

Back again? IKEA's re-entry into Japan¹

The origins of Swedish furniture giant, IKEA, can be traced back to its founder. Ingvar Kamprad was an entrepreneur who began selling pens, wallets and watches door-to-door in 1943. Entering the furniture market at the time was very difficult to an entrepreneur and as Ingvar tried to sell his low-priced furniture, rivals began to increase barriers to entry by banning local suppliers from providing raw materials to IKEA. The company was also not allowed to attend industry exhibitions to showcase its furniture. What could the company do to develop an advantage in the market? IKEA began to import raw materials from Poland and design their own furniture, which was showcased to customers at exhibitions organised by IKEA employees. As of 2022, IKEA is the largest furniture retail chain in the world, with over 420 stores in 50 countries and territories and over 820 million customers per year. Most of these stores are fully or partially owned by the IKEA Group, with the remaining few being owned and run by the company's franchise partners.

Over the decades, the retailer has built a strong international presence. The international expansion of IKEA began in Norway in 1963 followed by Denmark in 1969 where the company set up small stores. The first IKEA store outside of the Scandinavian region was established in Switzerland in 1973, followed by stores being opened in Germany (late 1973), the Netherlands (1983) and Luxembourg (1991), among others. IKEA's strategy was to provide customers with low priced, but fashionable furniture, which everyone could afford and which they could take and assemble at home. This business model was implemented in every international market entered.

IKEA's initial entry into Japan

Although IKEA has been successful in establishing a strong presence in most foreign markets entered, IKEA's history in Japan reflects the challenges of replicating their home market strategy into international markets. Japan was one of the first Asian markets which IKEA considered as part of their international expansion strategy. After World War II, the Japanese economy grew exponentially, and the country changed from a developing to a developed nation. In 1968, with an annual growth in per-capita GDP of 10 per cent, Japan had become the world's second largest economy. The number of Japanese people living in the cities also grew exponentially, meaning more potential customers for IKEA's products. The company entered the Japanese market for the first time in 1974 via a joint venture arrangement with a local partner. The joint venture was chosen as a mode of entry in order to offset potential financial risks in the market. Yet, the company soon realised that the Japanese market was very different in terms of its culture, lifestyle and shopping behaviour compared to the other European markets in which the company was already operating.

IKEA's exit and re-entry

Following a period of poor sales, the company exited the Japanese market in 1986, 12 years after their initial foray into Japan. IKEA's market failure was attributed to the fact that the company did not have a good understanding of how to communicate their business model to the Japanese customer. Japanese customers were also not ready for the 'do-it-yourself' furniture style. The

¹ Sources: Valerie Chu, Alka Girdhar and Rajal Sood, 'Couching tiger tames the dragon', Business Today, 21 July 2013; 'Milestones in our history', Inter IKEA Group, 2018; Yumi Wijers-Hasegawa, 'Sweden's IKEA back in Japan after 20-year hiatus', Japan Times, 26 April 2006; 'Investing in Japan – IKEA Japan KK', Japan External Trade Organization, January 2015; Lisa Twaronite and Ariana Nobles, 'IKEA set to try again in Japan', MarketWatch, 22 July 2014; Victoria Vlisides, 'IKEA Japan putting it all together for the future', Japan Today, 19 March 2018. <https://mainichi.jp/english/articles/20230828/p2a/00m/0bu/005000c>

Japanese culture was influenced by the historical lack of resources of the country, which translated into customers not necessarily wanting furniture that was seen as fashionable but not durable, and which would have to be replaced every few years. Further, even when Japanese customers were willing to buy furniture from IKEA, they realised that the products sold were too large for the size of their homes. Japanese homes were, on average, smaller than Swedish homes. IKEA's local joint venture partner at the time was unable to help the company understand how to adapt its strategy to local demand and attract customers. The joint venture partnership was therefore dissolved and IKEA left the Japanese market. Starting with the early 2000s, news about IKEA's return to Japan with a new market strategy and fresh product line began to emerge.

In April 2006, IKEA decided to finally re-enter Japan, which remained the second largest economy and retail market in the world. The investment – a 43,000-sq.-meter site wholly owned by the company with plans to open 14 more stores until 2020 – showed IKEA's high commitment to the Japanese market. After a 20-year hiatus, the company had learned from its past mistakes and decided that size of the furniture was key when selling to a market such as Japan. This decision came from the market research conducted by the company, in the period of time they spent out of the market. IKEA staff visited a large number of Japanese houses to understand how these people cook, how they spend their leisure time, the environment in which they sleep and take a bath. This time around, IKEA opted to retain full control of its operations in the Japanese market.

Yet, for a retailer like IKEA, a key source of competitive advantages lies in their ability to achieve standardisation by providing the same built products across different international markets and achieve efficiency by flat packing their furniture for easy transport. Therefore, adapting its products to international markets would have increased costs significantly for the company. In turn, the company decided to select 7,500 items out of its 10,000-product line-up that were more suited to the sizes and preferences of Japanese customers. In the time they spent out of the market after exit, the company had also accumulated more experience with tailoring its range of products to the needs of local consumers. Having sold furniture in locations such as New York, Paris and London, they realised that they could apply this know-how to better provide for areas with small spaces. Further, IKEA introduced 'Tebura de box' which was a service that enabled customers to post all their desired products in a box, which would then be delivered to their homes. This was designed to address the problem faced by Japanese customers who came to the store via public transport. Given its success, this service was later implemented in other international markets.

The Japanese market remains tough as the company continues to experience problems. The Swedish firm was in the news in 2023 in Japan, with allegations that it does not pay employees to get changed into uniform. However, under the Labor Standards Act in Japan, there is no indication whether workers' changing time should be included in labor hours. Yet, a lawsuit in March 2000 revealed that the Supreme Court defined "labor time" as "the time when workers are under the command of employers". Given this, changing into work uniform would constitute as labor hours and the labor ministry issued similar guidelines in 2017.

Other issues in Japan include restrictions on the acquisition of land to build new superstores, regulations around local adaptation of product labelling and restrictions on the type of food products that can be imported into Japan and served in IKEA restaurants. The deregulation of Japanese Large Scale Retail Store Law, which affected the company's ability to set up operations in Japan, was a step forward.

Questions for discussion

1. Why did IKEA decide to venture into Japan?
2. Why did the company fail to perform well in Japan? What lessons can retailers draw from this?
3. What FSAs did the company require to compete effectively in Japan?
4. What were the advantages of IKEA switching from a joint venture to a wholly owned subsidiary when re-entering the Japanese market?

Answer

1. Why did IKEA decide to venture into Japan

IKEA decided to venture into Japan because after World War II, the Japanese economy grew exponentially. In fact, the country changed from a developing to a developed nation. In 1968, with an annual growth in per-capita GDP of 10 per cent, Japan had become the world's second largest economy. The number of Japanese people living in the cities also grew exponentially, meaning more potential customers for IKEA's products

2. Why did the company fail to perform well in Japan?

IKEA's failure to enter Japan was attributed to the fact that the company did not have a good understanding of how to communicate their business model to the Japanese customer. The Japanese culture was influenced by the historical lack of resources of the country, which translated into customers not necessarily wanting furniture that was seen as fashionable but not durable, and which would have to be replaced every few years. Further, even when Japanese customers were willing to buy furniture from IKEA, they realised that the products sold were too large for the size of their homes.

3. What lessons can retailers draw from this?

Before entering into new markets retailers need to thoroughly research and understand the market before entering. Although certain products may be successful in some markets, this does not necessarily guarantee success in a foreign market. Also, retailers need to thoroughly understand the laws of a country it is seeking to enter. In IKEA's case, this is a lesson still being learnt. For instance, IKEA continues to experience problems such as restrictions on the acquisition of land to build new superstores, regulations around local adaptation of product labelling and restrictions on the type of food products that can be imported into Japan.

4. What FSAs did the company require to compete effectively in Japan?

After a 20-year hiatus, the company had learned from its past mistakes and decided that size of the furniture was key when selling to a market such as Japan. However, IKEA's key source of competitive advantage lies in their ability to achieve standardisation (by producing the same built products across different international markets). Therefore, adapting its products to international markets would have increased costs significantly

for the company. In turn, the company decided to select 7,500 items out of its 10,000-product line-up that were more suited to the sizes and preferences of Japanese. Having sold furniture in locations such as New York, Paris and London, they realised that they could apply this know-how to better provide for areas with small spaces.

5. What were the advantages of IKEA switching from a joint venture to a wholly owned subsidiary when re-entering the Japanese market?

IKEA switched from a joint venture to a wholly owned strategy to enter into Japan as it can have the full power and control over decision making. This enables the retail giant to maximise profits.