

Should IKEA Expand into Brazil: A Study of Brazilian Consumer Behaviours

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ABSTRACT: IKEA, a Swedish furniture company, is considering entering the Brazilian market. This paper examines whether or not IKEA might be successful in the Brazilian market by reviewing the following issues: the growth of middle class, consumer spending, internet usage and eco-awareness. This study finds that the growing middle class in the country and the increasing average household disposable income is a promising sign that the ability of consumers to afford IKEA products is increasing. The growing online presence of Brazilian consumers is also a positive aspect of IKEA's potential move into the market as it would enable consumers to browse and purchase product via the internet in accordance with current company practices. Brazilian consumers are currently involved in a trend that favours eco-friendly companies such as IKEA. The paper concludes that IKEA would be received favourably among customers within the market.

Keywords: Strategic marketing; Emerging market; Furniture industry

JEL Classifications: J; M

1. Introduction

IKEA, a Swedish furniture company, is considering entering the Brazilian market and has been operating its first research office in Curitiba, Paraná (Duran, 2013). Brazil leads the furnishing industry in South America, accounting for 63.3% of the market value of the region (Marketline, 2009). Currently, "Brazilian furniture companies are primarily micro and small sized, with a lack of skilled employees and low technology" (Tammela et al., 2013, p. 592). The market size and environment of Brazil are attractive to many international furniture companies with technical competence including IKEA and also others like Bed Bath & Beyond. There exist both threats as well as opportunities in entering the market. This paper examines whether or not IKEA might find success in the Brazilian

market by exploring the viability of consumer acceptance of foreign companies into Brazil by using the case of IKEA.

This report first explains the growth of the middle class as an opportunity for potential consumers. This is followed by a review of Brazilian consumer spending habits within the country, internet activity levels and behaviours and consumers' attention to eco-friendly products. We present a literature review conducted on these four points. This paper then discusses opportunities drawn from this literature review to support the move of IKEA into Brazil. Using resources from the market in general will allow a better understanding to be gained without company bias becoming an issue (Allen, 2001). It is expected that the application of previous knowledge compiled in new ways can be useful in answering the questions of whether or not IKEA will be successful in entering the Brazilian market.

2. Literature Review

2.1. Growing Levels of the Middle Class

The population belonging to the middle class has rapidly been increasing over Brazil in the last decade. According to a report published by Cetelum BGN called "Observador Brasil 2012," five official classes are classified as follows: A) high income class, B) higher middle income class, C) middle income class, D) lower middle income class, and E) low income class. The middle class, which fall in the categories of B, C and D, is defined by the government as a group of population earning income ranging from 140 USD and 493 USD (Glickhouse, 2012) though 140 USD is half the minimum wage (Leitão, 2012). Brazil's middle class made up 54% of the total population in 2011 compared to 51% in 2005 (cited in Croix, 2012). Also, in the year 2011, 2.7 million Brazilians moved from the lower classes into the middle classes.

The report also showed that 230,000 individuals had risen to higher classes from the middle class in 2011, with 22% of Brazilians having reached the two upper levels compared to 15% in 2005. Also a monthly employment report released by the Government Statistics Bureau (cited in Croix, 2012) showed the average wage of Brazilian workers has amounted to 1,699.70 Reals (approximately 700 USD) in February 2012, which was the highest level since March 2002. It also shows that the workers' purchasing power had risen when compared to previous years.

2.2. Consumer Spending in Brazil

Total consumer spending in Brazil was averaged at 356610.12 BRL Million per quarter from 1995 to 2014. It reached an all-time high of 799423.72 BRL Million (approximately 333333 USD Million) in the third quarter of 2013 (Trading Economics, 2014) and is expected to continue rising.

The consumer sector is expected to play an important role in driving economic growth as the Brazilian economy develops and becomes less dependent on the export of commodities. Business Monitor (2014) forecasts that private consumption is expected to outpace the country's overall economic growth rate.

Growth is supported by government policies that have increased national minimum wage to help low-income populations. In 2010, the national minimum wage was 5.57 USD per hour but was increased to 5.82 USD in 2012. This has helped reduce extreme poverty and created a large consumer base for the food, drink and retail sectors. In relation to this, growth is supported by the rising affluence of the middle class as well.

Government initiatives have been started to aid the ownership of consumer durables such as refrigerators and washing machines by low-income families. They are encouraging banks to offer credit to more individuals, especially the poor. This trend along with consumer spending on the rise and increase in minimum wage demonstrates that the opening of IKEA in Brazil seems timely. The amount of consumers that IKEA will be able to target has grown. More and more Brazilian consumers now have the means to purchase and repeat purchase products from the company's various price ranges.

Statistics from the World Bank (2014) show that household expenditure in 2012 was at 62% of the Brazilian. This was only 4% behind the United Kingdom's 66% and only 7% behind the United States' 69%. It is 1% ahead of Japan's 61%. In comparison to European countries where IKEA holds their biggest markets, it is ahead of Sweden's 48%, Spain's 59%, Norway's 59% and France's 58% (The World Bank, 2014). Brazil's relatively high household expenditure also encourages IKEA to move into the market.

2.3. Consumer Internet Behaviour in Brazil

The internet helps new businesses to enter the market (Datamonitor, 2009). This section aims to demonstrate that Brazilian consumers are indeed ready for IKEA to enter their market by showing that internet usage within the country would allow the company to continue their current strategy of keeping prices low through encouraging customers to purchase products online.

There were 88,494,756 internet users in Brazil in 2012, which shows the vast potential for an online retail market for IKEA in the country (Internet World Stats, 2014).

On average, Brazilian consumers spent over 35 hours a month online in 2012 (Digital Portal, 2013). This was almost as many hours as North Americans who spent on average 37.2 hours on the internet. This demonstrates that those consumers who are digitally active spend a significant amount of time on the internet. It shows a large opportunity for IKEA in terms of online marketing and sales. With internet use expected to increase in the next few years and beyond, the potential market that could be reached by IKEA will grow if they are able to target the correct websites on which to advertise.

In relation to this, in Brazil, social network users spend more time per month than anywhere else in the world, spending on average 13.8 hours a month using social media. For comparison, users in the rest of Latin American countries on average spend 10 hours on average using social media. This bodes well for IKEA's potential expansion into the country as it has the highest level of social media users spending the longest amount of time on social media sites in the world: the European and American averages are seven and six hours respectively. This high volume of social media usage could be attributed to Latin American culture, which has a focus on family and connectedness (Samovar et al., 2014) and would be important for the company to consider when strategizing their online marketing campaigns because many potential consumers are especially active in social media which "is where the future consumers go to discover what they might want to buy. Also, social media "allows brands to gain insights about what affluent consumers like, what they don't like, what works and what doesn't work" (Albatross Global Solutions, 2014).

IKEA has a great opportunity for growth within the online Latin American furniture market: however, Latin America lags behind the rest of the world in terms of the total percentage of the population who have internet access. As a region on average only 42.6% of the population has adopted the internet (Comm Score, 2013). This statistics is important to IKEA as it shows that they cannot depend on internet business as their core expansion strategy as less than half of their potential new market will have access to their products through this platform.

In order to access this market, IKEA will have to increase consumer awareness of its brand in Brazil. One way of doing this is through Search Engine Optimization (SEO): this was defined by Darie and Balanescu (2008) as "the practices employed to increase the number of visitors a web site receives from organic (unpaid) search engine result pages" (p.189). The correct implementation of SEO can play a major role in raising consumers' awareness of the company, especially when first entering the market.

2.4. The Growing Trend for Eco-products within the Brazilian Market

Given Brazilians' rapidly growing middle class, household expenditure and internet usage, we recognize that there exist opportunities for foreign companies like IKEA to enter the market. Yet, what would IKEA's particular advantage be? In order to further assess whether or not IKEA could be successful in entering Brazil, this section examines the trends in consumer buying behaviours. There has been a trend of eco-friendly Brazilian consumers who are becoming more aware and concerned about the production and assembly of the products that they are buying.

IKEA is a leading company in corporate social responsibility (CSR) and addressing environmental issues is one of the company's major CSR objectives (Eberhard-Harribey, 2006). The rising numbers of Brazilians with increased disposable income signifies that more and more individuals can now be particular and selective about the type of furniture that they wish to buy. The eco-friendly trend has already become apparent in some areas of Brazilian consumerism, with some supermarkets having started selling eco-friendly products, and diminishing the use of plastic bags (Global Intelligence Alliance, 2011). Brazilian consumers cite being "environmentally responsible" as the top responsibility of a company, with 64% of Brazilians saying that it is one of the most important obligations of a business (Kenyon, 2014). This demonstrates that there is already a shift towards an

eco-friendly market in Brazil and so it is crucial for companies to incorporate this trend into the values of their company.

IKEA takes the environment into consideration when creating their products and they state that their products must be produced under acceptable working conditions by suppliers responsible for their environment. IKEA “has been working towards sustainability since 1990 when the group developed its first environmental policy” focusing on areas such as offering sustainable products and reducing their carbon footprint (MarketLine, 2014, p. 5). Being an eco-friendly company is thus reflected within the operations of IKEA. They design flat pack furniture which makes delivery easy from factories to stores, which reduces emissions. IKEA is also moving towards powering all of its stores with renewable energy, and has been working since 2005 to cut their power consumption levels. IKEA could thus be a great match for the thriving eco-friendly trend in Brazil and could be a huge success if the demand set by the Brazilian consumers matches the company’s ethos (IKEA, 2014).

3. Discussion

Based on findings drawn from the literature review, this section discusses whether or not the information presented supports IKEA’s move into the Brazilian market. First, the growing middle class population is certainly a great opportunity for foreign companies like IKEA. The majority of Brazilians, 54% of the country’s population in 2011, now belong to middle or upper income classes. This also indicates a high purchasing power of Brazilian consumers. Indeed, the 2012 household expenditure in proportion to GDP was 62%, comparable to that of the UK or US.

The internet behaviours of Brazilian consumers show the high number of internet users in the market (over 45 million in 2012). This shows the vast potential for IKEA’s e-stores being successful in growing the company’s internet revenue. Further to this, the amount of time consumers spend online in the market is far greater than in many developed countries which bode well for internet sales and potential online marketing success. Similarly, with internet access expected to increase in the near future, revenues from this channel could be significant in the Brazilian market. This report proposes more research on the social media usage of Brazilian consumers in order to explore how IKEA can use their social media presence to raise awareness and create sales from this channel. One way would be to promote marketing campaigns exclusively on the most popular social media websites in the Brazilian market in order to reach the core population segment that IKEA aims to target: namely young adults and middle class families.

It is also clear that a major trend amongst Brazilian consumers is that of being eco-friendly in the products that they purchase. They would like to know where and how their products are manufactured. The literature review also suggests that these consumers, who are a growing number in the Brazilian population, are willing to spend more money for eco-friendly products compared to non-eco-friendly products from other furniture companies that do not focus on this aspect. IKEA has a strong ethos, focusing on promoting the eco-friendly nature of their business and openly discusses where they source and manufacture their products. This report proposes that IKEA recognise the eco-friendly trend within Brazil and begin to localise some of their products and promotions towards this could lead the company to huge success. IKEA recognizes the eco-friendly company, and if they further advertise this eco-friendly feature to their Brazilian consumers, we believe that the company will be welcomed by the market and could have a potential competitive advantage over its competitors from the very beginning.

4. Conclusion

Based on the discussion and evidence gained from the literature review, the main conclusion drawn is that IKEA would be accepted by Brazilian consumers and should therefore take steps into entering the market. The growing middle class in the country and the increasing average household disposable income is a promising sign that the ability of consumers to afford IKEA products is increasing. The growing online presence of Brazilian consumers is also a positive aspect of IKEA’s potential move into the market as it would enable the company to market online to these consumers and enable consumers to browse and purchase product via the internet in accordance with current company practices. Brazilian consumers are currently involved in a trend that favours eco-friendly companies such as IKEA. This suggests that IKEA would be received favourably among customers within the market.

In addition to these conclusions, this report recommends that further research on potential consumer behaviours on social media and awareness of eco-friendly products be conducted on methods like online surveys that IKEA could employ to be successful this promising new market. This research should ascertain the best ways of handling the expansion of IKEA into the Brazilian market. We also recommend that further research on consumer tastes be conducted in areas such as design and functionality and consumers' zone of tolerance. This report recommends that all stages of expansion should be done with the highest consideration of cultural and operational particularities within Brazil in order to be as successful as possible.

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