

CBS Case Competition 2021

GLOBAL



IKEA



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Letter from the CEO

Dear students,

I am very happy to announce IKEA as the case company for the CBS Global Case Competition 2021.

At IKEA, we want to create a better everyday life for the many people.

This has been the company vision since 1943, when Ingvar Kamprad founded IKEA in Älmhult, southern Sweden. Back then, life was not easy. People were careful with resources to make ends meet, and prices on new furniture was often too expensive for people. This is why IKEA set a goal to make quality furniture, with good design and function available at an affordable price for the many.

Today, more than ever, we need to be careful with resources as the planet can't provide us with endless amounts. Already in 2012, we launched the strategy **People & Planet Positive** to embark on the journey of becoming climate positive and circular by 2030 – reducing more greenhouse gas, than the entire IKEA value chain emits. The challenges we face today with the on-going pandemic has not changed that direction, rather the opposite. For IKEA, it is all about balancing economic growth and positive social impact – even through a crisis. This year our focus is on taking a leap for sustainability for generations to come.

Life at home has never been more important. During the last year, our kitchens have become our restaurants, our dining tables are our offices, and our living rooms acts as playgrounds. At the same time, people's shopping behaviors are changing as their dreams and needs in life at home are changing, while wallets are getting thinner. All IKEA products must fulfil the five dimensions of having an attractive form, while being functional, last over time when it comes to quality, have an affordable price tag and be produced in a sustainable way. This is our promise to our customers.

Last year we welcomed more than 800 million visits to our stores and had more than 3.6 billion visits to IKEA.com, meaning we have a huge opportunity to reach our goal to inspire and enable more than 1 billion people to live a more healthy and sustainable life. Our research shows that 70% or more are deeply concerned about climate change and most are willing to change, but don't know how. Few are even willing to pay for it, because sustainable choices only seem to be available at premium prices. At IKEA, we believe sustainability shouldn't be a luxury for the few.

So bearing in mind that consumers are in fact willing to act sustainably, my challenge to you is this: **How can IKEA utilise both new and existing circular initiatives in our retail operations to make sustainable choices easier and more convenient for the many customers?**

I hope that you will gain valuable learnings from working with our business challenges, and I look very much forward to seeing your perspectives and solutions.

Best regards,
Jesper Brodin
CEO, Ingka Group



Setting the stage

IKEA is one of the most recognized and acknowledged brands in the world and is currently a frontrunner in implementing sustainable solutions to the mass consumer. Today, IKEA is present in 60 markets with more than 500 sales locations and 217,000 employees worldwide. Given its strong market position, IKEA has the ability to drive the sustainability agenda and become climate positive by 2030, as per their People and Planet Positive strategy.

Enthusiasm, community and a can-do attitude focused on getting things done are the values that drive the IKEA corporation. With a unique passion for the home, IKEA is constantly looking for new and better ways in how we live, produce and use. This is everything from designing a rocking chair, which can be shipped in a flat pack to creating LED lights affordable for everyone.

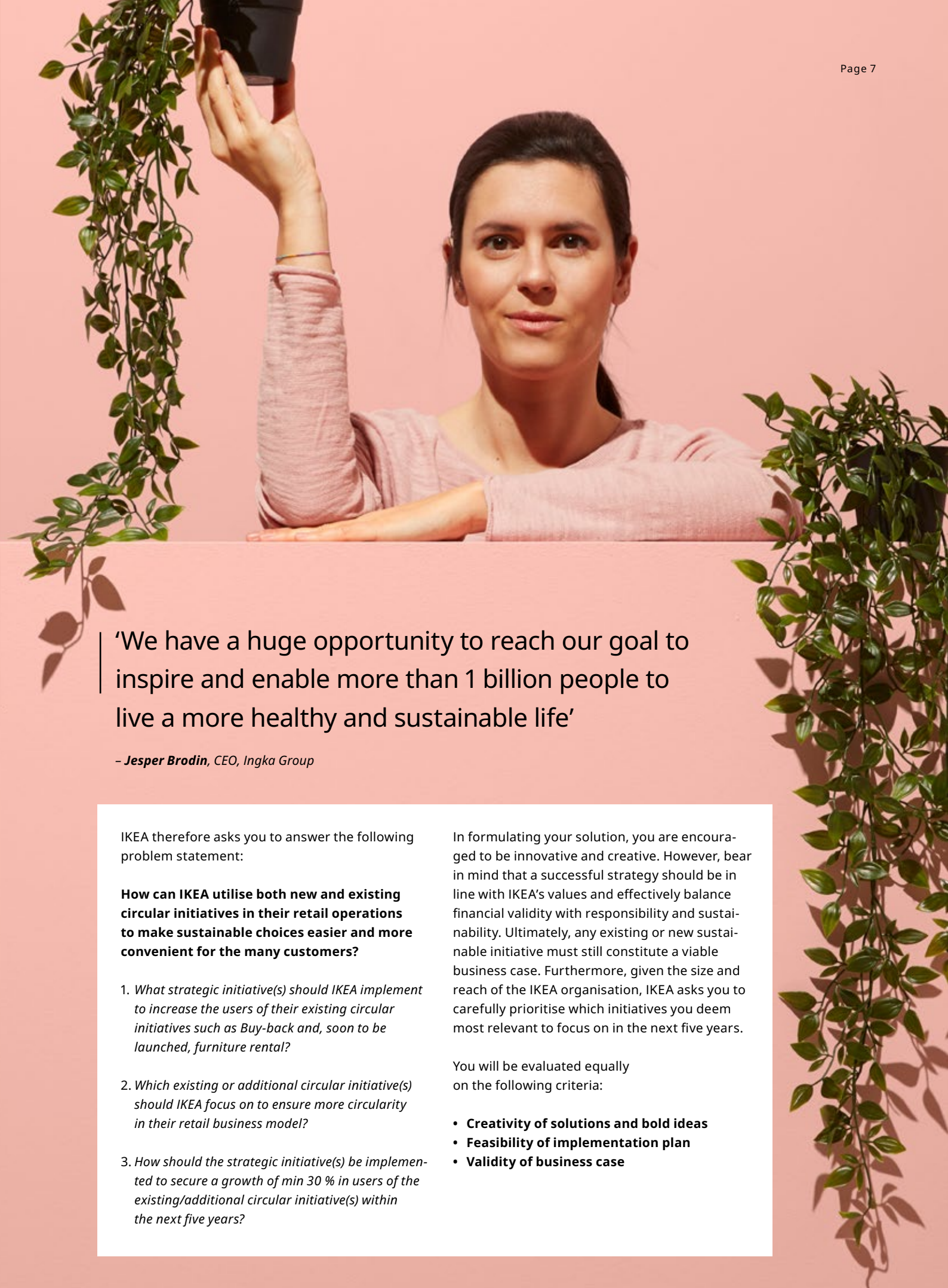
The world around us is changing, quickly. That means IKEA needs to change too. With climate change, resource scarcity, and COVID-19, societies face a wide range of complex challenges, which will require innovative solutions from both corporations and consumers.

This is why IKEA is transforming into a circular business prolonging the life of products and materials, turning waste into resources, and meeting customers in new ways. IKEA has already come a long way. Today, 60% of the product range is made up of renewable materials and 10% is made up of recycled materials. By 2030, 100% of the product range will be entirely made up of renewable or recycled materials.

The vision of IKEA is to create a better every day for the many people, including the customers, the employees and the people employed at IKEA's suppliers. The vision of IKEA therefore moves beyond home furnishing, as the ambition is to affect the world through their activities; from the local communities where IKEA source raw materials to the ways their products enable customers to live more sustainable lives.

By telling the IKEA story and being an advocate for the things IKEA believe in, IKEA is confident they can contribute to bringing a positive change in society.

However, all of the current efforts of IKEA are not enough. IKEA can and will do even more.



‘We have a huge opportunity to reach our goal to inspire and enable more than 1 billion people to live a more healthy and sustainable life’

– *Jesper Brodin, CEO, Ingka Group*

IKEA therefore asks you to answer the following problem statement:

How can IKEA utilise both new and existing circular initiatives in their retail operations to make sustainable choices easier and more convenient for the many customers?

1. *What strategic initiative(s) should IKEA implement to increase the users of their existing circular initiatives such as Buy-back and, soon to be launched, furniture rental?*
2. *Which existing or additional circular initiative(s) should IKEA focus on to ensure more circularity in their retail business model?*
3. *How should the strategic initiative(s) be implemented to secure a growth of min 30 % in users of the existing/additional circular initiative(s) within the next five years?*

In formulating your solution, you are encouraged to be innovative and creative. However, bear in mind that a successful strategy should be in line with IKEA's values and effectively balance financial validity with responsibility and sustainability. Ultimately, any existing or new sustainable initiative must still constitute a viable business case. Furthermore, given the size and reach of the IKEA organisation, IKEA asks you to carefully prioritise which initiatives you deem most relevant to focus on in the next five years.

You will be evaluated equally on the following criteria:

- **Creativity of solutions and bold ideas**
- **Feasibility of implementation plan**
- **Validity of business case**

The market for homeware and home furnishing

The global homeware and furniture market is worth 682 billion USD, but has seen a flat growth rate in recent years with a Compound Annual Growth Rate (CAGR) of 0.15% from 2014 to 2019. This flat average growth rate is impacted by the varying growth rates in each market. While some markets have experienced negative CAGRs in recent years, other markets have been growing significantly.

The three largest regions for homeware and home furnishing, being Asia Pacific, Northern America and Western Europe, constitute approximately 85% of the entire global market. Asia Pacific is the largest market for homeware and home furnishing, taking up approximately 1/3 of the entire global market. In addition, this market has seen the highest CAGR from 2014 – 2019, namely a CAGR of 3.35%. North America and Western Europe each constitute approximately 27% of the entire global market, North America having grown with a CAGR of 2.84% from 2014 – 2019 and Western Europe having seen a negative growth with a CAGR of -2.65% from 2014 – 2019.

The future for the home furnishing market does seem promising: specifically, the indoor living segment, having realized a CAGR of just 0.1% from 2014 – 2019, is forecasted to have a CAGR of 2.9% from 2019 – 2024.

Please see Appendix 2 for more information on market sizing and CAGR in various home furnishing markets.

The story of IKEA

IKEA is a global market leader in home furnishing, but it all started with a smart, young man with big ambitions. IKEA was founded by Ingvar Kamprad in 1943 in Älmhult, southern Sweden. Ingvar Kamprad was only 17 years old at the time, but he had a dream to create a better life for as many people as possible – whatever the size of their wallet. With IKEA, Ingvar Kamprad began selling products such as pens, watches, and frames through a mail order catalogue, which later on included furniture – first as a test.

Kamprad grew up in the countryside in a rural part of Sweden, characterized by low income at the time. The people of Älmhult therefore had to get by for the smallest amount possible and find innovative and practical solutions to unforeseen challenges. At the same time, prices on new furniture were mostly too high for the common people. The IKEA business model, including the first catalogue, was therefore founded with the aim of providing furniture of good quality at a low cost.

Today, IKEA is a global brand selling home furnishing products; everything imaginable for the home, including furniture, lamps, carpets, beds, kitchens, food, and much more. **The IKEA brand has close to 100% awareness and is loved by customers around the world.**



SINNERLIG stool
2015



ARKITEKT work lamps
1977



IKEA PS clock
1995

To offer a wide range of well-designed, functional home furnishing products at prices so low, that as many people as possible will be able to afford them.

IKEA business idea

“Why are beautiful products only made for a few selected buyers? It must be possible to offer good design and good functionality at low prices”

- Ingvar Kamprad

TELEGONO
table lamp
1970



The IKEA name comes from the initials of the founder

Ingvar Kamprad; Elmtaryd, the farm on which he grew up, and Agunnaryd, which is the nearby village. Although the logo and purpose of IKEA has developed through the years, the name has remained as well as the values put forward by Kamprad.



1951



1954



1967



1981



1983

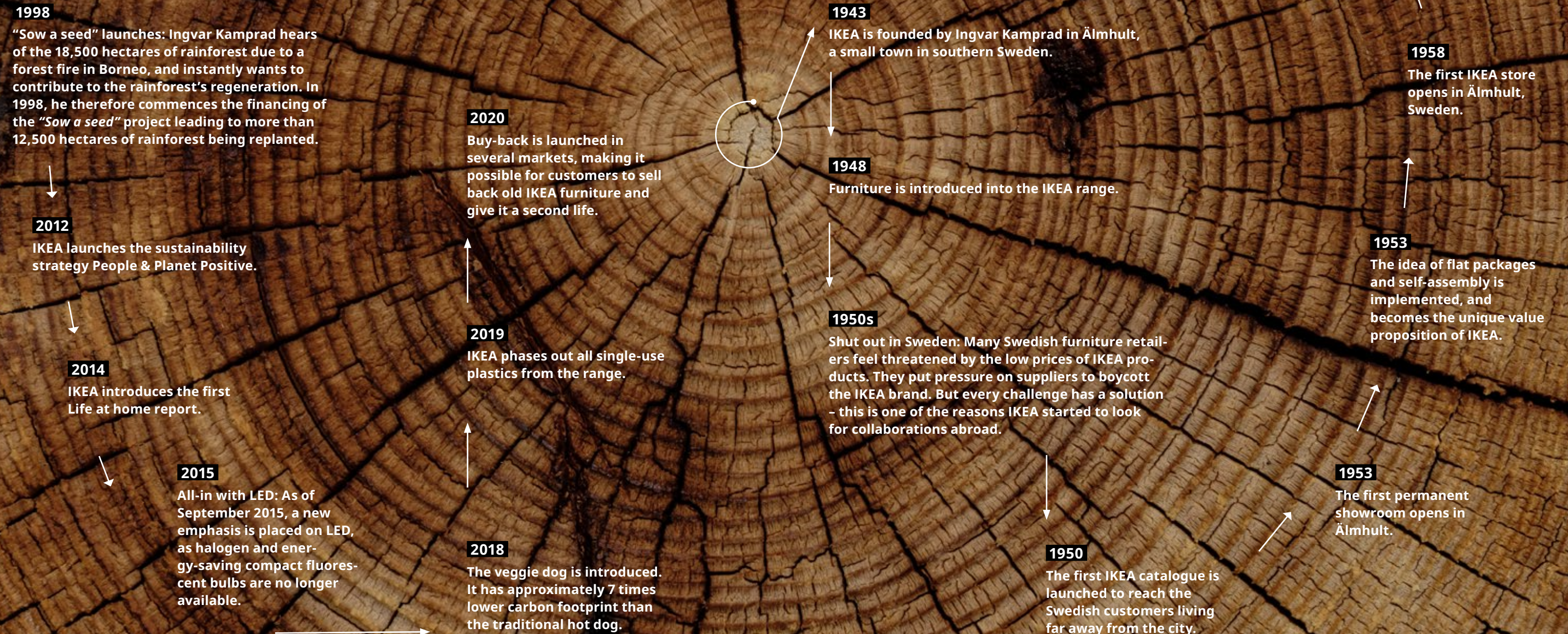


2019

Did you know that our iconic logo wasn't always blue and yellow?

Here is the development of the IKEA logo over the years.

Timeline



The organizational set-up

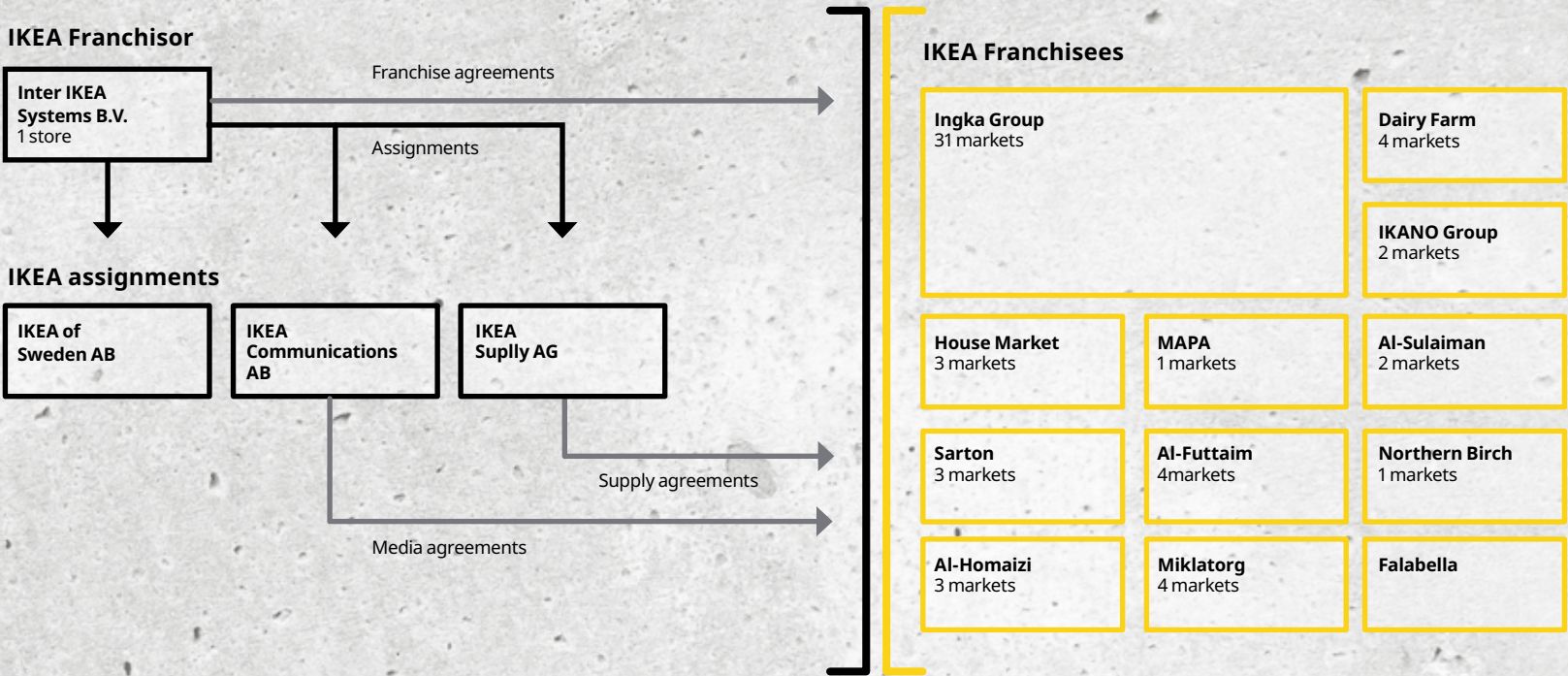
The IKEA business model is highly characterized by franchising, which allows IKEA to reach people across the globe with their various products. It is a system that encourages everyone to collaborate and contribute, and it therefore enables IKEA to grow steadily while developing the concept across the globe.

The franchising system has proved to be a valuable trait of the IKEA business model, as franchisees provide inputs based on consumer and market insights. This has contributed to the continuous growth of IKEA, enabling greater economies of scale, which is necessary to keep prices low. The franchise system consists of 12 franchisees in 60 markets that in cooperation with the IKEA franchisor and various parts of the business continuously develop and improve the brand.

The largest IKEA franchisor is Ingka Group (Ingka Holding B.V. and subsidiaries), which is divided into three business areas, **1) IKEA Retail**, **2) Ingka Centres** and **3) Ingka Investments**. The IKEA warehouses (stores), which falls under IKEA Retail, offer in-store shopping experiences, global digital solutions, and e-commerce in 31 countries. Ingka operates 379 IKEA stores in 31 countries, generating over 90% of all IKEA store sales.

This franchise arrangement is organized by Inter IKEA Systems B.V., which owns the IKEA concept and is the global franchisor. Today, all the IKEA stores (except for one store in the Netherlands) operate under franchise arrangements.

The franchisees pay a 3% franchise fee which allows them to sell the IKEA product range, apply the IKEA trademark and follow the IKEA values as they operate according to proven work methods. Within this framework, franchisees can select and adapt 20% of the product portfolio to local tastes, where the remaining 80% are part of the standard product range.



This system allows the franchisees to also adapt the timing of seasonal launches to match the local lifestyle and climate. As an example, in Kuwait, the outdoor furniture is first put on display in the winter months, when it becomes cool enough to sit outside. In the implementation of new solutions, franchising enables IKEA to pilot-launch initiatives in few locations, before it goes global. Certain initiatives are also excluded from locations, as local adaption is an important aspect of the IKEA business model.

“We have gotten better and better at streamlining both locally and globally. The organization is not very hierarchical. You can reach out to anyone without feeling awkward.”

– Johan Laurell, Country Retail Manager & Chief Sustainability Officer, IKEA Denmark



The IKEA way

From the very beginning of IKEA, the primary idea has been to make good-quality products at prices so low that as many people as possible can afford them. This idea remains in IKEA and is at the heart of everything IKEA does – from product development to selling products to customers in IKEA stores all over the world. IKEA's vision is to create a better everyday life for the many people.

In order to make well-designed and functional high-quality products at low prices, IKEA has developed methods that are innovative and cost-efficient.

“Cost-efficiency has always been part of IKEA as we think about getting more out of less. Using less resources is good for the environment and good for the business. Sustainability and low cost goes hand in hand.”

– Johan Laurell, Country Retail Manager & Chief Sustainability Officer, IKEA Denmark

Democratic Design

Low price

Form

Function

Quality

Sustainability

Democratic Design is a tool used by IKEA in developing and evaluating any product. It has five dimensions: Form, function, quality, sustainability and low price. The five dimensions of Democratic Design are at the heart of every IKEA product, and when there is a balance between all five, IKEA considers the design to be democratic.

“It’s basically our culture and values boiled down to five dimensions, together with simply putting common sense in everything we do”

– **Sarah Fager**, Senior Designer, IKEA of Sweden AB

Form

Great form has the power to impact people at an emotional level. Form is not only about the beauty of a product, but also about how much better life at home becomes when it’s beautiful and makes people feel good. For IKEA, a well-designed product is attractive and affordable for the many. With a design that uses the material and resources in an optimal and responsible way. And with an expression that makes a difference at home.

Function

Function is not only about how good a product works, but about how much better it makes things work at home. Great functionality is evident in smart and simple solutions to problems or needs that consumers have. Good function is quite simply about enjoyment of the product. And it needs to be easy to assemble, which is essential to meeting the needs and wants of the many people.

Quality

Quality is when objects and materials last over time. Product-quality perception and cost go hand in hand – this is value for money. Designing a quality that is right for the purpose is about not exaggerating, but about having the best possible quality where it matters most. It’s about how much better a home can be if it stands up to the wear and tear of everyday life.

Sustainability

Sustainability is about producing and transporting products in ways that minimize environmental impact. This includes searching for new and innovative materials, solutions and production techniques. And it includes flat-packing products whenever possible for more efficient transport. But sustainability at IKEA is also about an important role in contributing to a more sustainable life at home for the many people. This means providing products, solutions and know-how that help people reduce their own environmental impact, such as by saving water, reducing energy consumption and much more.

Low Price

From the first sketch, IKEA products are designed to fit the many people’s wallets. Both designers and product specialists at IKEA constantly look for solutions and innovations to improve the products and lower the price. Low price is not only about the price, but about affording to make things better.

The IKEA value chain

A large proportion of IKEA's success can be traced back to their unique business model and value chain, as they continuously strive to meet the demands and needs of their customers.

The value chain stretches from product development to design to supply to manufacture and sales, and of course both commence and ends with the customers. The customers therefore complete the circle and enable IKEA to listen and learn from their previous products. By focusing on supply chain optimization, IKEA is recognized as much more than a retailer.

Step 1

The IKEA value chain is all about putting people first. The value chain therefore starts with listening to people's needs and dreams to ensure that IKEA understands how they can make a difference. This is, for example, done with a sketch or product idea, which is then further developed in cooperation with suppliers.

Step 2

Following the discussion with suppliers, changes often occur in line with IKEA's Democratic Design dimensions of form, function, long-lasting quality, sustainability, and low price.

Step 3

As the product moves through the stages of the supply chain, there is a continuous focus on improving the product at every stage. This could, for example, be at the factory, where designers are attempting to fine-tune a prototype or a technician discovering a more sustainable material.

Step 4

The next step includes a key competitive advantage of IKEA, namely the efficient packaging and distribution. With a key focus on keeping prices low, IKEA introduced flat packaging to keep transport costs down. In addition, costs are kept low by having the customers assemble the furniture themselves. The flat packaging also makes it easier for the customers to carry them home, which, in turn, increases customer satisfaction. The collaborative mindset of IKEA has not changed since their early days, as the core belief is that by working together with customers, partners and co-workers, IKEA can add the most value to people's everyday lives.

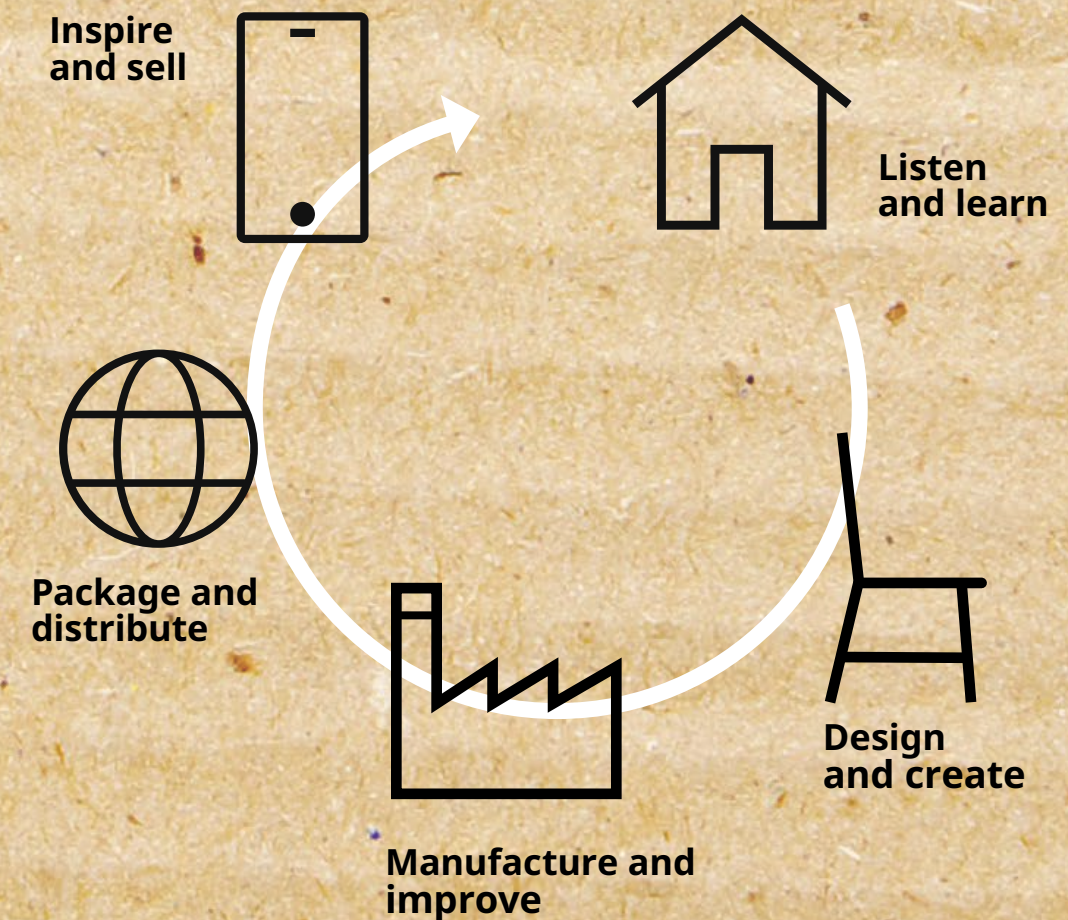
Step 5

The chain ends where it started with selling and learning from the customers and adjusting to new ways of meeting the customers.



Tip! ➔

Due to the size of the corporation, the IKEA value chain stretches beyond these steps, and is continuously optimized to mitigate any unforeseen challenges due to for example the current COVID-19 situation. ***In this case, you are asked to assess the retail operations, and you should therefore not consider solutions relating to supply chain optimization.*** However, as you embark on brainstorming, keep the size and subsequent complexity of the organization in mind.



A global company

IKEA is well-known globally for its functionality and Scandinavian style and has been the world's largest furniture retailer since 2008. One of IKEA's primary competitive advantages is their extensive knowledge about their consumers and offering of modern, high-quality products at prices that as many people as possible can afford. Through this, IKEA offers unique products and significant value for money compared to competitors. Competitors are using different angles to compete on low price; heavy discounting, installation and delivery included.

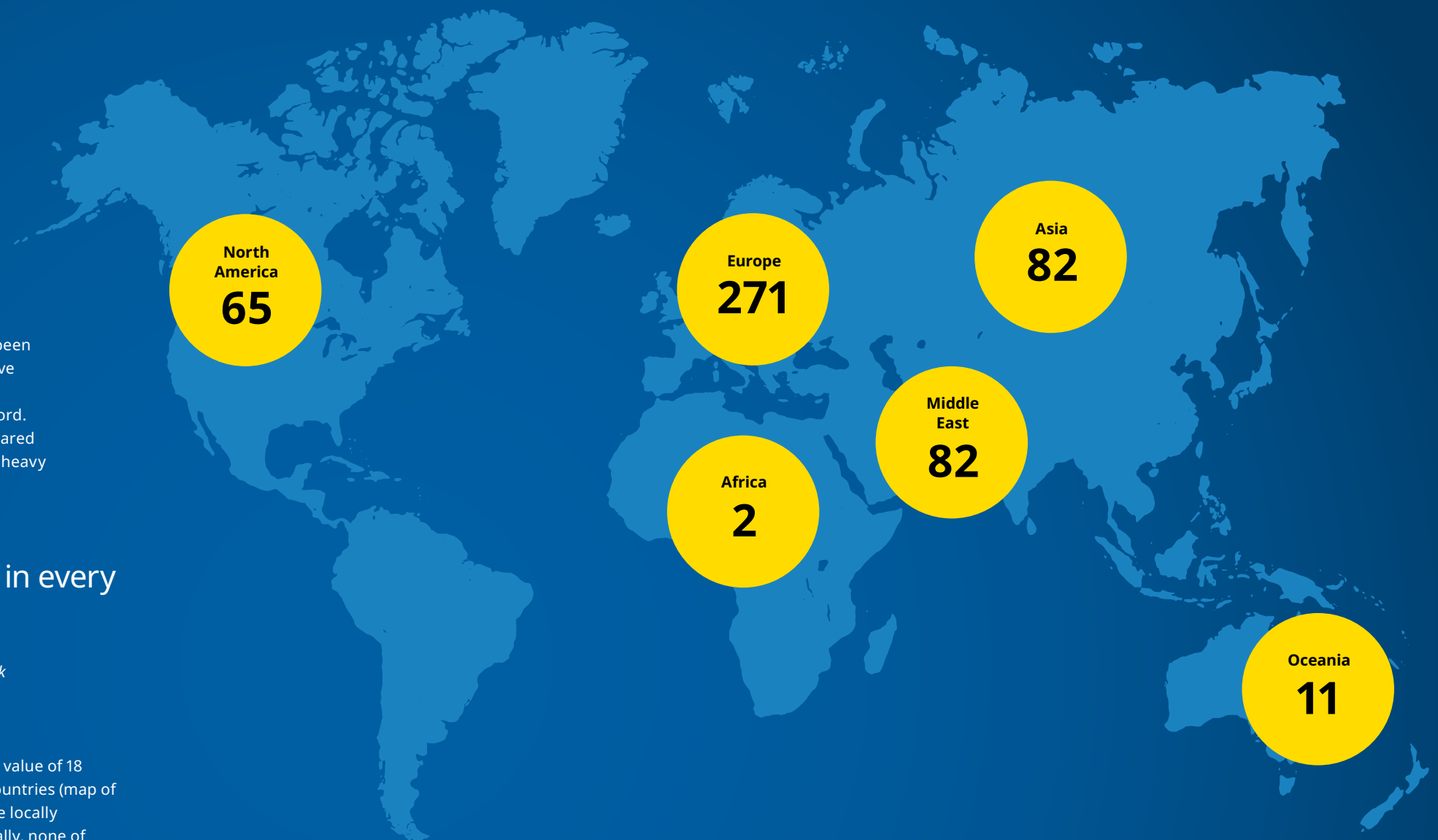
"We are the biggest on a global scale, but in every country, we have competitors."

– Johan Laurell, Country Retail Manager & Chief Sustainability Officer, IKEA Denmark

As of 2019, IKEA was the most valuable furniture retail brand in the world (brand value of 18 billion USD) as well as the seventh most valuable retailer. IKEA is present in 60 countries (map of global presence) with a total of 445 stores. IKEA's competitors are generally more locally present in particular markets. Therefore, IKEA faces various competitors regionally, none of these having the same global presence and recognizable brand name as IKEA does.

"Out of 400 stores, there are not two alike. But customers will feel the same being there. We ensure a global range, but locally adapted so each visitor will meet an IKEA that is relevant for them."

– Johan Laurell, Country Retail Manager & Chief Sustainability Officer, IKEA Denmark



In addition to the classic IKEA stores - which entails the famous IKEA restaurants - and ikea.com, IKEA is now creating new ways for people to shop, wherever they are. Customer-travel to and from IKEA stores including deliveries is the fourth-largest contributor to IKEA's total emissions.



Tip! ➔

When working with your solutions it is therefore essential that you consider the customer touchpoints. How and where people meet IKEA matters - both in terms of addressing customer demand for convenience as well to ensure an even lower footprint from IKEA's operations. IKEA has managed to build an entirely unique brand that differs significantly from competitors in any market.

"The brand has all the power. We are here for the long run."

– Johan Laurell, Country Retail Manager & Chief Sustainability Officer, IKEA Denmark

Touchpoints



Classic IKEA stores

Shopping in the physical IKEA stores is more than just a standard shopping trip: it can be a full-day experience. The stores are extremely large and are filled with products, housing displays and even restaurants. Consumers love the full experience they get at IKEA, and some visit the stores only to eat the traditional Swedish meatballs.

“First and foremost, IKEA should be a place where one, through interior solutions, should be inspired to live a better everyday life”

– Christian Mouroux Pedersen,
Country Communications Manager, IKEA Denmark



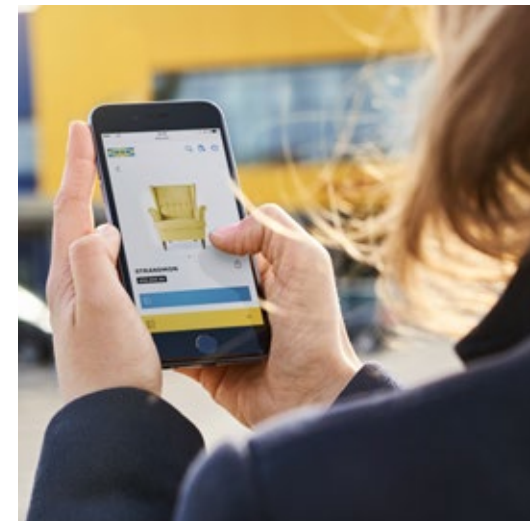
IKEA Planning Studios

IKEA is also testing the concept of a Planning Studio, which is a meeting point where customers can get support for more complex purchases such as kitchen or bathroom projects. There are no items for immediate purchase and take-away, but customers can use the Planning Studios to discover and try out products as well as get help from planning experts in one-to-one planning appointments. Planning studios have been opened in London, Stockholm, Copenhagen and New York.



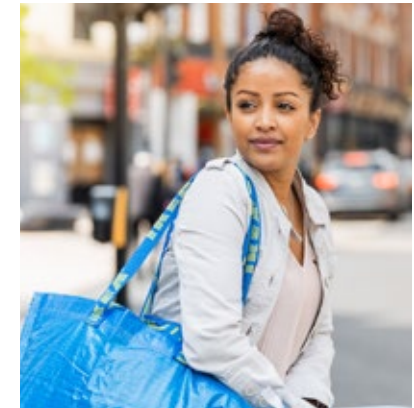
IKEA shops

A concept that is currently being tested is IKEA shops, being small stores that focuses specifically on a locally adapted segment of the IKEA range. These IKEA shops carry items for immediate take-away, making it possible for customers to try products out in an inspiring environment. Examples of these IKEA shops currently exist in Madrid, which is a bedroom shop and in Japan, which focuses on small space living.



Small IKEA stores

IKEA is in the process of developing small stores in various markets, with the first already open in cities like Hong Kong and Taipei. These small stores can be located in shopping centers and city centers, where it is not practical to open a typical IKEA store.



Pop-up stores

To really connect with consumers, IKEA uses pop-ups that aim to surprise, entertain, captivate and inspire. IKEA has been working with pop-up stores for several years, each pop-up with a different theme. IKEA has seen an immense success with these pop-up stores.



Click-&-Collect near you

IKEA has also launched and extended their Click and Collect service, where customers can order online and pick-up orders, not just at the nearest IKEA store, but from many local pick-up points near their home. These local pick-up points may also be considered in the brainstorm of new circular initiatives. How can these be leveraged or innovated further to embrace circularity?

Online





In addition to the classic IKEA stores, the use of an online IKEA sales channel has been prevalent for a significant amount of time and has been of an ever-increasing importance to the company. The online sales channel has especially grown during the COVID-19 pandemic, reaching a total of 4 billion visitors to IKEA.com in the financial year 2020.

IKEA today

2020 has been a challenging year for IKEA, as the COVID-19 pandemic led to 75% of IKEA stores being closed for seven weeks on average during the first lockdown. However, this sparked a growth in IKEAs online sales, which as a result, grew by 45%. By 31 August 2020 IKEA websites had welcomed 4 billion visits. In addition, many stores also introduced new services, such as virtual consultation.

During the short re-opening later in 2020, it became evident that customer behavior changed after the lockdown. In the past, many have visited IKEA to browse, but today, people visit IKEA for targeted purchases. Conversion rates and average spend have therefore gone up, whilst impulse sales have gone down. As a result of this, IKEA stores have sold relatively more furniture and fewer accessories. Despite the economic and public health challenges posed by COVID-19, IKEA has performed well in FY20.

IKEA Retail Global in numbers

	EUR	Financial Year 2019	Financial Year 2020
	Retail sales	41.3 billion	39.6 billion
	Store visits	1 billion	825 million
	IKEA.com visits	2.8 billion	4 billion
	# stores worldwide	433	445

Split of retail sales

%	Financial Year 2019	Financial Year 2020
Existing stores	92%	80%
Online	7%	16%
Services	-	3%
New stores	1%	1%

FY20 Retail sales per region (%)

Region	Financial Year 2020
Europe	72.6%
Americas	16.5%
Asia	10.9%

The greatest proportion of sales is found in Europe, where the franchisor, Ingka operates. From Ingka’s sales, you can see the top performing countries below:

FY20 Top retail selling countries, Ingka (%)

Germany	15.6%
USA	12.2%
France	7.9%
UK	6.2%
Italy	4.8%

People & Planet Positive

Towards 2030, IKEA has set a goal to become climate positive, while growing the IKEA business. The ultimate ambition is to achieve a business with an overall positive impact on people, society and the planet - balancing economic growth with positive social and environmental impact.

“We are a purpose-led company. It means something for us to create a better living for the customers”

– Johan Laurell, Country Retail Manager & Chief Sustainability Officer, IKEA Denmark

The cornerstone of this strategy is to enable a fully sustainable business model by changing its processes, value chains and overall approach for how IKEA does business from linear to circular.

IKEA has identified three major challenges pivotal for their future business: Climate Change, Unsustainable Consumption and Inequality. In order to address these challenges, IKEA has equally identified three corresponding focus areas.

1

Healthy & Sustainable Living

By 2030, IKEA seeks to inspire and enable more than 1 billion people to live a better everyday life within the boundaries of the planet.

The impact of pollution and waste is visible in the everyday lives of many people across the world, and water, food and air quality remain major concerns to be addressed. Consumers are expecting IKEA to be the frontrunner in providing those new solutions and innovative ways of living, while enabling a more sustainable life to become both affordable and attractive. This entails addressing the need for more conscious and less wasteful consumption and the necessity of prolonging the life cycle of IKEA products.

This responsibility extends into IKEA's position as a large food company and the need to ensure healthy and nutritious food. A responsibility that should be honored by going beyond merely providing the sustainable products, but by also being a source of inspiration and positive change.

So far, IKEA has worked proactively to ensure that all products are designed with an eye for sustainability alongside function, design and affordability based on the IKEA democratic design dimensions. In addition, the IKEA restaurants are working hard in offering plant-based alternatives at the same or lower prices compared to the traditional meals. That being said, IKEA has only just begun their journey towards becoming people and planet positive and a lot remains to be accomplished.

2

Circular & Climate Positive

By 2030, IKEA's ambition is to become climate positive and regenerate resources while growing the IKEA business.

The last six years have been the warmest years on record, and we are constantly reminded how the food security and livelihood of millions are at risk. At the same time, consumption is growing at an unsustainable rate as the world population increases. IKEA acknowledges that this global resource scarcity is already impacting the IKEA business and the lives across their value chain.

So far, IKEA has continuously worked with the approach of making more from less and sourcing

more sustainably. In order to truly become people and planet positive, however, IKEA has stated that by 2030, their ambition is to be a circular business built on clean, renewable energy and regenerative resources, de-coupling material use from growth.

3

Fair & Equal

By 2030, IKEA's ambition is to create a positive social impact for everyone across the IKEA value chain.

Given its size, scope and reach, IKEA believes their responsibility extends beyond climate change and includes how IKEA can utilize its business to create a positive change for people. By playing an active part in ensuring a fair and equal society, IKEA will enable people to provide a good life for themselves and their families.

This responsibility extends from both IKEA's focus on the wellbeing of children and families to the opportunities and support provided to communities, migrant workers and refugees. Ensuring equality across gender, ethnicity and sexual orientation. A responsibility that extends beyond internal standards and onto suppliers and business partners.

“While we are trying to transform our own business, we also want to enable our customers to transform their own lives as well. So, we can make the transition together - because that is ultimately the most impactful solution.”

– Monica Keaney, Country Sustainability Manager, IKEA Denmark

How IKEA will succeed in becoming People and Planet Positive ...

With this road map, IKEA doesn't necessarily possess all the answers on how to solve a global crisis with all its complexities and various stakeholders. But they are committed to address the challenges in a collaborative manner together with co-workers, customers, partners and students. Their approach relies on transparency and a steep learning curve. Valuing quick impact and continuous improvement rather than waiting for the perfect solutions. **Becoming People and Planet Positive is the ultimate goal for IKEA, and creativity in solutions has no boundaries.**



The circular future of IKEA

As IKEA works towards becoming a circular company by 2030, they depend on the ingenuity of you to accelerate the journey. Based on the circular principles and current initiatives presented below, you are given the task of rethinking how IKEA does business. How can they improve the current circular offerings and develop new ways of meeting their customers' needs in a sustainable manner? What are the actions and initiatives that should serve as the foundation for developing a truly circular IKEA?

New circular initiatives are great at kickstarting an important agenda, but how can they grow and scale to become the foundation for a new business model approach that can be integrated into the whole company?

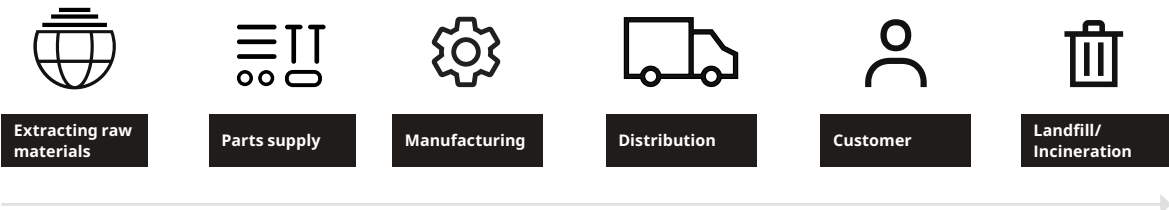
– **Monica Keaney**, Country Sustainability Manager, IKEA Denmark

From linear to circular

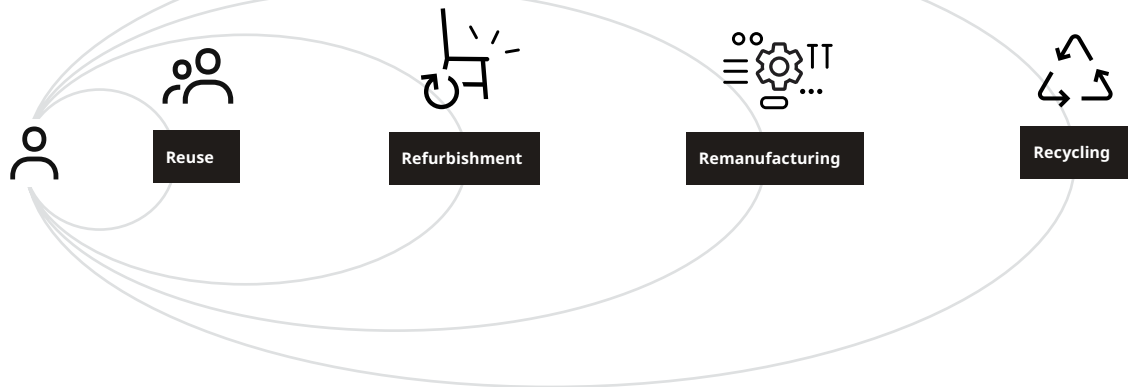
Looking at our current way of life, the world is characterized by rapid climate change, dwindling resources and unsustainable consumption. A linear 'take-make-waste' approach to how we do business and consume. IKEA wants to change that. What if old products could become new resources? And subsequently become material banks for the future?

Developing a circular business specifically centers around enabling customers to acquire, care for & pass on products in circular ways. However, people should not have to compromise on quality of life or the ability to renew their living space with functional, beautiful, affordable and good quality products. As a result, IKEA aims to be a leader in circular business development as they work to extend the life cycle of both products and materials in every aspect of their business - moving from a linear business to a circular IKEA.

From a linear business



To a circular IKEA



Circular product design principles

Based on the four loops of repair, reuse, resell and recycle, IKEA has identified eight circular design principles that should be considered when developing new customer offerings. These are built upon IKEAs five dimensions of democratic design (see section on Democratic Design). These principles should serve as a guiding framework for you to identify which circular capabilities that should be applied to new, or existing, products and concepts. The principles are not to be seen as a checklist and the given solution should still pose a vital business case.



IKEA’s sustainable initiatives

In line with IKEA’s 2030 ambition, several circular initiatives have already been implemented. However, many of these remain in the early development or implementation stage, and therefore illustrate the opportunity for further innovation in terms of both distribution, offering, and overall quality.

Furniture leasing service / IKEA Rental

IKEA is currently testing and exploring new circular service offerings that will contribute to the transformation of the customer journey at IKEA.

By offering a subscription-based furniture solution, customers can now enjoy the flexibility and freedom of buying, prolonging and returning as needed - thereby changing the entire purchasing experience for the IKEA customer. This service changes previous one-off revenue streams to recurring usage fees and presents a whole new business case in the B2B-segment. The offer and the service is still being explored and developed by IKEA and future solutions may include B2C customers.

The subscription-based furniture solution includes rent of a selected IKEA product range with the option to return, prolong or ultimately buy the used items. The service includes interior design service, delivery, assembly and installation, a guarantee repair and replace and ultimately a take-back of the items included.

From ‘cash & carry’ to pay per use. From ‘sell & forget’ to tracking single products over multiple lifecycles



The results from previous tests showcase an unquestionable demand from other businesses for second-hand furniture. However, a current challenge remains on how to ensure the fulfillment of all associated logistical necessities and customer expectations that comes from providing a convenient, affordable, on-demand furniture service.

Currently, two different revenue models are offered; **Leasing** and **Rental**

	Leasing	Rental
Options after the financial contract ends	<div>1. Contract can be prolonged</div> <div>2. Customer purchases the products by paying their residual value</div>	<div>1. The products are returned to the guarantor (IKEA)</div> <div>2. Prolongation is possible</div> <div>3. The customer buys the products</div>



IKEA Buy-back

The Buy-back and re-sell services enable customers to give second life to their furniture by selling old IKEA products in good condition in return for a voucher to shop at IKEA. The returned products are then sold in a Circular Hub in the store. This helps private individuals play an active role in prolonging the product life of their everyday items.

“We want to offer customers’ sustainable solutions for their furniture they no longer need, even if it has served them well over the years”

– **Stefan Vanoverbeke**, Deputy Retail Operations Manager, Ingka Group

The customer journey starts online by making a quote to resell your IKEA product given that it fulfills certain criteria relating to type, condition and cleanliness. From there the customer brings the product to the local IKEA store for a final assessment before receiving a voucher of between 10-50% of the original value of the product. The item is then brought to the Circular Hub, also known as the As Is Area, where it is resold as an even more affordable alternative. These As Is Areas serve as an integrated part of the existing IKEA store.



The service naturally provides cost and benefits as it enables IKEA to reuse materials or resell the refurbished products. However, an equally important purpose is how it helps move consumer perception of sustainable consumption. Ideally, as people are given a voucher in return for their used IKEA products, they return to the IKEA showroom for their next purchase - now even more perceptive towards communication on sustainably produced products.

While the service has been running as pilots in a few selected countries for the past year, the service was fully launched across 30 countries in the late fall of 2020 on Black Friday. Since launch, despite current restrictions due to the pandemic, customers have made almost 600,000 quotes globally. This service is, however, yet to reach its full potential, and there are endless opportunities to build further on the service. For example, you may wonder how IKEA can increase the users of the Buy-back initiative, while also enhancing the benefits of responsible purchasing?

People & Planet

More plant based food



The Green Message Thread

IKEA has embarked on a new trajectory with their People and Planet Positive Strategy with a unique value proposition of affordability and sustainability. In order to leverage this, customers must meet the great stories of how IKEA will contribute to create better everyday lives for the many people.

To ensure an efficient and consistent communication of IKEA's sustainability efforts across every on- and offline customer touchpoint, IKEA has created a new communication concept, the Green Message Thread. The thread is intended to ensure a coherent story line of what IKEA does and how the customer can contribute at home. Specifically, the Green Message Thread entails developing and communicating new sustainable products and offerings, which enable consumers to consciously make more sustainable choices. These products are then marked with a "green dot" to symbolize its sustainability value. For example, a product can be marked with a green dot if it is made from recycled plastic or if it has been produced with more sustainable textiles. The messages from the Green Message Thread also include whether they are produced with no harmful chemicals or stem from IKEA's existing buy-back service.

"IKEA has a goal of becoming a circular company by 2030. In order to achieve this, we must communicate it. By communicating the goal, we are obliged to achieve it"

– Christian Mouroux Pedersen, Country Communications Manager, IKEA Denmark

Given the increased communication efforts from the Green Message Thread, the share of sales from "products with sustainability benefit" increased from 27% in 2019 to 31% in 2020. It should, however, be taken into account that more than 60% of the current product range is characterized as green thread products. This underlines the significant potential in further utilizing the benefits of the initiative.

IKEA Repair services

Currently, IKEA is offering spare parts available for order online so customers don't need to purchase a whole new item if all they need is a spare element. This could be developed even further to help prolong product life.

IKEA has further identified a significant demand for a repair and refurbishment service among its customers. Currently, repairs on site are only offered as a last resort to address customer complaints that cannot be solved in any other way. In most markets it would be very costly to employ trained personnel specialized in the entire IKEA product line. This concept has an enormous potential, though, if it is to be implemented, it would entail considering innovative solutions in making this a low-cost offering to customers.

Sustainable consumer behaviour

Throughout the last decade, sustainability has moved from being a topic of interest to a fundamental part of people's everyday lives. Many consumers are more careful about their purchases and actions and demand more from the global corporations. However, although consumers genuinely care about the consequences of not buying sustainable products, buying habits remain relatively unchanged.

While demanding that corporations sell more sustainably produced products, a study conducted by IKEA revealed that consumers are reluctant to buy them if it means an increased price or a greater inconvenience. Industries such as clothing or grocery shopping has seen an increase in sustainable purchases, but this shift is yet to occur in furniture.

“Sustainability is noticeably absent in consumers' dialogue about furniture and home furnishings”

– *Democratic design presentation*

The ambition of IKEA for 2030 is to inspire and enable more than one billion people to live a better everyday life within the boundaries of the planet. This is an ambitious objective that cannot be achieved alone. Large corporations, such as IKEA, are dependent on sustainability aware consumers to ultimately also consume sustainably.

However, although the consumers are already well aware of the global challenges, they feel disempowered in relation to how their actions can make a difference. More precisely, 87% of consumers say that they are willing to change their behavior. However, 37% don't know how to act on their good intentions and more than 50% say they lack support from businesses and government. If communication is not the answer, how can IKEA then transform the buying habits of the well-aware customers?

“No one wants to be wasteful. Consumers just need good alternatives that are not just more sustainable, but also convenient and affordable”

– **Monica Keaney**, *Country Sustainability Manager, IKEA Denmark*

To address this issue, one must start by meeting customers' needs and demands. Sustainability has for many become of secondary importance, as the economic benefit is easier to capture in the short run. Thus, in order to get customers to buy new products, they first of all need to see the direct practical, financial, emotional and societal benefit for them and their family. In the following section a clear segmentation analysis is outlined, which may serve as guidance for whom to target in the future.

Segmentation of attitudes

Across countries and cultures, a common factor is that most people believe climate change is caused from human activity. Another common factor is that people, although wanting to, do not know how they can help and consequently need support and advice to do so.

Current and prospective IKEA customers are more inclined to change their behavior than those who do currently not nor intend to shop at IKEA. While most acknowledge the severity of climate change, the attitudes towards how society and the individual should address the issue differs.



Supporters

Across 30 markets, **40%** can be assigned the attitudinal segment of being **Supporters**. While acknowledging the importance of consuming less, reusing and recycling more, the supporters in practice find it difficult to do so and less personally empowered. In particular, the supporters look to the broader society, governments and businesses for more structural and systematic changes. Countries like Norway, the UK, Australia and the US have a higher-than-average proportion of supporters.



Idealists

On the other hand, **34%** are deemed **Idealists**. Idealists believe they can have a positive impact but do however not want to take action at the expense of their own current lifestyles. They believe that they are already doing their bit to make a difference. They therefore tend to look to technology and new innovative solutions to make the change for them, craving the easy solutions to the issue. Countries like Denmark, Sweden, Germany and Japan have a higher-than-average proportion of idealists.



Disempowered & Sceptics

The remaining **18%** and **8%**, noted as the **Disempowered** and **Sceptics**, respectively, either believe it is too late to bring about change or even believe climate change is not the result of human activity at all.

In terms of concern for the future, frequent IKEA customers are concerned to a larger extent than non-customers. 79% of frequent customers worry a lot about climate change, whereas 60% of non-frequent customers worry a lot. This is important to remember in the identification of IKEA's customer group, as it reflects a large knowledge and recognition of climate change from frequent customers.

Demographic differences

In terms of demographic differences, there is a greater tendency among non-parents to believe that human activity is a cause of climate change. In addition, parents with younger children are deemed to know the most about climate change and consequently also worry the most.

In terms of age groups, 18 – 24-year-olds are the most likely to agree that humans are a cause of climate change, whereas those aged 55+ are least likely. It is also the 18 – 24-year-olds, who generally know the most about climate change. In terms of concern, the numbers are fairly similar across age groups, as both elder and younger customers are concerned about the future of climate change.

Key barriers preventing more action

Nearly 90% of consumers are willing to change their behavior in response to climate change. However, the study identified three key problem areas that currently act as barriers for people to do so. Unlocking customers' desire by addressing these barriers in products, services and solutions is key in order for businesses to ensure change and induce action:

You do not want to be in this fight alone

There is a general tendency that before being willing to act themselves, people first of all need to experience support and action from the majority. This particularly translates into not experiencing enough support from governments and businesses in driving the needed change and providing the right solutions.

How exactly does it help the world, that I make sustainable purchase decisions?

There is a feeling of disempowerment of not knowing what to do or not seeing the significance of one's own actions. When asked to imagine what the future will look like, only 3% of associations include actual solutions.

Why should it be more expensive and inconvenient to buy more sustainably?

There is a clear perceived inconvenience and increased expense associated with taking action which is a key barrier for the consumer. In designing new solutions, it entails an inherent focus on convenience and particularly the extra expense endured when opting for the more sustainable solution. Over a third of consumers argued the perceived expense as one of the primary barriers.

Enforcing change

The first key motivator to unlock sustainable consumer behavior is addressing and presenting clear consumer benefits. People want practical solutions that save them money, benefit the health and wellbeing of themselves and their family and generally make their lives easier and more convenient. Secondly, certain enablers can help overcome the barrier of lack of information among consumers. This partly entails providing clear advice and information on what to do and how, as well as examples of what other individuals, companies and governments are doing. In addition, easy solutions and the necessary infrastructure to act sustainably, should always be highlighted in the communication towards the customer. Lastly, a key strategic lever is to better portray the understanding of the link between one's own personal actions and the associated positive impact. Bringing this to life for consumers will empower them to act more sustainably.

How can IKEA motivate different demographics?

The global top motivators are largely consistent across demographics, yet some differences prevail.

While men favor comfort, saving time, and new technology, women are encouraged by improved health and organization, as well as knowing actions and specific impact. Building on this, parents favor similar traits as women in general, while non-parents wish to save time and money.

In terms of age groups, the young people from 18-24 are motivated by friends and family taking action and saving time. The ones that are 55+ are more motivated by improved health, new technology and knowledge about actions and impact. Lastly, the non-frequent IKEA customers are motivated by the prospect of saving time, improving health, and making life comfortable.

These small, yet important differences in perception, knowledge, behavior are crucial in making customers change their habits, and purchase more sustainable products. **But where should IKEA start?**

“We want the consumers to perceive IKEA as a responsible actor in society that actively works towards a sustainable future for the people, environment and climate.”

– Christian Mouroux Pedersen, Country Communications Manager, IKEA Denmark





Closing remarks

Sustainability has moved from being a trend to a global priority, requiring innovative solutions to tackle the many obstacles that lie ahead. As a result, the responsibility of global corporations is increasing, as they not only influence own operations, but also have the power to influence the average consumer.

IKEA is already at the forefront of implementing green solutions but realizes that the future holds enormous potential to affect even more people than they currently do. However, as IKEA incorporates more circularity in its business model, the consumers also have to make the change in their purchasing behavior.

The goal to become climate positive in 2030 is highly ambitious and requires new and innovative thinking from internal as well as external partners. Building on the current circular initiatives of IKEA or creating new ones, the possibilities for your future brainstorming are endless.

As you embark on this task, bear in mind the size and complexity of the IKEA value chain. Remember to clearly state any assumptions made in your analysis to ensure that your solutions are feasible, viable and aligned with IKEA's mission and vision.

“We need input from the outside, so it is very appreciated with the fresh eyes. Think about what makes sense, when you think of solutions. Size is important to remember in IKEA. Do not be afraid of size. If it is scalable it is better. Take the perspective of one customer – how can IKEA help that one person?”

– Johan Laurell, Country Retail Manager & Chief Sustainability Officer, IKEA Denmark

Appendix

Appendix 1

IKEA Denmark

To provide you with data on a single market the following section zooms in on IKEA Denmark. As you think of potential solutions, you may consider to roll-out your initiative in the Danish market. However, this is by no means a requirement, and you may roll-out your initiative in the market you deem most relevant.

Throughout its 50 years on the Danish market, IKEA has managed to become a key player. IKEA has seen significant growth in its revenues in Denmark in recent years, most recently a 3.3% increase from 2019 to 2020. IKEAs revenue in Denmark is currently 4.8 billion DKK. In addition to its revenue growth, IKEA Denmark is seeing growth throughout all sales channels including online, physical stores and IKEA Food.

More than 20% of the Danish population is part of IKEA Family – a membership program of IKEA – which provides customers with discounts on furniture as well as in the restaurant when they visit the IKEA stores. Importantly, IKEA underlines that while some memberships are for the few, IKEA family is for everyone.



IKEA Denmark in numbers 2020

Revenue	4.8 billion DKK
Revenue growth	3.3%
Members of IKEA family (Denmark)	1.8 million
Ikea.dk visitors	43 million
Visitors (physical stores)	9.5 million
IKEA Denmark employees	2990

Physical stores – 5 stores, 1 Planning Studio

- Aalborg
- Odense
- Aarhus
- Taastrup
- Gentofte
- IKEA Planning Studio, Copenhagen

Appendix 2

Market of homeware and home furnishing

Homeware and home furnishing by region

Market sizes of homeware and home furnishing by region (mUSD)

Geography	2014	2015	2016	2017	2018	2019	CAGR
World	675,673	626,867	628,120	655,073	680,965	681,858	0.18%
Asia Pacific	186,460	187,917	193,738	202,987	216,189	219,850	3.35%
North America	160,082	164,152	167,844	173,424	179,054	184,112	2.84%
Western Europe	210,536	182,631	180,257	184,087	191,894	184,068	-2.65%
Latin America	48,319	35,952	31,981	35,149	32,780	33,041	-7.32%
Eastern Europe	33,439	22,544	21,129	23,929	25,049	25,324	-5.41%
Middle East and Africa	24,691	23,240	22,631	24,270	24,726	24,767	0.06%
Australasia	12,147	10,433	10,540	11,229	11,274	10,695	-2.51%

The 10 largest markets within home furnishing

Market sizes of largest markets within homeware and home furnishing (mUSD)

Country	2014	2015	2016	2017	2018	2019	CAGR
USA	143,916	149,793	153,638	158,500	163,714	168,637	3.22%
China	102,306	109,043	110,143	116,900	127,433	128,678	4.69%
Germany	56,510	47,733	48,195	49,792	52,959	50,990	-2.04%
Japan	34,416	30,239	33,985	33,065	33,737	34,351	-0.04%
United Kingdom	35,855	34,042	30,749	30,368	32,131	30,814	-2.98%
France	22,720	19,288	19,555	20,277	20,960	20,126	-2.40%
Brazil	27,669	17,921	16,313	18,704	17,000	17,181	-9.09%
Italy	19,808	16,455	16,357	16,677	17,475	16,558	-3.52%
Canada	16,166	14,358	14,206	14,924	15,340	15,476	-0.87%
India	10,716	11,269	11,703	13,069	13,408	13,697	5.03%

Top growth markets within home furnishing

Market sizes of top growth markets within homeware and home furnishing (mUSD)

Country	2014	2015	2016	2017	2018	2019	CAGR
Thailand	3,248	3,230	3,292	3,585	3,964	4,320	5.87%
Indonesia	6,941	6,627	7,274	7,908	8,132	9,013	5.36%
India	10,716	11,269	11,703	13,069	13,408	13,697	5.03%
China	102,306	109,043	110,143	116,900	127,433	128,678	4.69%
United Arab Emirates	1,859	1,985	2,085	2,158	2,253	2,319	4.53%
Hong Kong	2,086	2,182	2,266	2,342	2,433	2,531	3.94%
USA	143,916	149,793	153,638	158,500	163,714	168,637	3.22%
Romania	1,673	1,465	1,520	1,628	1,822	1,815	1.64%
Philippines	4,154	4,134	4,070	4,010	4,141	4,474	1.50%
Spain	12,895	11,223	11,682	12,416	13,567	13,404	0.78%



Appendix 3

The Testament of a Furniture Dealer

The Testament of a Furniture Dealer was written in 1976 and is Ingvar Kamprad's message to IKEA's employees. It underlines the importance of IKEA's purpose and its approach to side with the many. It is built on the notion that what is good for the customers is also, in the long run, good for IKEA. The testament describes nine philosophies, rules and methods that represent the cornerstones of the framework of ideas that have made and will continue to make IKEA a unique company.



1. The product range – our identity
2. The IKEA spirit – a strong and living reality
3. Profit gives us resources
4. Reaching good results with small means
5. Simplicity is a virtue
6. Doing it a different way
7. Concentration – important to our success
8. Taking responsibility – a privilege
9. Most things still remain to be done
– a glorious future!

Appendix 4

The five main aspects of consumer demand for circular products

1. **Value**
Customers are looking to possess less but higher quality products.
2. **Affordability**
Customer will not compromise on quality, design or sustainability for low price.
3. **Wastefulness**
Customers do not want to be wasteful
4. **Convenience**
Convenience is the ultimate factor behind customer behavior and decision making, and is one of the focal points for acquiring, caring for and passing on products.
5. **Citizenship**
Despite it not being reflected in every purchase decision, there is a growing concern about consumption and a wish for more sustainable solutions.

Appendix 5

Five-Year Summary
Ingka Group

Income Statement

EUR Million	2020	2019	2018	2017	2016
Revenue	37,368	39,243	37,093	36,295	35,691
Cost of sales and services	25,643	26,779	24,947	23,730	20,260
Gross Profit	11,725	12,464	12,146	12,565	15,431
Operating Expenses	-10,454	-10,642	10,212	9,534	10,932
Other income	160	205	317		
Operating income	1,431	2,027	2,251	3,031	4,499
Total financial income and expenses	141	483	-138	283	869
Income before minority interests and taxes	1,572	2,51	2,113	3,314	5,368
Tax	-378	-682	634	825	1,158
Income before minority interests	1,194	1,828	1,479	2,489	4,21
Minority interests	-5	-11	11	16	10
Net income	1,189	1,817	1,468	2,473	4,200

Consolidated Balance Sheet

EUR Million	2020	2019	2018	2017	2016
Group Equity	43,166	42,828	40,822	39,943	38,907
Long-term liabilities	511	529	774	1,010	1,385
Other non-current liabilities	1,890	2,275	1,810	1,767	1,908
Total non-current liabilities	2,401	2,804	2,584	2,777	3,293
Short term liabilities	118	2,711	2,727	3,891	5,126
Other current liabilities	6,521	6,546	6,217	6,329	6,641
Total current liabilities	6,639	9,257	8,944	10,22	11,767
Total equity and liabilities	52,206	54,889	52,350	52,940	53,967
Total fixed assets	27,532	27,857	26,535	25,66	24,988
Inventories	1,945	2,273	2,027	1,924	1,713
Receivables	2,319	2,165	2,544	2,327	4,115
Cash, securities and short-term deposits	20,41	22,594	21,244	23,029	23,151
Total current assets	24,674	27,032	25,815	27,280	28,979
Total assets	52,206	54,889	52,350	52,940	53,967

Appendix 6

Key Financial Ratios
Ingka Group

Financial Ratios

EUR Million	2020	2019	2018	2017	2016
Current ratio	3,72	2,92	2,89	2,67	2,46
Cash ratio	3,07	2,44	2,38	2,25	1,97
Debt ratio	17%	22%	22%	25%	28%
Debt to Equity	21%	28%	28%	33%	39%
Gross margin	31%	32%	33%	35%	43%
Operating margin	4%	5%	6%	8%	13%
Return on assets	2%	3%	3%	5%	8%
Return on equity	3%	4%	4%	6%	11%

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Small change – big impact

The future of furniture
is circular

