which positions of IKEA and other competitors were defined. This choice was made because maximum respondents chose Godrej in offering best quality furniture at reasonable prices:

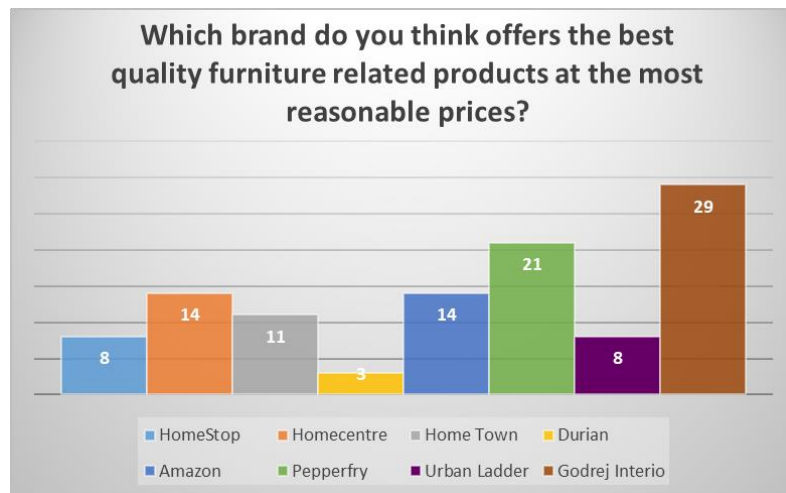


Chart 1

In the map, x-axis defined price and y-axis measured quality. Positive axes accounted for high price and quality while negative axes for low price and quality. Reasonable prices were established at origin.

55.5% people had used IKEA products and 32.0% of these claimed IKEA's pricing to be reasonable and affordable:



Chart 2

52.0% respondents perceived IKEA's pricing as reasonable and affordable whilst 44.0% chose slightly expensive:

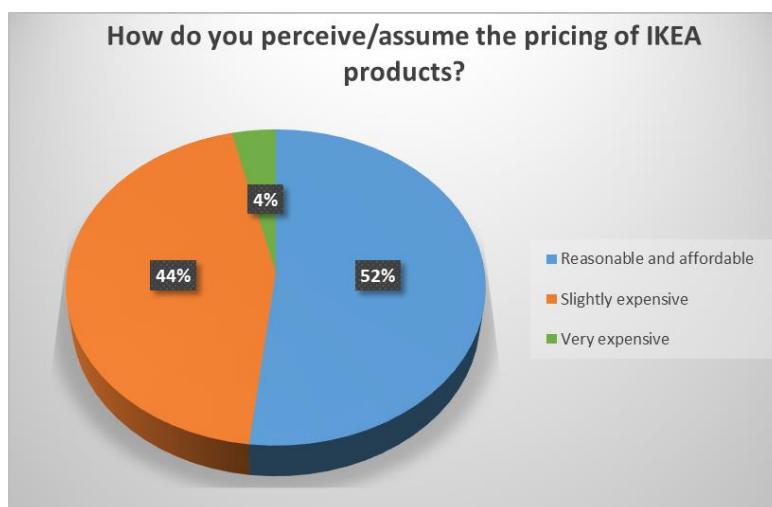


Chart 3

These perceptions were driven by experiences of purchasing IKEA products and having seen IKEA advertisements or heard from someone<sup>2</sup>. Hence, IKEA was positioned between moderately-high price and reasonable price level at origin.

IKEA's position for quality was determined by surveying customers on similar questions as asked for price. 55.5% people having used IKEA products rated quality on a scale of 10, with 10 being highest value. An average rating of 7.45 was obtained<sup>3</sup>.

49.0% people perceived quality to be high whilst 50.0% perceived it to be moderate:



Chart 4

Hence, IKEA was positioned between high and moderate quality.

To conclude, position map shows IKEA's marketing strategies success to some extent in its product positioning as per its desired objectives. IKEA's promotional strategies have been effective to communicate potential customers about its presence, quality of products and pricing. IKEA's position resembles its penetration based upon "affordability and accessibility". Lastly, position map reveals IKEA's major competitors namely **Godrej**

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<sup>2</sup> Refer to Appendix 2

<sup>3</sup> Refer to Appendix 2

**Interio** and **Pepperfry** since they are relatively on similar level with IKEA. Thus, competition analysis would compare IKEA's performance with Godrej Interio and Pepperfry.

### **IKEA's Financial Performance in India**

India's furniture market, anticipated to be \$35 billion in 2020, has been experiencing year-on-year growth of 20.0% since 2018 (FI Online), thus valuing \$29,167 million in 2019<sup>4</sup>. IKEA revenue worth Rs407 crore (\$58.8 million<sup>5</sup>) (Sagar Malviya) in FY19, giving a market share of 1.32% in organised Indian furniture market, which valued \$4,448 million in 2019 and represented 15.25% of total Indian furniture market<sup>6</sup> (Anand et al.).

Contrary to IKEA's target of achieving 20.0% share in organised furniture market segment via 50 stores in long run (Srivastava), its 2019 market share is very low, considering only a year of operations and trading through one store. Nevertheless, this figure could have been higher if its footfall targets were met. Originally aiming for 7 million footfalls in first year, IKEA lowered its anticipations to 5 million footfalls (ET Bureau) due to lower visitation during first six months (ET Bureau), possibly arising from customer base being limited to Hyderabad city. However, IKEA may have also lost on potential customers beyond Hyderabad due to ineffective communication, for example it released only one television advertisement during its first year, hence was not able to effectively communicate its market presence.

However, gradually IKEA managed to increase its market share to 1.53% in FY20<sup>7</sup> as its revenues increased to Rs665.6 crore (\$88.3 million) (PTI).

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<sup>4</sup> Refer to Appendix 3

<sup>5</sup> Refer to Appendix 3

<sup>6</sup> Refer to Appendix 3

<sup>7</sup> Refer to Appendix 3

Despite lower footfalls, IKEA's sales volumes and revenues have been higher than expected, for instance, 0.5 million colour spoons were sold within first six months of Hyderabad store (ET Bureau). A possible explanation is its effective penetration-pricing of charging substantially low prices considering price-sensitivity of Indians. IKEA has been continuously improving its pricing by sourcing raw materials locally, which presently is 19.0% but targets to be 30.0% (ET Bureau).

With investments of Rs800 crore (\$109.1 million) on its Hyderabad store (Govind) and short span of selling, IKEA has experienced losses. In FY18, no revenue was made since sales had not started, thus incurring a loss of Rs368 crore (\$56.5 million<sup>8</sup>) (Sagar Malviya), because of operating expenses and initial investments, leading to 100.0% loss. In FY19, IKEA's loss increased to Rs685 crore (\$98.9 million<sup>9</sup>) (Sagar Malviya) because of higher operating expenses from utility, employee compensation, and cost of goods sold. Due to revenue worth \$58.8 million, its percentage loss reduced to 62.7% in FY19. In FY20, IKEA's higher revenues enabled further decrease in percentage loss to 52.0%<sup>10</sup> despite increase in absolute loss to Rs720 crore (\$95.5 million) (PTI):

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<sup>8</sup> Refer to Appendix 3

<sup>9</sup> Refer to Appendix 3

<sup>10</sup> Refer to Appendix 3

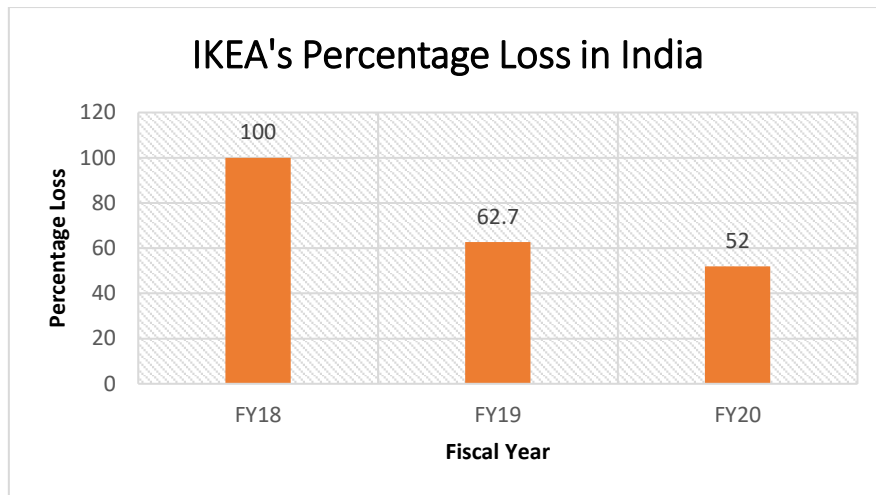


Chart 5

Therefore, while IKEA's attractive pricing has been successful in driving higher sales volume, its promotional strategies have not been much effective in attracting a large customer base, evident through lower footfalls.

### *IKEA's Performance in comparison to Competitors*

IKEA's major competitors were recognised as Godrej Interio and Pepperfry through the position map analysis. This section concentrates on competition analysis of IKEA's performance with Godrej Interio and Pepperfry on following parameters:

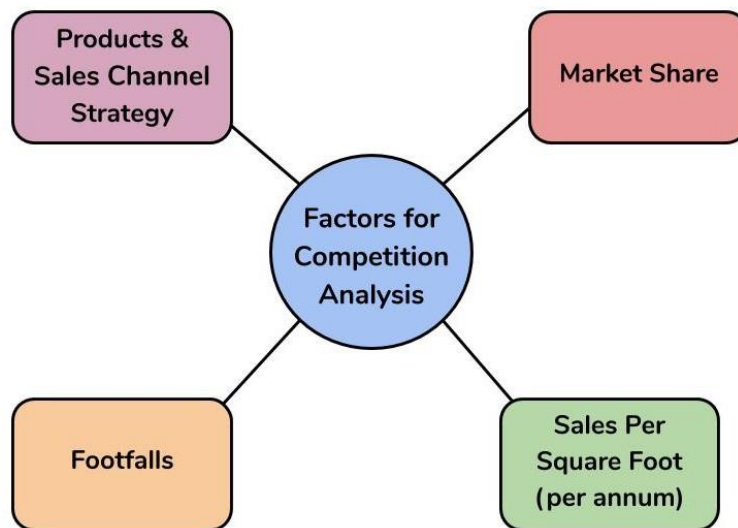


Figure 8

Competition analysis is based on FY19 data for all companies to ensure fair comparison.

#### **Product & Sales Channel Strategy**

**Godrej Interio**, renowned Indian brand selling home, office furniture and home furnishings, operates 52 brick-and-mortar showrooms with 800 dealerships for selling furniture products (Godrej Interio). To combat competition and expand accessibility, it introduced e-commerce store (Jain), improvising sales channel strategy by adopting omni-channel approach.

**Pepperfry**, an Indian start-up e-tailer for furniture and home-décor products (Chaudhary), sells its own furniture brands (Kotecha) with furnishing products of other organised retailers. It is expanding its product line with furniture products of local manufacturers (Balram). Its principal sales channel strategy emphasises selling furniture products online but also owns 60



“studios” sheltering these products, allowing customers to physically see them before purchasing online (Bhalla and Nandy).

**IKEA** sells furniture and home furnishings too, some specifically tailored towards Indian market whilst majority replication of what **IKEA** sells globally. **IKEA** plans on opening 40,000 square feet store in Navi Mumbai, in addition to two small-format stores in Mumbai (Gandhi). Being delayed in these plans, **IKEA** delved into multi-channel route to market by initiating e-commerce stores for Mumbai and Pune to expand its customer base beyond Hyderabad (Tandon).

### **Market Share**

**IKEA**, **Godrej Interio** and **Pepperfry** operate in organised Indian furniture market segment which valued \$4,448 million in 2019. Hence, market shares of these companies will be represented with reference to organised Indian furniture market in 2019. **Market share** refers to percentage of sales revenue of firms with reference to percentage of sales revenue of industry over a specific period (Fisher et al.).

**Godrej Interio** was predicted to earn revenues worth Rs2500 crore (\$361.3 million) in FY19<sup>11</sup> (Banerjee), with a market share of 8.12% in FY19, where organised Indian furniture market was worth of \$4,448 million in 2019.

**Pepperfry** generated Rs206.8 crore (\$29.9 million) revenue in FY19 (Malik), with a market share of 0.672%<sup>12</sup> in organised Indian furniture market.

**IKEA's** market share for FY19 was 1.32%, based on revenue worth Rs407 crore (\$58.8 million).

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<sup>11</sup> Revenue of **Godrej Interio** is not published for FY19, this estimated figure will be used in the research.

<sup>12</sup> Refer to appendix 4

The chart summarises these market shares:

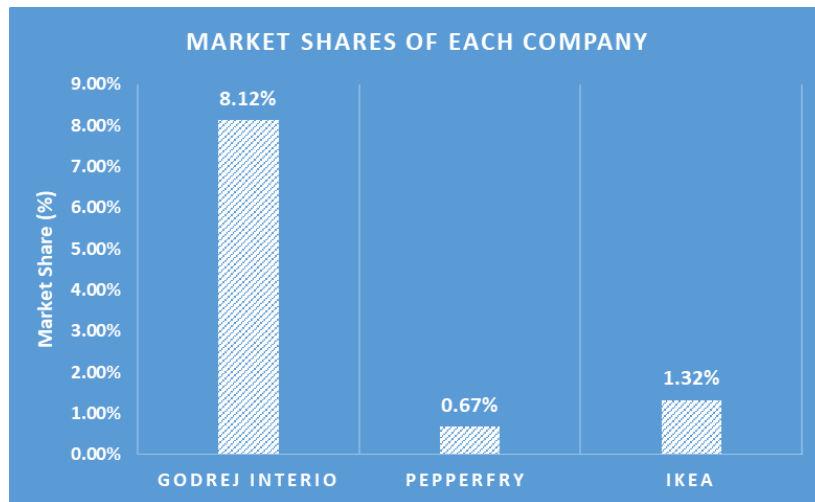


Chart 6

IKEA's FY19 market share of 1.32% was generated through its single store at Hyderabad. Considering one store, IKEA has performed well in first year of operations against Godrej which has 52 showrooms with 800 dealerships. IKEA's market share is higher than Pepperfry, indicating successful penetration in India.

Therefore, IKEA's marketing strategies including pricing, products and process have been greatly effective in penetrating India. Its competitive pricing and product variety of some designed for Indians and some globally renowned, attracted many customers, driving higher sales. Its processes offering conveniences like furniture assembling made it a desirable option for customers.

### **Footfalls<sup>13</sup>**

Footfalls are number of customers visiting a store over a measured time, usually per day (MBN).

Normally, each **Pepperfry studio** brings 37 customers on average daily (Chopra). With 60 operating studios (Bhalla and Nandy), Pepperfry's total footfall was 2,220 per day in 2019 and 810,300 footfalls for the whole year.

**IKEA** recorded approximately 12,500 footfalls each weekday and 22,500 footfalls each weekend between 2018-2019 (Bhattacharyya). Its annual footfalls expectations were lowered from 7 million to 5 million from lower visitation at its Hyderabad store (ET Bureau).

Pepperfry's mainly sells through e-commerce because its studios reflect only 38.0% of total revenue produced (Bhalla and Nandy), while IKEA's main business is through its stores. This makes comparison of footfalls between Pepperfry and IKEA not quite reliable and fair, but overall IKEA had attracted more customers than Pepperfry, not just due to its global brand image but also its effective promotional strategies, informing customers of its store, and physical evidence like its restaurant with range of local and international delicacies.

### **Sales Per Square Foot per annum**

This is used to measure efficiency and success of firms in dividing total revenue earned by total retailing space area in square feet, to obtain average revenue earned per square foot of retailing space (TUOVILA).

**Godrej Interio** has 52 showrooms (Godrej Interio), each generally having an area of 10,000 square feet (Rakshit), making its total retail space of 520,000 square feet. With a revenue of

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<sup>13</sup> Godrej Interio footfalls was not published in any news article; hence this analysis is between Pepperfry and IKEA.

\$361.3 million in FY19, its sales per square foot for FY19 is \$694.8 per square foot per annum<sup>14</sup>.

**Pepperfry's** 60 studios (Bhalla and Nandy) each averaging an area of 2,750 square feet (Lamba), creates a total retail space of 165,000 square feet. Pepperfry's studios contribute only 38.0% to its revenues (Bhalla and Nandy), hence it earned \$11.4 million through studios on total revenues of \$29.9 million in FY19, thereby earning \$69.1 per square foot in FY19<sup>15</sup>.

**IKEA's** Hyderabad store spanning over an area of 400,000 square feet (Rishi Iyengar) made \$58.8 million revenue for FY19 (Sagar Malviya), thus \$147.0 per square foot per annum<sup>16</sup> in FY19.

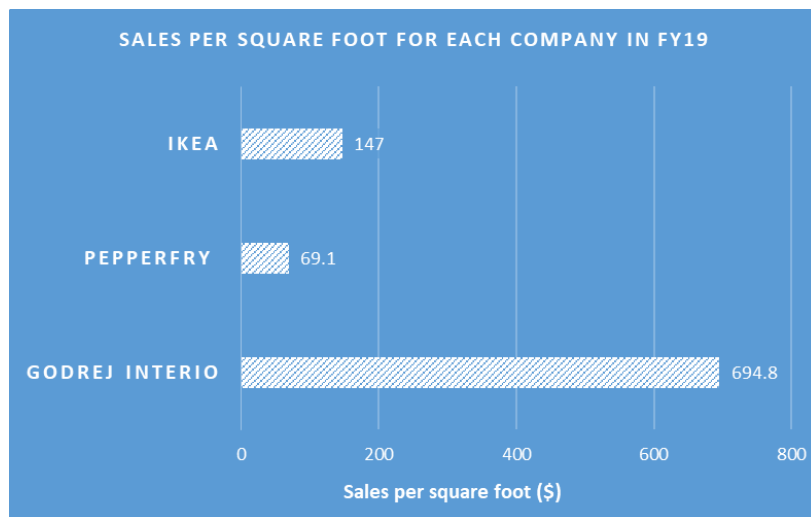


Chart 7

Godrej earned \$694.8 per square foot per annum, whereas IKEA made \$147.0 per square foot per annum during same period. With 52 showrooms, Godrej received higher sales per square foot, however with just one store, IKEA could earn 78.8% less revenue per square foot.

<sup>14</sup> Refer to Appendix 4

<sup>15</sup> Refer to Appendix 4

<sup>16</sup> Refer to Appendix 4

IKEA's marketing strategies, mainly its penetration-pricing helped IKEA to generate decent return per square foot basis and compete with Godrej.

Knowing that revenue shares from Pepperfry studios accounts only 38.0%, while IKEA's entire revenues came from its store in FY19, a like-to-like comparison between Pepperfry's \$69.1 per square foot per annum and IKEA's \$147.0, cannot be drawn. Nonetheless, overall, IKEA's higher sales per square foot than Pepperfry suggests success of its pricing and products strategy. IKEA's store houses 7,500 products, giving variety thus attracting more sales, whilst Pepperfry's studios' minimal area limits number of stocked products, explaining its lower sales per square foot.

## **Conclusion**

IKEA's interest in expanding to India was possibly driven by attractive Indian youth population, estimations of Indian furniture market valuing \$61 billion by 2023, and higher profitability chances through low bargaining power of suppliers and threat of substitutes in Indian furniture industry as examined using **Porter's Five Forces**.

**Ansoff Matrix** explained IKEA's India growth strategy as **market development** and its marketing strategies were analysed via **7Ps of marketing** to answer the research question -

***“To what extent have IKEA's marketing strategies been effective to penetrate in the competitive Indian market for furniture?”***

Analysis of **Position map** confirmed IKEA's marketing strategies were effective to certain extent in penetrating Indian furniture market and attaining its desired position. Promotional strategies were effective in communicating IKEA's product variety and pricing, however its place strategy was not quite successful in accomplishing accessibility in its target of “affordability and accessibility”, due to postponements in opening 3 more stores by 2020, pushing IKEA to introduce e-commerce for Mumbai and Pune markets to tackle these delays.

IKEA's **gradual growth of market share** and **decline in percentage loss** between **FY18 to FY20** proved effectiveness of its pricing and product strategies in driving sales. Nevertheless, 28.6% reduction in anticipated footfalls for first year implies promotion may not have been effective to lure customers to visit its store.

Lastly, **comparing IKEA's FY19 performance with key competitors Godrej Interio and Pepperfry** demonstrated IKEA to have outperformed Pepperfry within its first year.

Although IKEA's performance was lower than Godrej, market share and sales per square foot

figures illustrate a good starting point for IKEA in India, considering Godrej's well-establishment since many years.

To conclude and answer the research question, IKEA's marketing strategies specifically its product line, penetration and competitive pricing, in-store experiences with convenience through its processes, physical evidence, and people's support in delivering service, have been **quite successful and effective to penetrate and make a mark in India's competitive furniture market**. Yet, overall extent of effectiveness of IKEA's marketing strategies has been **limited due to moderate promotion** in attracting customers as well as **drawbacks in place strategy and route to market**, arising from delayed store openings, has restricted expanding customer base, hence resulting in muted sales and revenue performance for IKEA in India.

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## **Appendices**

### ***Appendix 1: Primary Research – IKEA Survey***

- To be used for Product Position Map
  - Target Audience – 25 years and above (Indians)
  - Anticipated Responses – 50 to 60
  - Actual Responses – 108
1. Have you ever heard of IKEA?
    - a. Yes
    - b. No
  
  2. Have you ever used IKEA's products?
    - a. Yes, in India
    - b. Yes, internationally
    - c. No, I haven't ever used IKEA products
  
  3. What aspect(s) make you visit IKEA's stores again or buy its products?
    - a. Price
    - b. Quality
    - c. Customer Service
    - d. Variety of products
    - e. Experience at IKEA stores
    - f. I haven't ever visited an IKEA store or used its products
  
  4. How do you find the pricing of IKEA products?
    - a. Reasonable and affordable
    - b. Slightly expensive
    - c. Very expensive
    - d. I haven't ever bought IKEA products
  
  5. How would you rate the quality of IKEA products? (1 being the lowest and 10 being the highest) (Skip this question if you haven't ever used IKEA products)
-

6. How do you perceive/assume the pricing of IKEA products? (This is for both, people who have used IKEA products and people who have not)
    - a. Reasonable and affordable
    - b. Slightly expensive
    - c. Very expensive
  
  7. Why do you have such a perception/assumption for its pricing?
    - a. International brand
    - b. Based on past experiences of purchasing IKEA products
    - c. A large, multinational company
    - d. I have heard from someone/read somewhere/seen IKEA advertisements
    - e. Other
  
  8. How do you perceive/assume the quality of IKEA products? (This is for both, people who have used IKEA products and people who have not)
    - a. High quality
    - b. Moderate quality
    - c. Low quality
  
  9. Why do you have such a perception/assumption for its quality?
    - a. International brand
    - b. Based on past experiences of purchasing IKEA products
    - c. A large, multinational company
    - d. I have heard from someone/read somewhere/seen IKEA advertisements
    - e. Other
  
  10. Which brand(s) do you usually visit for purchasing furniture related products?
    - a. IKEA
    - b. HomeStop
    - c. Homecentre
    - d. Home Town
    - e. Durian
-

- f. Amazon
- g. Pepperfry
- h. Urban Ladder
- i. Godrej Interio

11. Which brand do you think has the most ideal/reasonable pricing for its products?

- a. HomeStop
- b. Homecentre
- c. Home Town
- d. Durian
- e. Amazon
- f. Pepperfry
- g. Urban Ladder
- h. Godrej Interio

12. Which brand do you think has the most expensive pricing for its products?

- a. HomeStop
- b. Homecentre
- c. Home Town
- d. Durian
- e. Amazon
- f. Pepperfry
- g. Urban Ladder
- h. Godrej Interio

13. Which brand do you think offers the best quality for its products?

- a. HomeStop
- b. Homecentre
- c. Home Town
- d. Durian
- e. Amazon
- f. Pepperfry
- g. Urban Ladder

h. Godrej Interio

14. Which brand do you think offers the lowest quality for its products?

- a. HomeStop
- b. Homecentre
- c. Home Town
- d. Durian
- e. Amazon
- f. Pepperfry
- g. Urban Ladder
- h. Godrej Interio

15. Which brand do you think offers the best quality products at the most reasonable prices?

- a. HomeStop
- b. Homecentre
- c. Home Town
- d. Durian
- e. Amazon
- f. Pepperfry
- g. Urban Ladder
- h. Godrej Interio

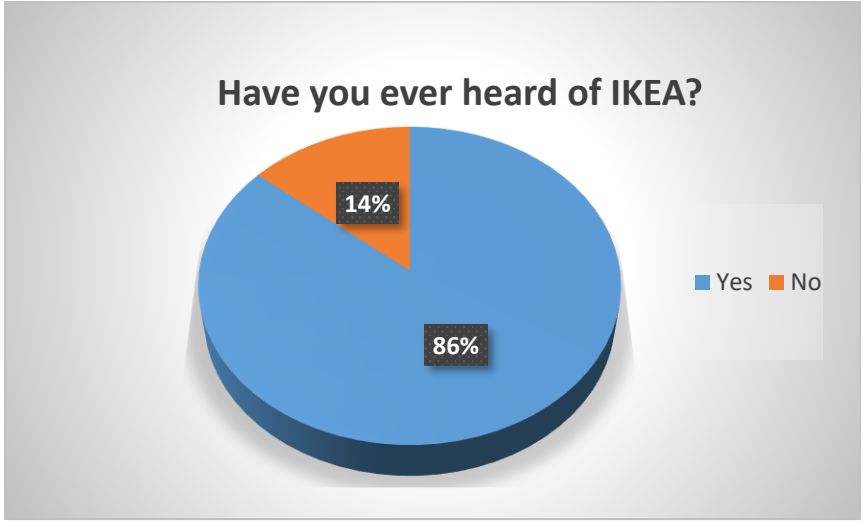
16. Based on which of the following factor(s) have you responded to questions 11-15?

- a. Past experience of purchasing furniture related/homeware products
- b. A perception based on having heard from someone/read somewhere

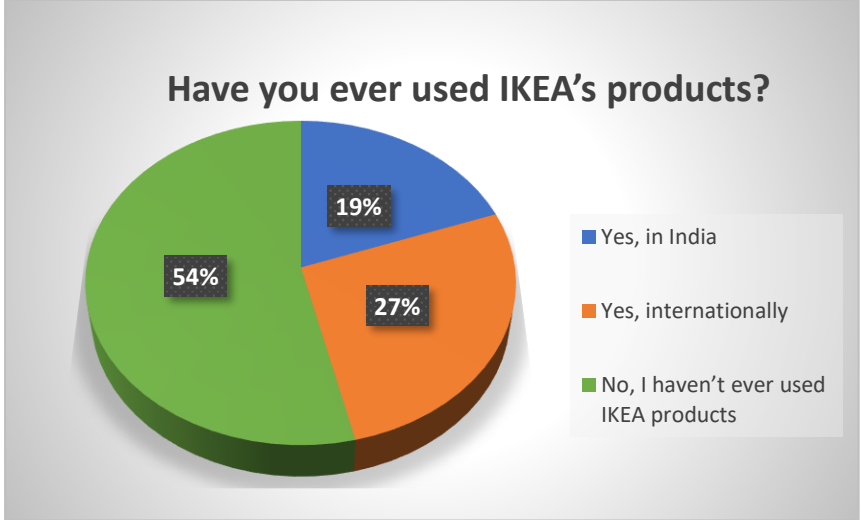
17. How willing/likely are you to visit an IKEA store on site/online in India in the future? (1 being highly unlikely and 10 being highly likely)

*Appendix 2: IKEA Survey Responses*

Question 1)

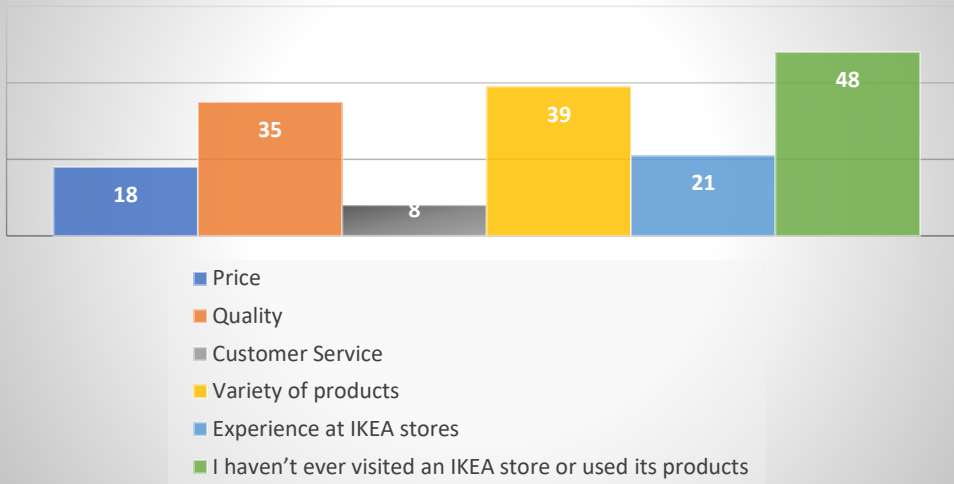


Question 2)



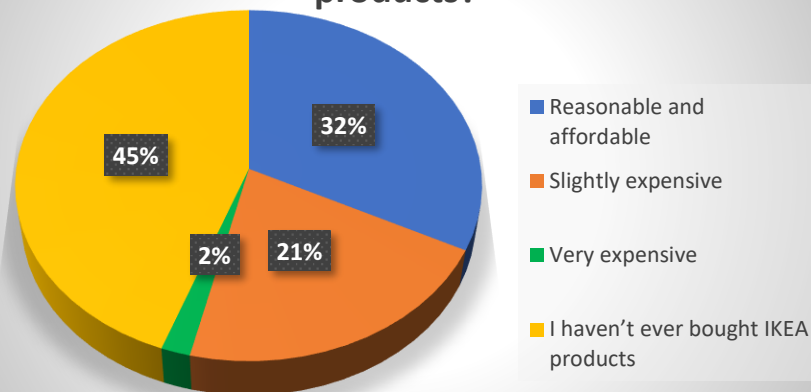
Question 3)

### What aspect(s) make you visit IKEA's stores again or buy its products?



#### Question 4)

### How do you find the pricing of IKEA products?

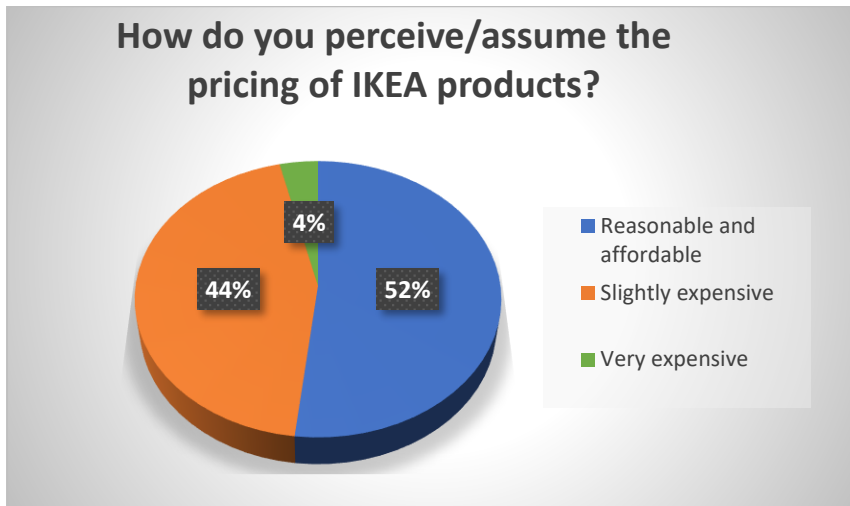


#### Question 5)

Respondent Number	Rating	Respondent Number	Rating	Respondent Number	Rating
1	8	11	6	21	6
2	9	12	9	22	9
3	4	13	5	23	9
4	5	14	8	24	8
5	6	15	10	25	10
6	7	16	9	26	9
7	7	17	8	27	7
8	8	18	7	28	9
9	5	19	7	29	8
10	7	20	8	30	5

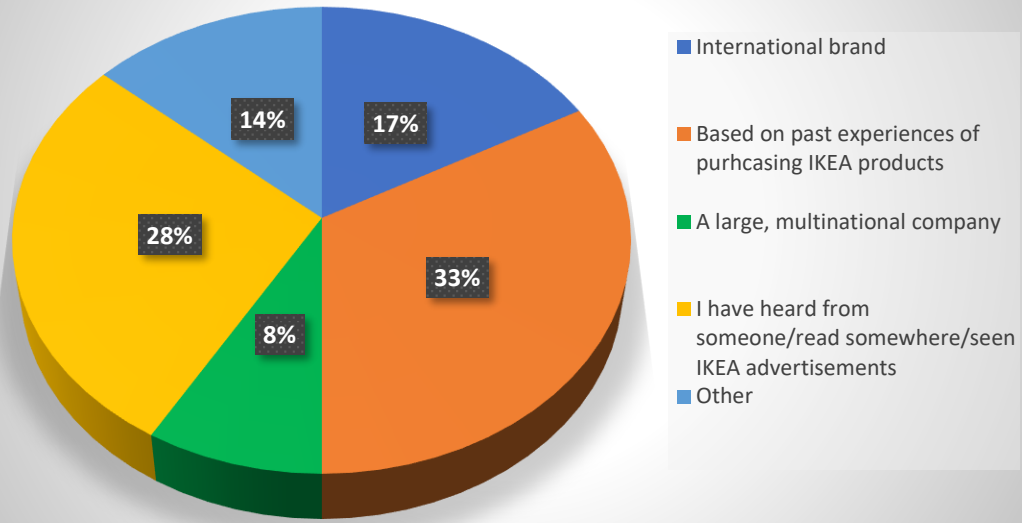
Respondent Number	Rating	Respondent Number	Rating	Respondent Number	Rating
31	7	41	9	51	8
32	6	42	6	52	8
33	9	43	9	53	4
34	8	44	5	54	8
35	8	45	6	55	10
36	8	46	8	56	9
37	9	47	8	57	9
38	5	48	6	58	9
39	7	49	3	59	8
40	7	50	9	60	8
				<b>Average Rating</b>	<b>7.45</b>

Question 6)



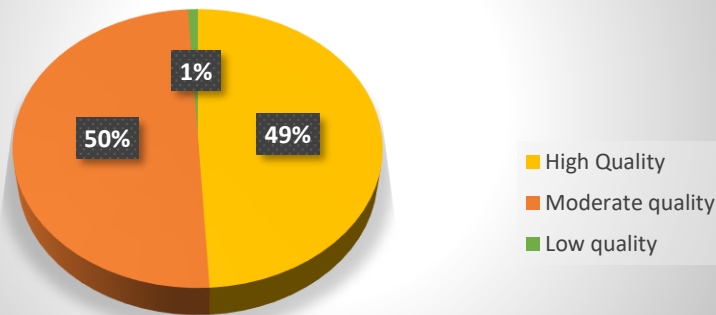
Question 7)

### Why do you have such a perception/assumption for its pricing?



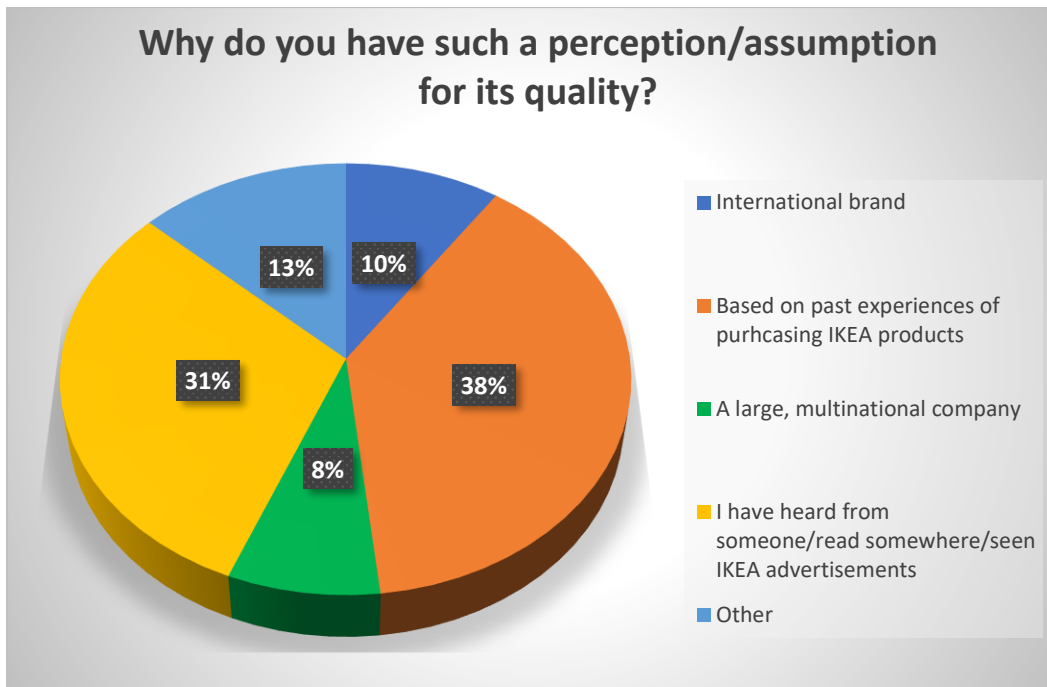
Question 8)

### How do you perceive/assume the quality of IKEA products?



Question 9)





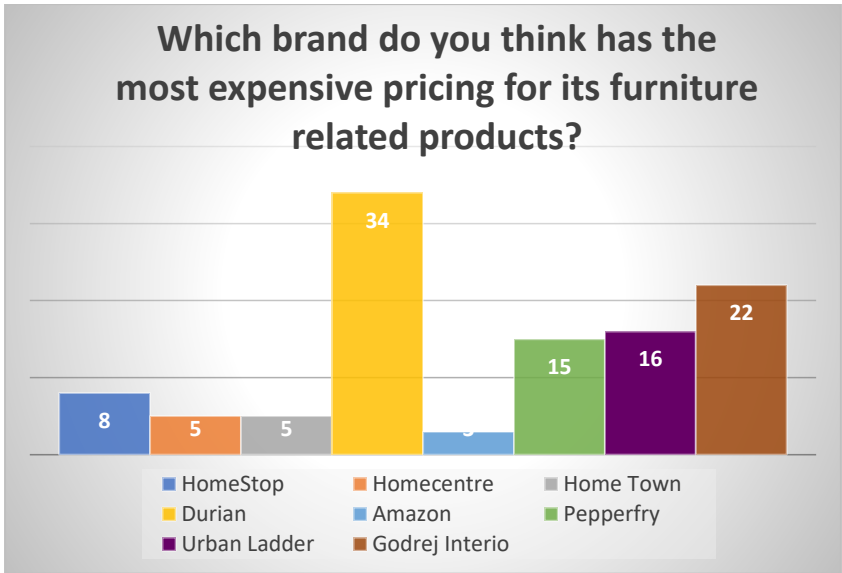
Question 10)



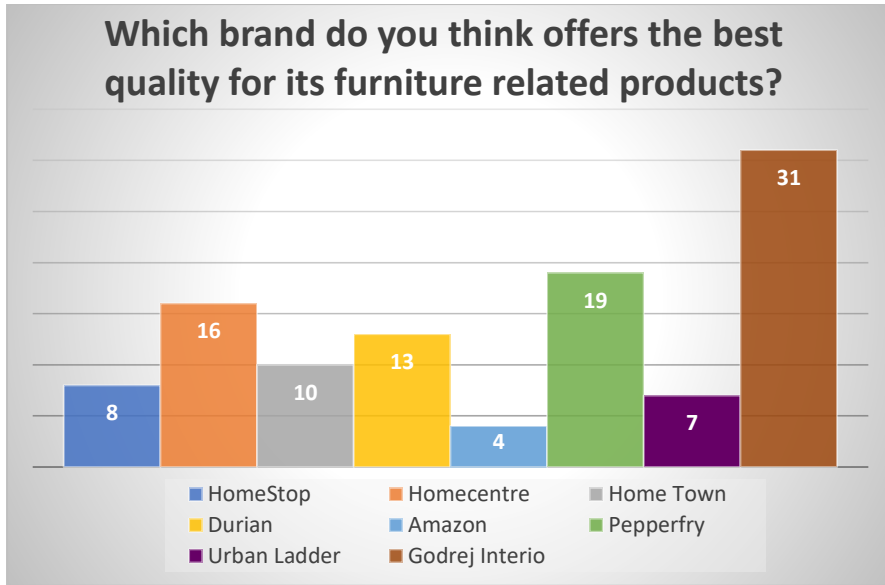
Question 11)



Question 12)



Question 13)



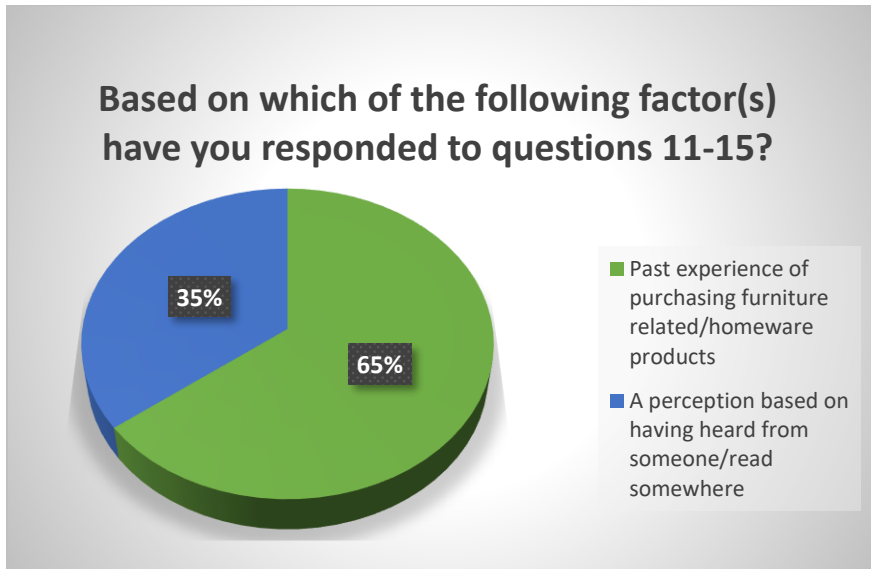
Question 14)



Question 15)



Question 16)



Question 17)

Respondent Number	Rating	Respondent Number	Rating
1	8	11	8
2	7	12	3
3	10	13	7
4	10	14	5
5	6	15	8
6	7	16	8
7	8	17	5
8	6	18	7
9	7	19	10
10	10	20	1

Respondent Number	Rating	Respondent Number	Rating
21	5	31	10
22	8	32	8
23	7	33	6
24	5	34	8
25	3	35	8
26	4	36	8
27	10	37	9
28	7	38	6
29	8	39	10
30	8	40	10

Respondent Number	Rating	Respondent Number	Rating
41	5	51	9
42	10	52	9
43	7	53	3
44	10	54	7
45	7	55	9
46	10	56	8
47	7	57	8
48	7	58	10
49	10	59	7
50	3	60	9

Respondent Number	Rating	Respondent Number	Rating
61	6	71	6
62	10	72	6
63	10	73	8
64	9	74	7
65	10	75	10
66	5	76	5
67	9	77	9
68	8	78	6
69	5	79	10
70	6	80	6

Respondent Number	Rating	Respondent Number	Rating
81	6	91	6
82	5	92	10
83	8	93	8
84	8	94	6
85	5	95	3
86	8	96	5
87	5	97	6
88	10	98	10
89	9	99	9
90	8	100	10

Respondent Number	Rating
101	10
102	8
103	6
104	7
105	8
106	10
107	7
108	7
Average	7.44

### ***Appendix 3: Calculations for IKEA's performance in Indian market<sup>17</sup>***

#### **IKEA India market share for FY19**

Revenue generated in FY19 (Sagar Malviya) = Rs 407 crore (\$58.8 million) (USD 1 = INR 69.2 as of 31<sup>st</sup> March 2019) (XE)

Total Indian furniture market value in 2020 (FI Online) = \$35,000 million

Year-on-year growth rate from 2019 (FI Online) = 20.0%

∴ Total Indian furniture market value in 2019 =  $\frac{\$35,000 \text{ million}}{20/100 + 1} = \$29,167 \text{ million (approximately)}$

**Organised Indian furniture market represented 14.0% of total Indian furniture market in 2018 (Anand et al.)**

**This is forecasted to grow to 19.0% by 2022, hence a growth of 1.25% per annum (Anand et al.).**

∴ Total share of organised Indian furniture market in 2019 = 14 + 1.25 = 15.25%

∴ Total organised Indian furniture market value in 2019 =  $\frac{15.25}{100} \times 29,167 = \$4,448 \text{ million}$

Market Share =  $\frac{\text{Revenue of firm}}{\text{Revenue of industry}} \times 100$

Market Share for IKEA in organised Indian furniture market in 2019 =  $\frac{58.8}{4448} \times 100 = 1.32\%$

---

<sup>17</sup> Value of Indian furniture market in 2020 is a projected figure, based on which a value for 2019 was calculated using a year-on-year growth rate.

## Ikea crosses RS 400-crore sales mark in first year

By Sagar Malviya, ET Bureau • Last Updated: Dec 02, 2019, 11:45 AM IST

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### Synopsis

The Indian market is notoriously value-conscious, and Ikea merchandise are rarely easily affordable.



MUMBAI: The world's biggest furniture retailer Ikea sold goods worth about Rs 2 crore every day on an average in its first year of operations, crossing Rs 400 crore in FY19 total revenue from its maiden store opened last August. This is a revenue record for any brand in the country from just one store - and in its

products from its catalogue of 10,000 after considering India's warm and tropical weather.

debut year - in a market otherwise considered extremely value conscious.

In the seven months of FY19 operations at its first store in Hyderabad, the Swedish retailer generated revenue of Rs 407 crore, although initial investments caused a loss of Rs 685 crore in FY19. The retailer, known for its ready-to-assemble products, had incurred a net loss of Rs 368 crore in FY18 on long-term corporate expenses, including creating infrastructure such land, distribution centres, staff cost and training.

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### **IKEA India market share for FY20**

Revenue generated in FY20 (PTI) = Rs 665.6 crore (\$88.3 million) (USD 1 = INR 75.4 as of 31<sup>st</sup> March 2020) (XE)

Total Indian furniture market value in 2020 (FI Online) = \$35,000 million

Total share of organised Indian furniture market in 2020 = 15.25 + 1.25 = 16.50%

∴ Total organised Indian furniture market value in 2020 =  $\frac{16.50}{100} \times 35,000 = \$5,775$  million

$$\text{Market Share} = \frac{\text{Revenue of firm}}{\text{Revenue of industry}} \times 100$$

$$\text{Market Share for IKEA in organised Indian furniture market in 2020} = \frac{88.3}{5775} \times 100 = 1.53\%$$



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## IKEA India FY20 results: Net loss widens to Rs 720 cr; sales up 64.7% at Rs 566 cr

PTI • Last Updated: Dec 25, 2020, 06:00 PM IST

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**Synopsis**  
The company had registered a loss of Rs 685.4 crore in the financial year ended March 2019, according to Registrar of Companies filing shared by market intelligence firm Tofler.



Its total revenue during 2019-20 fiscal was at Rs 665.6 crore, up 63.18 per cent, as against Rs 407.9 crore in the previous financial year.

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**New Delhi: Furniture retailer IKEA India saw its net loss widen** to Rs 720.1 crore in the financial year ended March 2020, according to regulatory documents.

The company had registered a loss of Rs 685.4 crore in the financial year ended March 2019, according to Registrar of Companies filing shared by market intelligence firm Tofler.

However, IKEA India saw its net sales grow 64.68 per cent to Rs 566 crore in FY 2019-20 from Rs 343.7 crore in the previous fiscal.

Its total revenue during 2019-20 fiscal was at Rs 665.6 crore, up 63.18 per cent, as against Rs 407.9 crore in the previous financial year.

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### **IKEA's Percentage Loss Figures in India in FY18, FY19 and FY20**

Loss in FY18 (Sagar Malviya) = Rs 368 crore (\$56.5 million) (USD 1 = INR 65.1 as of 30<sup>th</sup> March 2018) (XE)

Revenue in FY18 = Rs 0

% Loss = 100.0%

Loss in FY19 (Sagar Malviya) = Rs 685 crore (\$98.9 million) (USD 1 = INR 69.2 as of 31<sup>st</sup> March 2019) (XE)

Revenue in FY19 (Sagar Malviya) = Rs 407 crore (\$58.8 million) (USD 1 = INR 69.2 as of 31<sup>st</sup> March 2019) (XE)

∴ Total costs = Revenue + Loss = 58.8 + 98.9 = \$157.7 million

$$\% \text{ Loss} = \frac{\text{Loss}}{\text{Total costs}} \times 100 = \frac{98.9}{157.7} \times 100 = 62.7\%$$

Loss in FY20 (PTI) = Rs 720 crore (\$95.5 million) (USD 1 = INR 75.4 as of 31<sup>st</sup> March 2020) (XE)

Revenue in FY20 (PTI) = Rs 665.6 crore (\$88.3 million) (USD 1 = INR 75.4 as of 31<sup>st</sup> March 2020) (XE)

∴ Total costs = Revenue + Loss = 88.3 + 95.5 = \$183.8 million

$$\% \text{ Loss} = \frac{\text{Loss}}{\text{Total costs}} \times 100 = \frac{95.5}{183.8} \times 100 = 52.0\%$$

#### *Appendix 4: Calculations for Competition Analysis<sup>18</sup>*

##### **Godrej Interio Market Share in FY19**

Revenue generated in FY19 (Banerjee) = Rs 2500 crore (\$361.3 million) (USD 1 = INR 69.2 as of 31<sup>st</sup> March 2019) (XE)

Total organised Indian furniture market value in 2019 = \$4,448 million (refer to appendix 3 for calculations on organised Indian furniture market value in 2019)

$$\text{Market Share} = \frac{\text{Revenue of firm}}{\text{Revenue of industry}} \times 100$$

$$\text{Market Share for Godrej Interio in organised Indian furniture market in 2019} = \frac{361.3}{4448} \times 100 = 8.12\%$$

##### **Godrej Interio Sales Per Square Foot in FY19**

Number of company owned showrooms (Godrej Interio) = 52

Average size of showrooms (Rakshit) = 10,000 square feet

∴ Total square footage of retail space = 52 × 10,000 = 520,000 square feet

Total revenue generated in FY19 (Banerjee) = Rs 2500 crore (\$361.3 million) (USD 1 = INR 69.2 as of 31<sup>st</sup> March 2019) (XE)

$$\text{Sales per square foot} = \frac{\text{Total Sales Revenue}}{\text{Total square footage of retail space}}$$

$$\text{Sales per square foot for Godrej Interio in FY19} = \frac{361.3}{520,000} = \$694.8 \text{ per square foot per annum}$$

---

<sup>18</sup> Value for revenue of Godrej Interio in FY19 is an expected figure, the exact value was not published, hence an estimated figure will be used in the research.

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THIS STORY IS FROM JULY 26, 2018

## Godrej Interio aims at 25% topline growth, Rs 2.5kcr revenue this fiscal

Abhro Banerjee | Jul 26, 2018, 06:50 IST

Kolkata: Godrej Interio, India's leading furniture and interior solutions brand, is eyeing 25% growth in topline in the current financial year and is hoping to touch Rs 2,500-crore mark in revenue, said its COO Anil Mathur in Kolkata. Now, the company has six stores — both company-owned and franchise ones — in the city.

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### **IKEA Sales Per Square Foot in FY19**

Number of company owned stores (Rishi Iyengar) = 1

Size of store (Rishi Iyengar) = 400,000 square feet

∴ Total square footage of retail space = 1 × 400,000 = 400,000 square feet

Revenue generated in FY19 (Sagar Malviya) = Rs 407 crore (\$58.8 million) (USD 1 = INR 69.2 as of 31<sup>st</sup> March 2019) (XE)

Sales per square foot =  $\frac{\text{Total Sales Revenue}}{\text{Total square footage of retail space}}$

Sales per square foot for IKEA in FY19 =  $\frac{58.8}{400,000} = \$147.0$  per square foot per annum

### **Pepperfry Market Share in FY19**

Revenue generated in FY19 (Malik) = Rs 206.8 crore (\$29.9 million) (USD 1 = INR 69.2 as of 31<sup>st</sup> March 2019) (XE)

Total organised Indian furniture market value in 2019 = \$4,448 million (refer to appendix 3 for calculations on organised Indian furniture market value in 2019)

Market Share =  $\frac{\text{Revenue of firm}}{\text{Revenue of industry}} \times 100$

Market Share for Pepperfry in organised Indian furniture market in 2019 =  $\frac{29.9}{4448} \times 100 = 0.672\%$

### **Pepperfry Sales Per Square Foot in FY19**

Number of company owned studios (Bhalla and Nandy) = 60

Average size of studios (Lamba) = 2,750 square feet

∴ Total square footage of retail space =  $60 \times 2,750 = 165,000$  square feet

Revenue generated in FY19 (Malik) = Rs 206.8 crore (\$29.9 million) (USD 1 = INR 69.2 as of 31<sup>st</sup> March 2019) (XE)

Contribution of all studios to total revenue (Bhalla and Nandy) = 38.0%

∴ Total revenue generated through studios =  $\frac{38}{100} \times 29.9 = \$11.4$  million

Sales per square foot =  $\frac{\text{Total Sales Revenue through studios}}{\text{Total square footage of retail space}}$

Sales per square foot for Pepperfry in FY19 =  $\frac{11.4}{165,000} = \$69.1$  per square foot per annum

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### PepperFry loss widens to Rs 183 crore, now trails Urban Ladder

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Increasing competition and a year-long expansion effort has put PepperFry in the second spot. It is only behind Urban Ladder now, which emerged profitable last year.

In the financial year ended March 2019, net losses at PepperFry jumped 172 per cent to Rs 183.5 crore, company documents accessed through Tofler showed. The figures put the Mumbai-based online furniture brand in contrast to rival Urban Ladder which posed a Rs 50-crore profit in the same period.

In the given year, total revenue saw 47 per cent increase to Rs 206.8 crore, while total expenses increased 58 per cent to Rs 390.3 crore. The figures are on standalone basis. Given the latest numbers, PepperFry now squarely trails Urban Ladder, long-time second-rung player, which posted Rs 434-crore sales. The latter has been gone through re-alignment and retrenchment to reduce costs.

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