

Running Head: INCREASING URBAN DENSITY IN CHINA AND IMPACT IN FURNITURE
INDUSTRY

Increasing Urban Density in China and Impact in Furniture Industry

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1. Executive Summary

This report is based on the different trends followed by the global furniture industry mainly in the Chinese market. Due to the growth in the Chinese economy, people are moving towards the urban cities of China, which has changed the future of the furniture industry. The trend taken in this paper is the increase in the urban population and their living standards. Firstly, the report discusses about the furniture industry of China in which numerous international players operate such as IKEA, Home Depot. The report also explains about the company and the Chinese furniture market.

In the next section, the report highlights about the pre and post conditions of the trend of increases in the population in urban cities. This trend also generates some scenarios such as changing in the living standards, preferences of consumers for eco-friendly furniture and products, etc. All these scenarios have different future impacts on consumers, industries, companies, and shareholders, which has also been described in the report.

The report also provided some strategies to IKEA to manage the trend and changing preferences of the consumers in the Chinese market. The suitable strategy for the company would be based on the concept of cost leadership and differentiation.

2. Introduction

Globalization and innovations in the technologies has been changed the perspective of common people. Due to the rise in economic power of countries and growth in GDP, living standard of consumers has also improved and become different. Social status is an important part of the consumer life. From last few years, the trend of 'increases in the urban population and changes in the living standard' has become popular in the society (Ille, 2010, pp. 49). According to this, the people prefer lavish and designer furniture and interior for their homes, offices, etc.

3. Selection and Identification of Industry

Furniture industry is one of the most basic industries not only in advanced industrialized countries but also in newly industrialized countries. In the global manufacturing industries, the contribution of furniture industry is around 4% in the total production.

3.1. Overview of Industry:

Chinese furniture industry is one of the successful and growing industries. Cheap labor and technological innovation is one of the main reasons behind the growth and development of Chinese furniture industry. At the end of fiscal year 2005, the growth rate of global furniture industry was calculated around 8%. In 2004, the value of the industry was US \$70 billion, which has been reached at US \$76 billion in 2005 (Global Furniture Market, 2006).

Globalization and improvement in the economic situation of consumers, social values and living standard of people has been changed. This change has given a drastic impact on the performance of Furniture industry (Xu, 2010, pp. 92). Due to the changes in the preference of the consumers and rapid growth of the newly industrialized countries such as China, etc. have

become major players of the global furniture industry. Competition between countries like China, Italy has become tough. In 2004 China exported US\$ 10.4 billion, whereas Italy exported around US\$ 10.5 billion (Global Furniture Market, 2006).

3.2. Major Players in the Industry:

Top countries in furniture industry are China, Italy, Germany, Poland and Canada. Spending of consumers on furniture is also increased, which has provided opportunity to furniture industry to become more powerful. Ingvar Kamprad Elmtaryd Agunnaryd (IKEA), Home Depot, B&Q, Homeasy Furniture Co., Ltd., Miveeco Furniture Co., Ltd., Dezine Furniture Co., Limited, etc., are some major players in the Chinese furniture industry.

4. Chinese Market

China is a newly industrialized country and people are enjoying growth not only in economic and technological position but also in social standard. The way of living, behaving, education, good earnings, etc., has been raised the standard of the consumers and they prefer luxury furnishing items to show their reputation in the society (Xu, 2010, pp. 93). Demand of the furniture in Shanghai has been increased by 20% due to the increases in the income level of the people. Chinese market has numerous Opportunities for IKEA.

5. Selected Organization

Ingvar Kamprad Elmtaryd Agunnaryd (IKEA) is one of the biggest international firms in furniture industry that provide home products and furniture globally.

5.1. Overview of Company:

IKEA is Sweden based private international firm, which operates in retail furniture industry. The products and services offer by this firm are self assembly furniture. The company operates in more than 37 countries and it has 313 retail stores. Most of the stores are available in North America, Asia, Europe and Australia (IKEA varuhusen, 2010). IKEA has around 12000 home furnishing products with variety of quality and range.

5.2. Company in Chinese Market:

IKEA is very successful in Chinese market. Company was entered in the Chinese market in 1998. The second largest store of the company is situated in China: 47000 m² (IKEA: About Company, 2010). In 2006, IKEA had three retails stores in China, but it has planned to open 10 stores by 2012 in China to utilize the opportunities present in Chinese Market (Johansson & Thelander, 2009, pp. 200).

The Chinese meaning of IKEA is 'Fit for Home', which ultimately shows the vision of the firm. According to the mission and vision of IKEA, it wants to serve high quality designer furniture to the consumers according to the trend (IKEA: About Company, 2010).

6. Selected Trend

Presently, one of the significant trends of furniture industry in China is changing in the living standard of the consumers. The trend following in this report is the urban density in China over the next 5-10 years in major cities Shanghai, Beijing and Nanjing. The fastest growing population of Chinese major cities also impacts the furniture industry (Hassenpflug, 2005).

According to the information given by World Bank, by the end of 2015, more than half of world construction projects would be based in China, which ultimately increase the population growth

and furniture industry (China (Beijing) International Exhibition on Furniture, Home Fashion & Decorations to be held in Beijing in June 2011, 2010).

Due to this trend the scenario of furniture industry has been changed. These consumers are also very much concerned about the environment safety and health, eco-friendly furniture, energy recycle, etc. (Wang, Vela & Tyler, 2008, pp. 315). Pre condition, post condition and consequences of trend on industry are as follows:

6.1. Pre-condition:

Pre conditions of this trend of increases in urban population and changes in living standards and luxury lifestyle are reliant on some driving forces and fads.

6.1.1. Globalization:

One of the main driving forces of this trend is the globalization and internationalization (Cater, 2005, pp. 919). Due to the globalization it has become possible for the organizations to operate its operations at the international level. Globalization also promotes international tourism and restaurant industry, which has ultimately promoted the furniture industry (Johansson & Thelander, 2009, pp. 215).

6.1.2. Increasing Trend of Eco-Friendly Products and Services:

Another driving force of this trend is the preference of eco-friendly furniture products to reduce the level of environmental pollution and save energy (Klinpikul & Srichandr, 2010, pp. 771). Increases in environmental pollution have become a cause of several diseases. In urban cities, where density of population is very high, they need pollution and smoke free environment. Thus, need of eco-friendly products and services have increased.

Apart from this, maintaining price of electricity, technological innovations, economic growth, governmental regulations, etc., are some important driving forces that promotes the trend of increases in urban population and living standard (Cater, 2005, pp. 910). All these factors promotes the practices of furniture industry provide opportunities to IKEA in Chinese Environment (Han, Wen & Kant, 2009).

6.2. Post-condition:

Post conditions of trend are linked with the assumption that leads the trend and success of the furniture industry for long term.

6.2.1. Increasing Concern for Environmental Pollutions and Trend of Saving Energy:

In this technological and innovative world, one of the main assumptions that lead the trend of eco friendly furniture is the control on environmental pollution (Klinpikul & Srichandr, 2010, pp. 775). In the coming future, population of Chinese main urban countries will grow by 20 to 30%. This would increase congestion and chances of environment pollution would increases. High population means high demand of energy. In order to save energy and control pollution, not only the manufacturers but also the consumers would prefer green and recycled furniture (Han, Wen & Kant, 2009).

6.2.2. Pricing Pressure and Increases in Fuel Cost:

Apart from this, rising in the fuel cost, pricing pressures in technological world, waning consumer optimism, etc., are the assumption that ensures a bright future for the furniture industry. Increases in fuel price and pricing pressure enable the furniture manufacturing company to recycled the resources and prepare eco furniture, so that the pricing stress can be reduced and the furniture industry will enjoy growth (Wang, Vela & Tyler, 2008). Due to the

high income and salary the spending of consumers on furniture, especially youth's bedroom has increased around 23.5% (CENS News, 2008).

6.2.3. Improvement in the Economic Condition of Chinese People:

In addition, increases in the economic and education standard of Chinese people, this trend would be also followed by the society in future, which is a positive symbol for the success of industry and IKEA in Chinese Market (Johansson & Thelander, 2009, pp. 215). Some other post conditions of this trend are economic scenario, elasticity in the demands of furniture, demographical variables, infrastructure conditions, distribution of wealth, etc. (Global Furniture Market, 2006). All these factors allow the consumers as well as furniture manufacturers to utilize the marketing opportunities. All these factors will promote the demand of furniture in China's major countries.

6.3. Trend impacts the furniture industry:

The main consequences of the trend of increases in urban population are the preference for eco friendly furniture and changing in living standard. Changing in the preference of consumers enables the furniture industry especially in Chinese market to introduce a wide range of home furnishing products, which is positive sign of growth of the industry (Han, Wen & Kant, 2009, pp. 565). Due to this trend china has become the strongest country in wooden furniture and manufacturing industry. Availability of cheap labor and increases in the educational standard of the people are also some reasons for the growth of this trend and industry (Han, Wen & Kant, 2009, pp. 562).

Low governmental restrictions and policies also allow the industry to export its product in the global market. Increases in the demand of eco-friendly furniture also help the society to

control pollution and conserve energy from tree and other electronic sources (Wang, Vela & Tyler, 2008, pp. 318). Growth of the Chinese Furniture industry is shown in Appendix 1.

7. Apply theory using Inductive approach

According to the present situation of furniture industry and increases in the trend of urban population, some scenarios are developed. These scenarios are based on the inductive approach means bottom-up approach in which the situation grows step by step. Main scenario and possible future impact are as follows:

7.1. Scenario 1: Drastic growth of Urban Density:

Due to the globalization, people are moving towards urban cities. As the Chinese economy is the highest growing economy of world, the urban population is also increasing. At the end of 2020, the population of major cities of china would be increased by 60% (China (Beijing) International Exhibition on Furniture, Home Fashion & Decorations to be held in Beijing in June 2011, 2010).

Due to the Growth in the urban population, the living place and accommodation for the society is shirking. Middle class people are living in small houses and apartments, thus they need portable and adjustable furniture to manage their daily routine (Urban density reaches new heights, 2009). This growth of population also provides numerous opportunities to the furniture industries. Increase in the urban population, will ultimately increases the demand of the furniture and provide many options to the furniture industry to contribute high part in the global economy.

7.1.1. Possible future impact:

Increases in this trend would affect the whole industry, consumers, company and stakeholders of the firm.

7.1.1.1. Future Impact of Scenarios on the Industry:

According to this scenario, the furniture industry would be able to attract high number of consumers and provide innovative, and the exports and imports business of China would increase more than 30% (Long, Rain & Ratcliffe, 2001).

Increases in the urban population would also affect the furniture industry in a negative manner. Increases population will increase the demand of wooden furniture; the reduction in the trees would be a critical situation for the industry to balance the demand and supply (Meiqi, 2004). Earnings from the exporting of furniture would be decrease because the industry would fulfill the demand of domestic consumers. Scenario of drastic growth in urban cities would also allow attract the multinational firms to enter in Chinese market and utilize the opportunities to attract consumers and earn high profit.

7.1.1.2. Future Impact of Scenarios on the Consumers:

The future impact of the scenario on the consumers would be critical. Increases in population and reduction in living space will increase the stress on Chinese consumers. They will not get enough space to joy their personal life. This innovative and technological pace would also affect the health of consumers in adverse way (The Consumption Trend of China Furniture Industry in the Second Half of 2010, 2010).

In addition, increases in urban density would also increase complications in urban life. Problems like, suffocation, stress, fast working life, dependencies of technology, decreasing the level of greenery, noise, air and water pollution, health diseases, due to high smoke, etc. would

arise in the consumer's life (Rise of China's Middle Class, 2008). On the other hand, the economical and social standard of people would rise.

7.1.1.3. Future Impact of Scenarios on IKEA:

The scenario would also give positive impact on the performance of IKEA. Rise in the demands of consumers would provide several opportunities to IKEA. The firm would be innovative and provide wooden and portable furniture to the consumers. It would help the firm to increase their revenue (Johansson & Thelander, 2009, pp. 205).

Increases in the urban density would allow the company to open more retail outlets to serve them in a better way. Interest of other international companies in Chinese market would increase the problem of IKEA. Company would face high competitive pressure and it has to change its marketing and operational strategies to retain the consumers for long term. Rising urban density would also allow the company to utilize the low quality forest to such as secondary forest, open forest, etc. to make wooden furniture, which reduces its operating cost and increase the profit margin (Johansson & Thelander, 2009).

7.1.1.4. Future Impact of Scenarios on Stakeholder:

Increases in the company's revenue would allow the employees to enjoy good salary, bonus and increment. Increases in the urban density would also reduce the workforce diversity and improve the culture of the companies. Team would work with high efforts because of lack of conflicts (Pierce & Robinson, 2005).

The shareholder would be able to gain high returns on their investment. Increases in the demand of the consumers, would attract the shareholder to invest good amount in the company.

High quality and productivity of the company would give numerous opportunities to the stakeholder to gain attractive return on their capital investment.

The government would change its policies of exporting and importing to control the flow of money outside the country and other multinational furniture companies would also allow entering in the Chinese market. Competition among existing and new players would become tougher (Han, Wen & Kant, 2009, pp. 565). Government would change the policies of the furniture industry to attract global firms, so that they can enter easily in the Chinese market. This would increase the pressure on the existing company and bargaining power of consumers (Ille, 2009).

7.2. Scenario 2: Eco Friendly Furniture:

Increases in urban population will lead suffocation and environmental problems in the society. Thus this scenario is related to the increasing preference of consumers in eco-friendly and wooden furniture. Wooden furniture is available in variety of design with portable and adjustable size. It saves energy and provides a healthy environment to the customers (Klinpikul & Srichandr, 2010).

Eco-friendly furniture is not only useful for the consumers but also very effective for the employees and environment. The wooden and eco friendly furniture is also necessary for the china to promote tourism. Wooden and eco-friendly furniture would also have low cost and variety of designs, which enable the firm to attract large number of middle class consumers (Rise of China's Middle Class, 2008).

7.2.1. Possible future impact:

7.2.1.1. *Future Impact of Scenarios on the Industry:*

This scenario would also affect the policies and strategies of the industry. The scenario of Eco friendly furniture would change the future of industry in terms of productivity. Countries those are rich in tourism business would also attract towards the Chinese furniture industry to get eco-friendly furniture (CENS News, 2008). This would give opportunities to the Chinese industry to export its products at global level.

7.2.1.2. Future Impact of Scenarios on the Consumers:

Growth of Chinese furniture industry is highly dependent upon the preference of the consumers. Consumer behavior would change the lookout of the industry and the companies would manufacture high number of eco-friendly furniture and interior products (Klinpikul & Srichandr, 2010).

The consumers will enjoy a healthy life within their budget. This scenario would allow the consumers to relax in their free time and getting lots of energy to cope with the fast pace of life. Increases in urban population in major cities and their preference for eco-friendly environment would provide many opportunities to other retail companies.

Eco-friendly furniture would not only raise the status of the consumers in the society but also help them to be healthy and protect from the adverse effect of the environmental pollutions.

7.2.1.3. Future Impact of Scenarios on IKEA:

The IKEA would also able to serve middle class consumers by offering them different eco-designed furniture (ITTO, 2002). The main target age group of the company is between 20 years to 35 years. If the company follows its social and environmental responsibility, it would increase company's goodwill and profitability (Rise of China's Middle Class, 2008).

As the overutilization of biodiversity, soil erosion, decreases in the natural forest area, shortage of forests product has raised living complications. This scenario will impact the Chinese

furniture industry in a positive way. Presently, company has more than 70% female consumers, but this scenario would also increase the number of male consumers in the industry.

7.2.1.4. *Future Impact of Scenarios on Stakeholder:*

Producing eco friendly and eco designed products would also provide a safe and secure working environment for labor. Manufacturing of eco-friendly furniture would avoid the use of hazardous machine, gas, oils, and other chemicals, which ultimately provide a secure working environment to the labor (Klinpikul & Srichandr, 2010).

If the company follows this trend and manufacture eco friendly furniture, the cost would be low and revenue would be high which would be beneficial for the shareholders.

The government would also follow its responsibility and make policies for the company to manufacture eco friendly product for the good health of society. Government of China would also able to reduce the environmental and social problems. The scenario of eco friendly furniture would help the government to reduce the adverse effect of human health. National working group would is also supported by the government to promote environmental friendly product to save for the energy conservation and product eco-friendly products (Meiqi, 2004).

8. Possible strategies for the company

In order to manage the future scenario and trend of increasing urban population, it is essential for IKEA to implement some marketing and operational strategies. Due to this trend the competition would become aggressive in the Chinese furniture industry. Thus, the firm should use cost leadership, differentiation and focus strategy (Wheelen & Hunger, 2006).

In order to manage competition and retain middle class consumers for long time, the cost leadership strategy would be beneficial for the firm. Under this strategy, company should offer its product at low prices in comparison to its competitors.

According to the differentiation strategy, the company should provide unique furniture and interior products to the consumers to create competitive advantage (Pierce & Robinson, 2005). In China, IKEA offer product at high rate, which is one of the main problems with its success (Johansson & Thelander, 2009, pp. 209). The company can differentiate its product range by improving quality and offering all ranges of product such as wooden, eco-friendly, eco designed, different prices range, steel and metal furniture, not only for middle class people but also for high class society and corporate worlds (Wheelen & Hunger, 2006).

Another proposed strategy for IKEA is focusing on a particular type of furniture for Chinese consumers such as eco-friendly. It would help the firm to retain middle class people for long term.

9. Recommendations

Among all the alternative strategies, best and suitable strategy for IKEA would be the combination of cost leadership and differentiation strategy. Under this strategy, the firm should offer different range of products to the consumers with high quality and low prices. It would be a unique strategy for the firm to create competitive advantage over the competitors (Pierce & Robinson, 2005). According to the trend of rise in urban populations, the company would enable to attract high number of consumers.

10. Conclusion

Thus, on the basis of above discussion, it can be concluded that the trend of increasing urban population provide numerous opportunities to the company. It is essential for IKEA to follow the trend of the industry and execute some latest strategies to maintain its profitability in highly changing and unpredictable environment.

In the future the number of people would increase in Major cities of China, thus the firm should focus on the cost leadership and differentiation strategy. With the help of these strategies the firm can serve eco friendly and designer furniture and interior items to all the consumers within reasonable price. This would also help the firm to raise the living standard of the middle class people of China in future.

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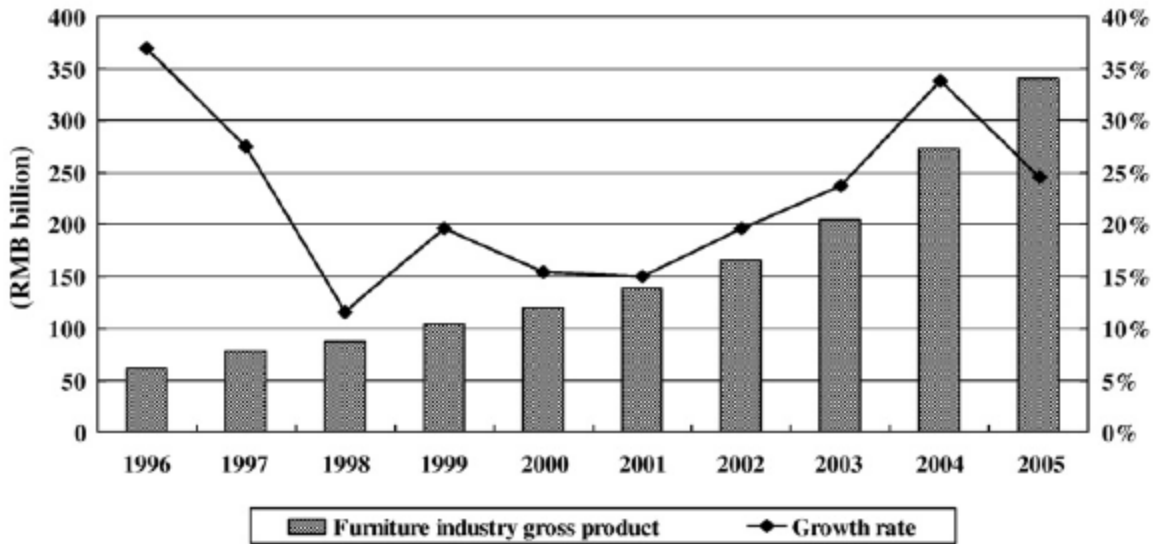
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12. Appendix

Appendix 1: Growth of Chinese Furniture Industry

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Source: CNEA data (2005).

Growth of Chinese Furniture industry (Han, Wen & Kant, 2009, pp. 562)