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## An Exploratory Analysis on Strategic Changes of Furniture Retailer: Focusing on IKEA and Hanssem in Korea\*

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### Abstract

**Purpose** – This study analyzes how Hanssem, which ranks first in domestic market in the furniture industry, responds to the expansion of IKEA, a large overseas furniture maker, and investigates the recent strategic changes of Hanssem and IKEA.

**Research design, data, and methodology** – As a research method, a general method of case studies, literature research, is carried out through academic research results, reports, articles, and statistics. In addition, methods such as field observation and interview with stakeholder were performed to collect in-depth understanding and information about the companies.

**Results** – Along with its core competences, Hanssem has pursued strategic changes to compensate for its weaknesses. IKEA has also used a variety of strategies changes to match the situation in Korea.

**Conclusion** – Both companies have properly balanced localization elements and standardization strategies that value the needs of local consumers. In particular, Hanssem has implemented various strategies based on its core competence in response to IKEA's strategy. In addition, Hanssem and IKEA are actively managing and have good performance not only in Korea but also in foreign markets.

**Keywords:** IKEA, Hanssem, Furniture, Distribution, Retailor, Strategy.

**JEL Classifications:** D30, L81.

### 1. Introduction

Swedish furniture maker IKEA entered Japanese and Chinese markets and struggled in the early days of the business. IKEA first entered the Japanese market by using a franchise contract with the Japanese furniture importer Actus in 1977. However, IKEA withdrew after 12 years due to sluggish business. Twenty years later in 2006, Inca Group, the holding company of IKEA, entered the Japanese market directly. It now operates six stores.

In 1977, IKEA entered China through a franchise agreement with Hong Kong's Dairy Farm Group. It took a long time for businesses to stabilize in Chinese markets. The Chinese enjoyed sitting in exhibition furniture and chatting instead of shopping because IKEA product was too expensive for Chinese consumer. Sales of IKEA products also increased as the number of middle class people increased rapidly because Chinese income levels increased.

IKEA's profit rates have also improved significantly. It is currently recording double-digit operating profit ratio. IKEA currently is operating 16 stores in China.

IKEA is rapidly increasing the number of stores in East Asia. Besides China and Japan, it operates 30 stores in East Asia, including two in Singapore, one in Malaysia, four in Taiwan, and one in Thailand. IKEA plans to expand up to five stores in Korea by 2020. Currently, IKEA plans to establish a franchise store in Indonesia.

With IKEA landing in Korea in December 2014, there was a sense of crisis in the Korean furniture industry. IKEA, which has successfully entered 43 countries including the U.S., is a dinosaur in the global furniture industry. Annual sales reached €38.3 billion (51.2 trillion KRW) as of the end of 2017. In particular, IKEA, which has reasonable prices, a product line of about 8,600 households including furniture and accessories, and a new concept marketing strategy of "Selling the life style", has threatened Korean businesses that have relied on high-end furniture sales.

As of December 2015, a year after entering Korea, IKEA's performance was as impressive as expected. According to IKEA Korea, it made \$420 million (470 billion KRW) in annual sales in 2018. This amount of sales has

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become the third-largest domestic furniture industry following Hanssem (2 trillion KRW in annual sales) and Hyundai Rivart (888.4 billion KRW in annual sales).

However, there was too much concern that the domestic furniture industry would face a collapse. Top companies such as Hanssem, Hyundai Rivart and Fursys have increased their sales significantly after the launch of IKEA in Korea. In particular, it is surprising that Hanssem, the No. 1 domestic furniture industry, has taken a leap forward. When looking at sales trends, it surpassed 783.2 billion won in 2012, 1.71 trillion won in 2015 and 2.6 trillion won in 2017.

In this situation, there is a very shortfall in existing research about corporate-level strategies related to the furniture industry and distribution. The existing literature related to the domestic furniture industry and distribution is relevant to the general furniture industry level, The literature of the corporate level is very scanty.

This study analyzes how Hanssem, which ranks first in the domestic market in the furniture industry, responds to the expansion of IKEA, a large overseas furniture maker and investigates the recent strategic changes of Hanssem and IKEA. This paper will lead to discussions on future strategic directions and IKEA response strategies in the Korean furniture industry.

This study proceeds in the following sequence. Chapter 2 provides theoretical background and literature studies, Chapter 3 will derive strategies and changes in Hanssem, Chapter 4 will draw strategies and changes in IKEA, and finally, Chapter 5 will draw conclusions and implications.

## 2. Literature Review and Theoretical Background

### 2.1. Literature Review

#### 2.1.1. Literature Review of IKEA

Many previous studies of IKEA's entry into Korea have been done on the various effects of IKEA's entry into Korean market on the domestic furniture market. However, it has been only three years since IKEA opened a local store, so there is very insufficient research on the actual impact of the advancement of IKEA or the changing strategies of Korean furniture companies or the future direction and strategy.

In general, IKEA-related previous studies were conducted in relation to the company's globalization and overseas advancement strategies, design strategies and other studies related to the domestic furniture industry. A domestic study on IKEA has been underway since the early 2000s. Yang(2002) focused on IKEA's success and design characteristics as a study from the beginning of a domestic academic study Kang and Kim (2009) focused on IKEA's

growth background, product goals, and differentiated strategies, and the value opportunity (VO) analysis compared the strategic differences between IKEA competitors in most European countries.

Park and Lee(2011) analyzed IKEA's management strategies in terms of corporate philosophy, design strategies, and marketing strategies, and analyzed the various aspects of IKEA's strategy. Kang(2014) also explained the trends of the Korean furniture market, along with research on IKEA's various overseas expansion cases and business status as of 2013. In addition, this study conducted the survey in five categories: brand, quality, price, DIY and design.

Kim(2014) preceded a review of IKEA's growth background and analyzed her differentiation strategy in design, production and distribution. In particular, the study focused on the distribution aspects of IKEA. Also, the product was analyzed in detail again, with the criteria for design, materials and hardware and quality.

Chae and Chung(2014) predicted what strategy IKEA would use to enter into Korean market through a comprehensive review of the Korean furniture industry and businesses. Kim and Kim(2015) explained IKEA's entry strategy of Korean market, focusing on the concepts of standardization and localization.

To sum up the previous studies of IKEA, most studies show a various explanation of the overall furniture industry, so there is a lack of research on how firms have actually responded.

#### 2.1.2. Literature Review of Hanssem

The research on Hanssem is very insufficient. In recent study, the study of Lee and Rho (2016) aims to benchmark a major strategy highlighted by Japanese NITORI and examine how Hanssem responds to IKEA's entry into Korea after it entered the country. Lee, Woo, and Park(2011) is an exploratory study, which observes the process of serviceability through in-depth case analysis and draws its implications, focusing on how companies respond to it. This study is an exploratory study, which observes the process of serviceability through in-depth case analysis and draws its implications, focusing on how companies respond to it. Organizational issues derived from this study were aggregated into conflicts within the organization, conflicts with existing channels, and organizational capabilities. Indeed, specific solutions were presented through the example of a furniture manufacturer, 'Hanseam', which provided specific solutions, such as building a customer-facing business process suitable for the service-oriented industry, and establishing human resources for new model implementation.

Chung, Lee, and Lee(2016) revealed the success factors through a comparative analysis of design management strategies of the top 2 companies in the domestic household

industry, and how they managed design management strategically to create value. Huang and Lee(2016) analyzed the brand identity of the VMD presentation elements in IKEA and Hanssem.

To sum up the previous studies of Hanssem, most of the existing studies were about Hanssem's design and brand strategy. There is a lack of research on the corporate-level strategy that Hanssem has conducted in furniture industry.

### 2.1.3. Literature Review of Furniture Distribution Industry

Research on furniture industry globalization and foreign market entry strategy has been steadily conducted. Hyun (2001) presented a marketing strategy based on the context of the domestic and Northeast Asian furniture markets and a design concept for kitchen furniture design trends. Wee and Yun(2003) was analyzed and compared to two companies of Italian furniture companies by dividing the overall brand, brand image, image promotion strategy, product development and marketing strategy, and five examples of products. The study also analyzed two main categories of priority items for businesses. The aspect of company was divided into corporate size and image, the aspect of product was divided into design, function, quality and price, and the aspect of management was divided into distribution systems, promotional activities, and service R&D (R&D). As a result, the three factors of design, quality and price were common among both companies. Min(2012) presented a global strategy for domestic furniture companies based on strategic alliances and the concept of standardization and localization.

The overall characteristics of the research on globalization and overseas expansion strategies were mainly based on how Korean furniture companies will create images and deliver them when they go abroad rather than on the strategy aspects of the actual products and production lines.

### 2.1.4. Literature Review of Domestic Furniture Industry

For prior research on the Korean furniture industry, Park (2003) analyzed the factors of opportunity and threats based on analysis of the characteristics, development processes and market status of the domestic household industry. The study also proposed improving the network system of the domestic household industry, strengthening the capabilities of professional personnel, establishing new marketing strategies, and sharing of traditional and modern furniture with others as measures to enhance competitiveness in the domestic furniture business. Kim(2012) proposed various strategies for strengthening competitiveness in terms of strengthening industrial and academic cooperation at the government and business levels. Uh and Kim(2016) conducted a study on how to develop furniture brands by using the concept of a single household that has emerged as a recent issue. The study also analyzed the current status and key characteristics of a single household and compared IKEA and Hanssem with four categories: design, accessibility,

convenience and value.

Prior research on the Korean furniture industry mainly focuses on how domestic companies can enhance their competitiveness. What is noteworthy about the research on IKEA is that although it has operated as Asia's largest store in Korea since December 2014, it does not show any new research on strategic changes in Korean companies. Therefore, research on the strategic changes and implications of Korean furniture companies that are to be addressed in this study will be necessary and timely.

## 2.2. Theoretical Background

### 2.2.1. Core Competence

Core Competence is a unique combination of corporate resources and capabilities that enable competitors to create absolute competitive advantage. Core Competence can be defined as an tangible and intangible asset that can be purchased in the market or that can be reproduced. Prahalad and Hamel(1990) described core competences as representing the ability of a particular method to increase value to customers or to make the process of delivering value more efficiently, and this ability is the capability for an firm to move into a new industry.

Among the core competences classified by many researchers, the core competence classified from a resource-based perspective by Grant(1991) and Mahoney (1995) include management resources, which are a source of core capabilities in the organization, and are applied by many researchers because the classification criteria are highly valid. Namely, they classified core competencies into six categories: financial resources, material resources, human resources, technical resources, reputation and organizational resources. Also, Porter(1985) explained the source of the company's competitive advantage based on value chain system. Hitt and Ireland(1986) classified core competences into general management, production and operation, engineering, R&D, marketing, financial management, human resources management, public and government relations. Barney(1995) classified core competences into three categories including organizational resources, physical resources, and human resources.

### 2.2.2. Competitive advantage strategy

Firms need competitive advantage strategies in various areas of corporate organization in order to gain competitive advantage. Kim(2005) developed competitive advantage strategies such as business diversification and reduction, entry into new markets, customer management and utilization, organization management, cost advantage, and development of new products as core competences. Choo, Yu, and Lim(2009) found that there is a positive relationship between the types of competitive strategies offered by Porter

(1980) and internal capabilities such as marketing, sales, technology research and development and finance and argued that it was necessary to use an optimal competitive strategy considering its internal capabilities to gain a competitive advantage. Based on this, it is reasonable to construct a competitive advantage strategy as one of the core competences in terms of the company's internal resources because the influence of internal resources on competition strategies is greater than that of external environmental factors,

A competitive advantage strategy is defined as the development of a process of activities and the injection and coordination of necessary resources to achieve short-term and long-term goals of the firm. Since then, competitive strategies are divided into defense strategy, analysis strategy, attack strategy, and response strategy in terms of adaptation to the environment in which the business is in place, and divided into cost leadership strategy, differentiation strategy, and focus strategy based on the structure analysis of industry. It can be seen in common that the types of competitive advantage strategies are optional depending on the firm's objectives and target markets. As other subtypes of competitive advantage strategies, Miller(1986) divided competitive advantage strategies into niche marketing strategies, cost-benefit strategies, innovation differentiation strategies, complex strategies, and diversification strategies by using the type of organizational structure and proposed how to apply a type of competitive strategy appropriate to the organization structure and the environment in which it faces.

Parnell and Wright(1993) quantitatively identified that the attack strategy and analysis strategy are effective in terms of profitability by applying the competitive strategy to a dynamic and volatile industry and argued that mixing strategies are necessary to create a sustainable competitive advantage.

### 2.2.3. Absorptive capacity

Absorptive capacity is a organization's ability to find new value from information generated from outside the firm and to assimilate it into the enterprise and use it for the purposes of the organization(Cohen & Levinthal, 1990). These Absorptive capacities include not only the ability to learn experience acquired by the enterprise, but also ability to share these experience with organization members through the interfaces and to solve problems(Camison & Fores, 2010). Thus, the basic nature of the Absorptive capacity is determined by the acquisition of new knowledge within the organization and the retention of prior knowledge to enable utilization(Cohen & Levinthal, 1990). In addition, knowledge accumulated at a specific time can be a more efficient foundation for building new knowledge in the future, and a more effective understanding of information in the external environment can be expected. As such, the formation of absorbed capacity in a firm is bound by time

and has unique areas related to corporate activities.

These absorption capacities are considered as strategic processes or organizational routines related to the acquisition, assimilation, conversion and utilization of knowledge(Zahra & George, 2002). That is, absorption capacity has a multidimensional structure that uses knowledge properly to achieve an firm's objectives by acquiring information outside the organization. Acquisition means the ability to identify external sources of information and to acquire such information. This process focuses on the organization's exploratory learning and is to understand the potential value of new information from outside the organization.

Subsequently assimilation is the ability to develop a routine or procedure for using information acquired externally through analysis, interpretation and understanding within the organization. Namely, This is a step in understanding and absorbing new information in line with existing concepts formed by pre-learned knowledge and experience. Transformation means the development of existing routines and procedures by easily combining with existing knowledge held for future use of assimilated knowledge. The transition maintains and reinforces the firm's existing knowledge as time goes by and plays an important role in combining newly created and existing knowledge. As the role of re-establishing routines within an organization, transition allows knowledge newly acquired or assimilated from the outside to be integrated or changed with existing knowledge (Camison & Fores, 2010). Lastly, exploitation represents the ability to newly use, expand and promote existing routines, competencies and technologies according to an entity's specific purpose based on the knowledge converted.

### 2.3. Research Model and Research Methodology

In this study, prior to analyzing various strategies of IKEA and domestic household companies, important theoretical background studies that were deemed to have significant influence on the establishment of corporate strategies were conducted. This will help us understand how the strategies of the selected companies play a role across the enterprise. Specifically, IKEA and Hanssem are pursuing various strategic changes as the environment changes, which will be analyzed at the corporate level.

As a research method, a general method of case studies, literature research, is carried out through academic research results, reports, articles, and statistics. In addition, methods such as field observation and interview with stakeholder were performed to collect in-depth understanding and empirical information about the targets.

### 3. Case Study I: Hanssem

#### 3.1. Brief History of Hanssem

Established in 1970, Hanssem is a home total interior company with four business groups: kitchen furniture, interior furniture, living appliances and household appliances. Hanssem started overseas expansion by establishing a local corporation in the United States in 1986, Japan in 1991, and China in 1996. Hanssem specialized only in kitchen furniture in 1997, but expanded its business group into interior sectors, opening direct sales store(flag ship) in Jamsil, Nonhyeon, Bangbae, Sangbong, Mokdong, Yongsan IPark Mall, Bundang, Suwon Kwanggyo, Daegu, Busan until 2017. Hanssem was listed on the stock market in 2002 and achieved rapid growth by expanding its business structure from B2B to B2C in 2005. As shown in <Figure 1>, Hanssem has been on a steady rise in sales. Currently, Hanssem has the largest market share in the domestic interior furniture market and the strongest brand power.

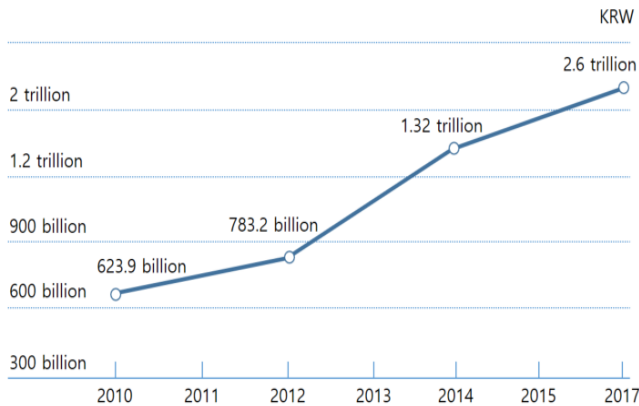


Figure 1: Sales Trend of Hanssem

Hanssem has been the number one kitchen furniture business since 1986, and No. 1 interior furniture business since 2001, and No. 1 kitchen furniture in Korean brand power index, announced by the Korea Management Association for 16 consecutive years, Hanssem has established itself as the nation's largest home interior retailer. Hanssem's current business structure is 39% of B2C-Inside Furniture, 37% of Kitchen Furniture and 24% B2B.

*"We looked at Hanssem's strengths and weaknesses. We've come to the conclusion that our strength is human resource, and our weakness is that our products are fewer and our stores are small. IKEA has not only many advantages but also disadvantages. We are not being pushed back by attacking IKEA's weaknesses."*

Source: Kim (2015)

Hanssem, like Chairman Choi Yang-Ha's interview, has been making thorough preparations since IKEA's announcement to enter Korea. In particular, Hanssem has pursued strategic changes to compensate for the weakness along with the Hanssem's core competence.

The core competence of Hanssem can be seen in three categories. First, Hanssem is strengthening installation and providing logistics services, not manufacturing. Second, Hanssem is not only combining the online and offline but also strengthening its online and mobile sales. Lastly, Hanssem is expanding its business beyond kitchen furniture to total home interior including remodeling(Son, 2018). This study will take a closer look at what strategy Hanssem attempted to change based on these key strengths.

#### 3.2. Strategic Changes of Hanssem

##### 3.2.1. Location Strategies for Expanding Distribution Networks

IKEA's large-scale store is located outside the city center, but Hanssem built a store in downtown in order to increase consumer accessibility as a response strategy. Instead, Hanssem supplement his weaknesses by building a store as large as possible. Hanssem plans to work harder to expand its distribution network as the competitive advantage.

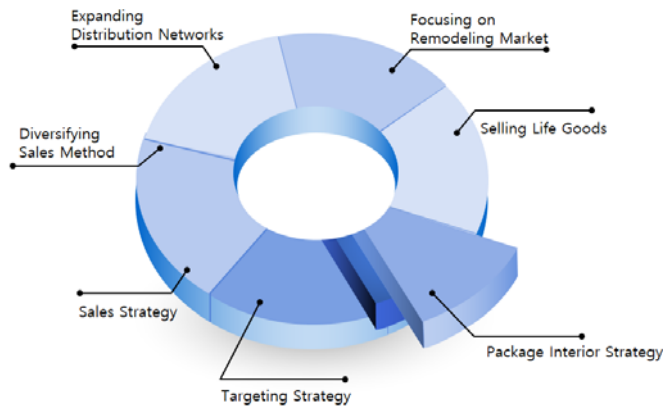
Table 1: Changes of Hanssem's Location Strategy

Year	Location Strategy
2014	<ul style="list-style-type: none"> <li>Large-scale remodeling of direct stores</li> </ul>
2015	<ul style="list-style-type: none"> <li>Opened 'Hanssem Home', which specializes in household goods in Gongneung-dong, Seoul</li> <li>Opened large flag shop in Daegu</li> </ul>
2016	<ul style="list-style-type: none"> <li>Opened additional Flag shop in Gangbuk, Seoul and Suwon. Plans to expand to 15 store by 2020.</li> </ul>

##### 3.2.2. Sales Strategy

IKEA encourages people to buy materials and components and assemble them at home, and provides furniture at cheaper prices by reducing logistics costs and installation costs. In response, Hanssem stood up with a strategy to deliver and install himself. Furniture is considered to determine 50% of the total quality. As part of this, the service-related organization was reorganized into the CEO's direct unit in 2013 and adopted a strategy to hire 1,000 additional employees and deploy them for delivery and installation in 2014.

Hanssem was highly praised for its direct installation service, which provides detailed lighting and window frames as well as large-sized furniture such as kitchens, bathrooms and bedrooms.



**Figure 2:** Strategic Changes of Hanssem

### 3.2.3. Change of Targeting Strategy

IKEA's main target group is households with 1 to 2 people and families with young children and sells cost-effectiveness furniture. So Hanssem targeted newlyweds who are preparing their first furniture. Hanssem conducted a field survey of 10,000 newlyweds and studied their preferred lifestyle during a year, and released more than 20 'Life Style Package' that is proposed in a theme of 24-pyeong space, and received good response.

*"Hanssem confirmed through research that the newlyweds do not need pretty furniture but need space for their lifestyle. We're not selling beds, but we're proactively responding to changes in customer demand by suggesting bedrooms."*

Source: Kim (2015)

### 3.2.4. Selling Life Goods

IKEA is a total interior company that sells not only furniture but also life goods. Hanssem also focused on finding household items to benchmark this. The different thing is that IKEA makes and sells spoons from beds while Hanssem focused on distribution.

By partnering with non-brand companies across the country, they supplied good quality interior products. With the exception of key kitchen furniture, Hanssem has transformed itself into a furniture distributor that distributes products of leading small and medium-sized companies.

Since Hanssem also needed a lot of electricity for his bedroom or living room, he has been working with some home appliance makers and established a device business division. Hanssem plans to develop it into an integrated appliance and sell it in stores (Kim, 2015).

### 3.2.5. Diversifying Sales Method: On-Off Line

First, Hanssem is strengthening its home shopping division. Hanssem Home Shopping sells most of the interior items that make up the house from kitchen furniture that

Hanssem has studied for a long time to living furniture such as bathrooms, middle doors and beds. With the challenge of selling interior products as TV home shopping, which it thought impossible in home shopping, Hanssem is now firmly maintaining its No. 1 position in the home shopping industry. Hanssem Home Shopping, which started at 3.1 billion won in 2009 and grew to 2,100 billion won in 2017, is set to take another leap forward by targeting mobile sales and IPTV markets in 2018. In addition to simple products, Hanssem Home Shopping has continued to attempt to show its customers as much space as possible through its screen.

Besides the home shopping business, Hanssem's diversification of distribution channels is also increasing its size(Moon, 2017). Online distribution(Hanssem's Internet shopping mall "Hanssem Mall", Gmarket and Auction) sales increased 30 percent year-on-year(Kim, 2017). Its strategy is to diversify its sales channels through online-offline distribution channels and maintain its growth status by using the "Rehaus" store as the second new growth engine of Hanssem.

The current situation in Korea is increasing aging housing and changing demand-oriented real estate market, creating a wider interior market for building materials. Hanssem's sales per household have been increasing since 2015 when the kitchen distribution division, which used to sell only kitchen, expanded its items to bathroom and floor. "Rehaus" store is a channel that focuses on combining windows, lights, bathrooms, floors, and kitchens and selling them as a package product.

### 3.2.6. Focusing on Remodeling Market

Hanssem has brought attention to the remodeling market and has been selling related stores one after another(Cho, 2018). This is a strategic move to prepare for the economic recession of construction and real estate and to secure sustainable growth. It is called 'Hanssem Design Park' that combines materials for remodeling into 'Flag Shop', which is a flagship store centered on furniture and general merchandise. Therefore, it is possible to apply for consultation, purchase, and construction at one place, from home modeling to furniture and daily necessities.

If "Home Furnishing"(Home Interior + Furnishing) is a business portfolios of IKEA, Hanssem has decided to move to "Home Remodelling," which is wider. In addition to furniture and household goods, the company is targeting everything related to interior architecture. Hanssem has 11 large stores with Rehaus nationwide, including four Design Parks. It is planning to open 6 or 7 more in 2018. All new stores will be named Design Park.

### 3.2.7. Package Interior Strategy

Hanssem has been strengthening its 'Space Package' product with lifestyle as a new growth engine since 2014. It operates a professional design team that studies space and has been introducing design products that take into

consideration harmony between households since its launch (Ahn, 2017). These package interior sales are expanding significantly.

Among the consumers who purchased Hanssem's "Space Package" product, the newlyweds are particularly notable. Newlyweds who have little experience in choosing households account for 31 percent of their living room packages. It can be seen that consumers who are tired of product floods are increasingly shopping for package furniture as a whole according to expert advice.

What is important in selling space packages is the power of sales, marketing, and counseling. It is very popular because store salespeople with professional product information directly show product combinations in VR (Virtual Space) along with customized packages by space. Actually there are many purchase of package products during consultation process.

Hanssem's 'space package' strategy is based on Hanssem "Rehaus", which specializes in B2C interior exhibition hall. "Rehaus" store solves 'choice hurdles' by providing kitchen, bathroom, window, door, flooring, and lighting as a single package to customers who want to have full interior construction (total interior). Until now, consumers who want the partial interior of Hanssem used to visit its flagship store, while consumers who wanted total interior design used to visit interior companies near their residence. Hanssem has also been partnering with 3,000 interior offices nationwide through 'Hanssem IK (Intheriar Kitchen) for years. In July 2016, Hanssem made the plan of replacing the "IK" business department with the package interior brand "Rehaus" business department and solidifying it from sales of single products to sales of packages.

#### 4. Case Study II: IKEA

##### 4.1. Brief History and IKEA Korea

IKEA was founded in 1943 by Ingvar Kamprad, a 17-year-old man in Sweden. IKEA's early business model sold household goods at discounted prices through its catalog. Then, the business domain of IKEA was extended to the sale of furniture in 1947. As of May 2018, IKEA has

416 stores in 51 countries.

IKEA, in particular, is one of the successful companies that broke the general prejudice that 'low price is bad quality' and IKEA's mass purchase and ordering, Do It Yourself (DIY) method, reducing transportation costs, and not trendy simple designs are key to success.

Due to the characteristics of DIY furniture, logistics costs are nearly 50 percent cheaper than other household companies because they are sold in a flat box without assembly. Flat-packaging was an epochal idea and allowed IKEA to grow into a global furniture company. This has become a critical factor in reducing packaging, transportation, and warehouse costs and providing low-cost products to consumers. And by cutting labor costs one more time with half-assembled products, IKEA were able to offer products at prices between 25 and 50 percent cheaper than our competitors.

Another key to IKEA's price competitiveness is its scale. This refers to a strategy to buy and sell products that reduce unit cost by producing many products. Popular products are mass-produced so that consumers can buy them at even lower prices next year. This means that the company will lower prices through mass production and secure more customers with cheaper prices. The store was located on the outskirts of the city, greatly lowering the rent. In addition, production is mostly made in developing countries with low wages, such as China and Eastern Europe, which boosts their price policies.

IKEA is taking a thoroughly decentralized production strategy. Its headquarters in Sweden develops designs directly and outsources their production. In China and Eastern Europe, the country has a hub factory and has close partnerships with suppliers, producing about 2,400 OEMs in as <Figure 3>. This allows companies to maintain high productivity without sizing their organizations.

As each country has a manufacturing company in charge of the world, from the first stage, the manufacturer is selected for the lowest possible manufacturing of the product and reviewed there in large quantities. By continuing to feedback to the headquarters on customer preferences and market research, store managers can identify customer complaints and preferred products.

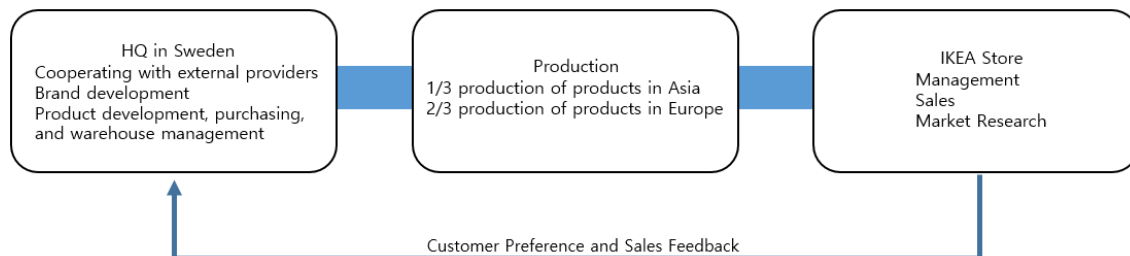


Figure 3: IKEA's Production Strategy

IKEA is making extensive moves to expand its store, threatening the Korea No. 1 Hanssem. Industry experts predict that if the current trend continues, IKEA will beat the Hanssem in terms of sales by 2020. IKEA, which entered the domestic furniture market starting from Dec. 18, 2014, plans to open a Goyang branch in October 2017 and open six stores nationwide by 2020. IKEA signed a memorandum of understanding (MOU) with the Busan city and Gyeongsangnam-do Province. It will invest 200 billion won in Busan, the third store. The fourth store will open in Chungcheongnam-do Province. Stores 5 and 6 are reportedly planning to open in the densely populated metropolitan area.

Its sales in 2016 were 345 billion KRW. In terms of sales volume, it is only about 18 percent of Hanssem. However, the Gwangmyeong store was the largest store in the world and the largest sales at the same time. With sales reaching 1.88 trillion won last year, the industry is paying keen attention to the Hanssem's counterattack from the "2 trillion club." Last year's sales growth at IKEA was 17 percent compared to last year and its operating profit ratio reached 8.98 percent. Hanssem's sales growth and operating profit ratio were 13.8 percent and 8.49 percent during the same period, which is falling behind IKEA. Thus, IKEA's core competences can be viewed in design, quality and affordability.

## 4.2. Strategic Changes of IKEA

### 4.2.1. From Discomfort to Kindness

IKEA recently announced in November 2017 that it would take over TaskRabbit Inc. However, IKEA and the TaskRabbit are doing the opposite. If IKEA succeeded by selling off her discomfort, the TaskRabbit sold kindness and succeeded. TaskRabbit is a shared economy service that connects people online to replace old days. If they give 20 to 60 dollars per hour, they will walk their dogs and paint them. However, the most popular service among them is the furniture assembly agency.

IKEA does not consider itself a service provider. Even if customers are looking at purchasing process, 80% of them will have to do it themselves. For example, the first customer would write down the catalog's product number with a handout and pencil, and then look for the item in the warehouse. Second, take out items from shelves, transfer them to the counter, and take them to the car. The customer should do it no matter how heavy it is. Finally, the customer self-assembles the product by viewing the product's documentation in the form of the kit. There are many products that take an average of one to two hours. Such kindness is rarely involved. IKEA was able to set the price of furniture cheap by making customers' work. In addition, customers can freely purchase products without being forced to purchase them by employees at the store.

But times have changed and consumers have changed. Fewer customers are willing to take pains in an era of

one-click furniture purchase. The days have come when IKEA's "attractive inconvenience" has no longer been sold. Although its sales increased by 11% compared to last year, its growth rate recently dropped to one digit. Its sales in 2016 amounted to 35 billion euros (47 trillion won), a mere 7.3 percent increase from 32.6 billion euros in 2015. With the inconvenience that led to his success no longer working in the digital age, IKEA is trying to transform itself. It is trying to rewrite its success strategy in time for the digital world. This is why they want to take over the kindness of the TaskRabbit.

Even in the U.S., where DIY is now a culture, consumers are reluctant to assemble furniture themselves. The Internet is full of meme that laughs at IKEA's uncomfortable DIY assembly in <Figure 4>.



Source: MEME (2016)

**Figure 4:** Meme for IKEA

Therefore, IKEA is expected to introduce product delivery and assembly services as a result of the acquisition of the TaskRabbit. Since 2016, IKEA has been piloting a taskRabbit service in London. Customers are booking delivery and assembly dates through IKEA employees or dedicated sites after purchase, or delivery and assembly dates through IKEA employees or dedicated sites after purchase. TaskRabbit is a competitive system where customers can choose their taskers. A tasker with good customer ratings is placed at the top of the page.

It is expected that IKEA will strengthen its on-demand\* strategy by grafting the task lab into the purchasing process. This strategy is for IKEA to change its business strategy as its retail industry structure becomes digital. Through this acquisition, IKEA is expected to become an on-demand company that instantly responds to demands from customers and provides products and services.

\* On-demand refers to a service that responds immediately to customer needs.

#### 4.2.2. Digital Catalogs with AR(Augmented Reality)

IKEA is particularly concerned with product catalogues. More than 160 million copies a year, some in Europe say, 'It's next to the Bible.' IKEA has decided to apply AR to his iconic catalogue. On September 30, 2017, it released 'IKEA Place', a mobile application that utilizes AR technology. This application is a kind of digital catalog that reproduces almost 98 percent of the texture and lightness of furniture. When this application is launched, customers can place furniture where they want while lighting the room with a camera. It is also possible to adjust the size and direction of the furniture layout. Based on this, consumers can products in shopping carts or buy directly, and share photos with furniture on social networks. This means that IKEA will reproduce its shopping experience online, which was limited to offline shopping.

IKEA is a company that is active in digital switching that uses ICT technology. Inter IKEA, which is an affiliate of IKEA, has developed 'IKEA Catalog', which is an advertising promotion complex for virtual and augmented reality, and Future Life Research Institute is combining high-tech technologies such as 3D printing and big data analysis.

#### 4.2.3. Expanding On-line Market

In 2018, IKEA Korea is going to enter the E-commerce market in Korea. E-Commerce(Online Mall) of IKEA, which is currently operating on trial, officially launched on September 1. Products ordered through online shopping malls can be delivered nationwide and will be efficiently managed in inventory and logistics through customer logistics centers.

*"We will enter the market for E-Commerce to help more consumers experience IKEA products. Korea is one of the fastest growing countries IKEA has entered, and through this online market, it will become a home-furnishing retail company that can provide a better life for more consumers."*

Source: Bang (2018)

Online purchases can be made conveniently anytime, anywhere through the existing web and mobile sites. Sales products sell almost all products except for products that require some freshness. Prices, exchanges, and refund policies are applied the same as offline stores, and shipping costs are equal to 59,000 won nationwide except Jeju Island (109,000 won).

#### 4.2.4. Change of Location Strategy

IKEA's representative image is a large warehouse store near downtown. IKEA has a very large average area of 32,000m<sup>2</sup>. When customers enter the store, they move on a predetermined route and will go shopping through dozens of showrooms. There is no shortcut to finding your favorite showrooms. However, IKEA is also trying to change his

store experience. Its strategy is to build a small store in downtown to support online businesses. It's a pickup store <Figure 5>.



Source: IKEA (2015)

**Figure 5:** Pick-up Store

By making it one-tenth of the size of the existing stores in the city, it is currently used as a base for customers to receive products ordered online. It has opened 44 pickup stores in the U.K., Canada, Japan, and China since 2015.

To sum up, IKEA's goal is to make it easier for customers to buy. Now IKEA stores are too far away for most customers. Customers far away from large stores will also visit nearby stores to make it easier to find products. So IKEA is becoming more kind and smaller. While IKEA, who has been selling discomfort, is abandoning his identity, it seems clear that his future is in digital.

*"IKEA plans to continue opening other flagship stores(outskirts of the city) after Gwangmyeong and Goyang, but at the same time, it needs a downtown store for consumers who cannot come to the store. The online market also clearly aims to open IKEA online stores worldwide by August as a means for consumers to easily and conveniently access it."*

Source: Lee (2018)

Jesper Brodin, CEO of the global furniture company IKEA Group, said that he would revise his strategy to open a large store outside the city center and build an online shopping mall within the year. IKEA has traditionally been operating in a way that makes large stores outside the city center and provides reasonably-quality products at an affordable price. After opening its first store in Gwangmyeong, Gyeonggi Province in 2014, Goyang branch and Busan branch, which are scheduled to open next year, are all based on this strategy.

However, the chairman's remarks are aimed at finding a new breakthrough in downtown stores because large-scale stores become difficult to get access to customers, conflicts

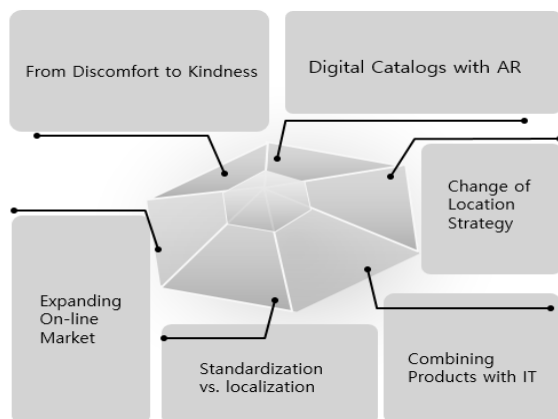
in the commercial sector, and land acquisition. Another new strategy is that IKEA, which has been sticking to offline sales, will enter the online shopping mall business as the online market grows. Under the strategy, IKEA's competition with Korea's major furniture makers such as Hanseam is expected to heat up (Lee, 2018).

#### 4.2.5. Standardization vs. localization strategy

IKEA is famous for conducting a thorough investigation before entering a certain country. IKEA also prepared for seven years when he entered Korea. They visit hundreds or thousands of people in the area to identify their needs, economic conditions, prices, and shopping styles. Only after careful market research can IKEA provide the design and service for each country. IKEA standardizes the basic product line and operational style, but finds appropriate balance by combining local cultures.

In particular, IKEA's localization strategy in the Korean market has recently been seen. A case in point is the Goyang branch, which is the second store in IKEA. The biggest characteristic of the Goyang branch, which opened in October 2017, is localization. IKEA visited more than 100 homes in Goyang City and set up a store by studying the lifestyle of local residents. IKEA added "Teenager IKEA" to the area, knowing that there are teenagers of various ages in the Goyang City. The "Teenager IKEA" space displays desks, bunk beds, and bookshelves. It is the first time that a separate exhibition hall for young people has been set up.

Showroom is decorated with 42 room sets on the second floor. It also tried to localize roomsets by placing windows to characterize the Korean living environment. Because the living environment of Korean apartments has large windows in the living room, room set windows were made as similar as possible to those of Korean apartments.



**Figure 6:** Strategic Changes of Hanssem

#### 4.2.6. Combining Products with IT

IKEA, who grew up to be the world's largest furniture

maker with inexpensive yet simple design assembly furniture, was weak in combining with technology, and recently IKEA joined the Smart Home lineup. It released its products in 2017. Its representative product connects LED light bulbs (lightings) with wireless Internet and can be remotely adjusted to smartphones through IKEA Application.

It controls lighting color, brightness, and timer function remotely with a smartphone. Apart from controls of smartphones, it also released motion sensor remote control. The motion sensor remote control in flat wheel shape does not have a button. Consumers can control the brightness by holding it in your hand and turning it once. The biggest competitive advantage of these products lies in affordability and simplicity. IKEA has a strategy to maintain the traditional design philosophy while combining products and technology.

## 5. Conclusion and Implication

Through the case analysis of Hanssem and IKEA, we can see that even strong companies have weaknesses, which can be their own strengths and what needs to be learned is learning, and finding a different strategy by using core competences.

When IKEA entered Korea in December 2014, there were many opinions that the Korean furniture industry would be in crisis. But the nation's major furniture makers are growing more. In particular, Hanssem, the nation's top domestic furniture, is enjoying high growth. In the context, Hanssem has been strategically prepared since news of his entry into IKEA three to four years ago. Through this, IKEA and Hanssem are growing together through new strategic changes. In this regard, the study highlighted that IKEA and Hanssem have adapted and changed their external environment based on their core strength, gaining new competitive advantage through major strategic changes.

Hanssem is achieving its competitive advantage through strategic changes through its core competences as follows. First, Hanssem built a store in downtown to increase consumer accessibility in response to IKEA's larger store and its location outside the city center. Second, IKEA induced consumers to buy products and assemble them at home, providing furniture at cheaper prices, but Hanssem faced off with a strategy to provide direct delivery and installation. Third, IKEA's main target population is selling furniture to households with 1 to 2 people and families with young children at affordable prices. But Hanssem targeted newlyweds who are preparing their first furniture. Fourth, IKEA is a comprehensive interior company that sells not only furniture but also household items. While benchmarking this, Hanssem focused on finding living items. The different point is that if IKEA sells everything from beds to spoons, Hanssem, in contrast, concentrated on distribution. Fifth,

diversification was carried out through online and offline sales. Finally, Hanssem met a wide range of consumers' needs with its packaged interior design.

IKEA is gaining competitive advantages through strategic changes through her core capabilities. First, IKEA, who succeeded in selling its inconvenience, is transforming into an on-demand company. Second, IKEA has recently actively engaged in digital switching with ICT technology. Third, IKEA entered the online market on full-scale. Fourth, IKEA revised its existing strategy of building a large store outside of downtown and then planned to build a downtown store (small size) and launched an online shopping mall. Fifth, the customer's needs were met through a combination of standardization and localization. Finally, it is attempting to combine products with IT.

Hanssem is enjoying the No. 1 position in the domestic industry, but is not satisfied, shifting its focus to global brands, competition and overseas markets to take a step further in the global market. Hanssem opened a flagship store in Shanghai, China on August 7, 2017. The deployment of the Terminal High Altitude Area Defense (THAD) system has strained relations between South Korea and China, but it has made a bold decision for the future. Shanghai's flagship store is 13,000m<sup>2</sup>, which is about twice the size of Korea's flagship shop. Hanssem is planning to differentiate itself through the unique total home-in-terrier service in the Chinese market such as kitchen, bath, furniture and household goods. Hanssem hired 300 local workers, including production, sales and support personnel, and conducted education before entering China. Through this strategy, it will compete in China's home-in-air market, which is estimated to be worth 740 trillion won.

Furniture industries need to make their strategies localized to succeed in entering foreign markets. Given that the interior industry has a close relationship with local culture, it is likely that it will end up in failure if it simply sells and sells its stores. This is not the first time the real furniture industry has attempted to go abroad. In the 1990s, the leading companies in the industry, BIF and Samik Furniture, attempted to enter the U.S. market, but ended their business overseas due to the failure of localization.

Due to the previous failures, Hanssem and Hyundai Rivart are also taking prudent steps to localize themselves. Hanssem has been sending its employees over the past few years to investigate the Chinese market. About 70 local employees are also working in China, and a market survey is underway to sell products that match the characteristics of the Chinese. It is also planning to establish a production factory near Shanghai and introduce products suitable for the Chinese market.

The real competition between the domestic furniture industry and the market is now on. Although Hanssem, which has led the domestic market, is still in the lead, the global furniture maker IKEA and Japanese MUJI are also aiming for the local market, while smaller companies such

as Fursys and Enex are also competing for survival. Then, as competition for home-furnishing becomes fiercer in the future, product, plastic and distribution channels will play a crucial role.

Competition in the domestic home-furnishing market will become fiercer over the next five years. In particular, IKEA is a major competitor in the Korean furniture market. Essentially, IKEA has a positive effect on meeting consumer needs for Nordic designs while boosting the overall attention of the domestic home-furnishing market. In particular, the importance of distribution strategies in the home-furnishing market will be greater in the future. In particular, online and home-shopping channel preoccupation will be an important factor in the ranking. Precedence of logistics companies that can respond to increase in logistics is also a major consideration.

In conclusion, companies will have to learn the various elements of changing the environment and achieve their competitive advantage by making strategic changes based on their core capabilities to survive the competition,

This study has the following limitations. If IKEA were to enter Korea, the domestic furniture industry was expected to be in trouble, but on the contrary, the Korean furniture industry is growing. This would be a catfish effect, in general, that a fierce competitive environment is beneficial to the development of individuals and organizations. But there is no research yet. Specific studies on this will be needed in the future. A comparative analysis will be needed not only with the local Hanssem, but also with domestic companies such as Rivart and Casamia.

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