MGNT389 ASSIGNMENT 3 - LONG ESSAYS

IKEA’s GLOBAL STRATEGY & EMERGENCE INTO INDIA

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"Identify and describe the possible modes (i.e., methods) of entry (Cavusgil et al., 2019) which firms may take when entering new markets. In the specific case of IKEA entering the Indian market, identify which mode(s) of entry IKEA has used. Evaluate the advantages and disadvantages of the method(s) of entry used by IKEA when entering the Indian market".

IKEA's global strategy and emergence into the Indian market can be categorised by various methods of market entrance. Generally, there are several possible theoretical modes of entry that firms may consider when entering new markets (Cavusgil et al., 2019). In the specific case of IKEA entering the Indian market, they have utilised strategies of exporting, licensing and foreign direct investment. Regarding the three strategies, there are advantages and disadvantages to their application in both IKEA's utilisation of them and general applications for firms internationally. Overall, there are many modes of entering new markets, some of which were employed by IKEA in their emergence into the Indian market, but also have advantages and disadvantages to their application.

There are several possible methods of entry that firms may consider when entering new markets. Firms can employ different entry modes at each stage of internationalisation, these possible entry modes are; exporting, global sourcing, licensing, franchising, joint ventures, collaborative ventures and foreign direct investment (FDI) (Cavusgil et al., 2019). Exporting is the simplest and least resource-intensive mode of entry. It involves selling products produced domestically to customers in the foreign market. Firms can either utilise direct exporting or indirect exporting, which is through using intermediaries (Puthusserry et al., 2018). Global sourcing entails the achieving goods and services from foreign markets to support a firm's operations in its home market or other international markets. It enables firms to take advantage of cost efficiencies, specialised resources, and global supply chain networks (Lund-Thomsen et al., 2021). Licensing allows a firm to grant the rights to intellectual property, like patents or trademarks, to a foreign firm in exchange for monetary royalties. The licensee can then produce and sell the licensed products in the foreign market. Licensing provides a relatively low-risk entry mode and is useful when the firm lacks necessary resources (Cavusgil et al., 2019). Franchising is a specialised form of licensing primarily used in service industries. In this mode, the franchisor gives the franchisee the right to use the brand, model, and operating methodology (Paul 2020). The franchisee pays fees and royalties to the franchisor in return. Franchising allows firms to rapidly expand their presence in foreign markets while leveraging the local knowledge and resources of the franchisee (Cavusgil et al., 2019). Joint ventures involve the formation of a separate entity through the partnership of two or more firms. This entry mode allows firms to access the local partner's knowledge, networks, and distribution channels, reducing the risks and costs associated with entering a foreign market independently. Joint ventures are beneficial in markets with legal or cultural barriers (Cavusgil et al., 2019). Collaborative ventures are cooperative agreements between firms that involve sharing resources, capabilities, or knowledge to pursue mutually beneficial goals. Unlike joint ventures, collaborative ventures will not form a separate entity. Instead, firms collaborate while maintaining their independence. These ventures can help firms gain market access, technology, or expertise while spreading risks and costs (Paul 2020). Foreign direct investment establishes a presence in an international market through investing in facilities or subsidiaries (Zahra et al., 2000). FDI can be made through subsidiaries, acquisitions of existing companies, or setting up production facilities. FDI allows firms to have greater control over operations, build local capabilities, and develop a long-term presence in the market (Cavusgil et al., 2019). All in all, these entry modes are not mutually exclusive, and firms often use a combination of them as they progress through the numerous stages of internationalisation.

It is common for multinational corporations like IKEA to utilise a combination of entry modes when expanding into new markets (Forlani et al., 2008). Considering IKEA's global presence and previous market entry strategies, it is possible that IKEA has employed a combination of modes such as exporting, licensing, and FDI to enter the Indian market (Hill 2022). Exporting may have been used initially to introduce IKEA products to the Indian market (Mishra et al., 2019). Licensing could have been utilised to grant permission to local manufacturers or retailers to produce or sell IKEA products in India (Lund-Thomsen et al., 2021). Lastly, FDI was employed to establish physical stores and operations in India. It is important to note that IKEA could not have used only one strategy exclusively in the context of emerging into the Indian market, but instead utilised various modes.

An assessment can be provided regarding the advantages and disadvantages of the modes of entry that IKEA could have potentially utilised, being exporting, licensing and FDI. Exporting offers advantages such as quick market entry and minimal investment, allowing for market testing before significant commitments (Paul 2020). However, it may result in limited control over distribution and customer experience, and challenges such as trade barriers, transportation costs, and cultural differences may arise (Forlani et al., 2008). Licensing, on the other hand, provides advantages such as lower investment and reduced risk compared to other modes. It grants access to local market knowledge and established distribution networks (Ripollés et al., 2012). However, drawbacks include limited control over product quality and brand image, as well as dependence on the capabilities and commitment of the licensee. FDI presents advantages such as full control over operations, brand image, and customer experience. It enables closer proximity to customers and a better understanding of the local market (Paul 2020). However, FDI requires significant investment and resources, and it involves higher risks associated with political, legal, and cultural challenges (Gallego et al., 2009). Overall, there are various advantages and disadvantages in IKEA’s application of their modes of entry.

In conclusion, IKEA's entry into the Indian market exemplifies the utilisation of various methods of market entrance within their global strategy. When considering the theoretical modes of entry available to firms, there are several possibilities to explore. In the case of IKEA, they have employed strategies such as exporting, licensing, and foreign direct investment. These strategies have both advantages and disadvantages, both in their specific application by IKEA and in general applications for firms entering international markets. It is evident that there are numerous modes of entering new markets, some of which were successfully employed by IKEA in their expansion into the Indian market. However, it is crucial to recognise the inherent advantages and disadvantages associated with each approach.

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“Describe the two dimensions and the four distinct strategies comprising the Integration-Responsiveness (I-R) Framework (Bartlett and Ghoshal, 1989, 1998, 2002; Cavusgil et al., 2019). Identify which strategy is being used by IKEA India Private Ltd. What is your reasoning for your selected strategy? Evaluate the utility of the Integration-Responsiveness (I-R) Framework, and where relevant refer to IKEA India Private Ltd”.

Through analysis of the Integration-Responsiveness (I-R) Framework, strategies involved within that theory are utilised by firms, such as IKEA India Private Ltd, to internationalise. Throughout this framework, there are two dimensions and four strategies that comprise the theory. In terms of IKEA India Private Ltd, they utilise mainly the global integration strategy from this framework. The I-R framework does hold strengths and limitations in its application which has also affected IKEA in their use of its theory. Overall, the utilisation of strategies in the I-R framework holds various utility which is used by internationalising firms, such as IKEA India Private Ltd.

The I-R Framework assists multinational corporations (MNCs) to determine how to balance foreign integration as well as local responsiveness in operations. The theory consists of two dimensions and four distinct strategies (Bartlett & Ghoshal 2019). The first of which is the integration dimension which references the extent an MNC seeks to achieve global integration by standardising its products, processes, and operations across different markets (Cavusgil et al., 2019). It emphasises the efficiency and economies of scale gained through a centralised approach. The integration dimension has two strategies which are global integration together with local responsiveness. As for global integration strategies, MNCs focus on achieving economies of scale and cost advantages by pursuing a standardised approach worldwide (Roth & Morrison 1990). They emphasise global coordination and integration of operations, with centralised decision-making and control. In contrast, the local responsiveness strategy recognises the diversity and unique needs of local markets (Bartlett & Ghoshal 2019). MNCs adopt a decentralised approach, allowing subsidiaries or regional units to tailor their products, services, and operations to suit local customer preferences and market conditions. Opposingly, the responsiveness dimension relates to the ability of an MNC to adapt and respond to the specific requirements and preferences of different markets (Cavusgil et al., 2019). It emphasises the need for customisation and flexibility to meet local demands. The responsiveness dimension has two strategies being multidomestic and transnational (Bartlett & Ghoshal 2019). The multidomestic strategy involves significant local customisation and adaptation. MNCs operating under this strategy decentralised decision-making and gave autonomy to individual subsidiaries or regions (Roth & Morrison 1990). The goal is to create strong local market positions by tailoring offerings to local tastes and preferences. The transnational strategy always attempts to achieve a balance between the differing strategies (Haugland et al., 2010). MNCs adopting this strategy pursue a combination of global coordination and local customisation. Overall, the framework provides a strategic perspective for MNCs to navigate the challenges of globalisation by understanding the trade-offs through both strategies in their market integration strategies.

The I-R concepts suggest MNCs, being IKEA, must have struck even between global integration and local responsiveness (Devinney et al., 2000). Considering IKEA's global presence and its emphasis on offering affordable and functional furniture, it is likely that IKEA follows a strategy that combines global integration with some level of local responsiveness (Jonsson & Foss 2011). This approach allows IKEA to maintain its brand identity and cost-efficiency while adapting to the unique characteristics and preferences of the Indian market (Hill 2022). By maintaining a certain level of global integration, IKEA can ensure consistency in its brand image, product quality, and customer experience across different markets. This helps to reinforce its global reputation and customer loyalty. Standardising certain aspects of operations, such as supply chain management and production processes, can lead to cost savings through economies of scale. This allows IKEA to offer affordable products to customers in different markets. Recognising that consumer preferences and cultural norms vary across markets (Rao 2016), IKEA may adopt a level of local responsiveness to cater to the specific needs and tastes of Indian customers. This could involve customising product offerings and store layouts to align with local preferences. Furthermore, IKEA can gain a competitive advantage in the Indian market by leveraging its global expertise and resources while also demonstrating an understanding of and respect for the local market dynamics. Ultimately, there are various reasons as to why IKEA would have employed these two strategies.

Although the specific I-R framework strategy employed by IKEA was overall successful, there are still strengths and limitations to their use. Strengths of the framework are evident in its ability to balance global consistency and local adaptation (Bartlett & Ghoshal 2019). The framework acknowledges the significance of maintaining integration on a global scale while accommodating the specific needs of local markets. For instance, companies such as IKEA can effectively utilise their global resources and capabilities while catering to the preferences and demands of the Indian market (Hill 2022). Furthermore, it promotes flexibility and responsiveness, encouraging companies to remain adaptive to local market conditions (Banerjee et al., 2019). This adaptability enables IKEA to modify their strategies, products, and operations accordingly. Moreover, incorporating local responsiveness through the strategies enhances customer satisfaction. By understanding and addressing the unique requirements and preferences of Indian customers, IKEA can effectively meet their needs. This customer-centric approach can lead to higher levels of satisfaction and foster customer loyalty.

The framework also has certain limitations that should be considered. Firstly, reaching an even balance between global integration and local responsiveness can be complex. It demands effective coordination and communication across different markets, which can be resource-intensive (Bartlett & Ghoshal 2019). Secondly, utilising both global integration and local responsiveness may involve trade-offs. For instance, customising products to meet local preferences may increase costs or compromise standardisation (Banerjee et al., 2019). Companies must carefully manage these trade-offs to ensure overall effectiveness (Haugland et al., 2010). Lastly, adapting to local market needs and preferences can present cultural and regulatory risks (Rao 2016). It requires investing resources in understanding local cultures and ensuring compliance with local laws to operate successfully (Meyer & Estrin 2014). All in all, although the framework can provide success, there are still strengths and limitations in its application, as shown through IKEA’s emergence into India.

In conclusion, the framework provides valuable insights into the strategies employed by firms, including IKEA India Private Ltd, for internationalisation. This framework encompasses two dimensions and four strategies that form the core of the theory. Specifically, IKEA India Private Ltd primarily utilises the global integration strategy outlined in the I-R framework. It is important to acknowledge that while the framework offers strengths in its application, it also has its limitations, which have impacted IKEA in their adoption of the theory. Nevertheless, the utilisation of strategies derived from the I-R framework proves to be beneficial for internationalising firms, such as IKEA India Private Ltd, as they navigate the complexities of global markets.

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