

## AGGRESSIVE GROWTH STRATEGY

In 2014, the group was undertaking an aggressive growth strategy to double sales to €50 Bn by 2020

1. Increase market share of existing 303 stores
2. Open 200 new stores – mainly in emerging markets like Russia, China and India  
i.e. target around 3 Bn new customers from the emerging markets

How to balance this growth with sustainability?

*Competition. Polish.*  
*Raw material.*  
*- Supply chain stability*  
*- legal forest??*  
*- child labor.*  
*- labor*  
*- Energy.*

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## IKEA GROUP

### Organizational structure:

- 135,000 people of whom 75% worked in retail & 70% in EU
- 3 operating units: Range & Supply, Production, Retail And Expansion
- €3.3 billion net income and €28.5 billion revenue in 2013



*€50 bn 2020*

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## IKEA GROUP

### Stores:

- 345 stores in 42 countries – 303 owned & 42 franchised
- Average store size 28,700 sq. Meters & €85 million average store revenue
- Located at the outskirts of large cities and designed to maximise consumer time

*200*  
*180*  
*€16,000 mn.*  
*€50*  
*€28*  
*€22*  
*-16*  
*€6*  
*€100 mn.*  
~~6000~~  
~~300~~  
*€20 mn.*



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## IKEA GROUP

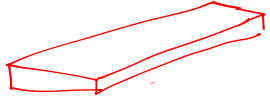
### Home furnishing market:

- Highly fragmented market
- IKEA was the market leader capturing 4.9% of the global home furnishing market



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## IKEA GROUP



**Products:**

- Scandinavian product designs and Swedish product names
- Unassembled flat packaging for keep costs and prices low
- 9500+ products – indoor furnishing, housewares, gardening supplies
- 60% sales from furniture (80% from indoor furniture)

**Value Proposition Canvas:**

- Problem:** To create a better everyday life for the many people
- Proposed Solution:** Well-Designed, Well-Functional, Low-Price
- Benefit:** many people can afford to buy the product.

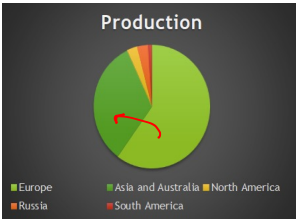
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## IKEA GROUP

**Supply chain:**

- Relied heavily on 3<sup>rd</sup> part manufactures but manufactured a lot of its own particleboard
- 1046 home furnishing suppliers in 52 countries
- 38 furniture manufacturing plants worldwide
- Low prices through better operational efficiency

**Production:**



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## HISTORY

- 1943:** Found in Sweden in 1943 by Ingvar Kamrad; Selling small items and furniture through mail-order catalog
- 1974:** Grown into a more than dozen stores in Europe
- 2000:** Developed its Code of Conduct - IWAY; Specify minimum standards for working conditions and environmental protection
- 2012:** Launched a comprehensive sustainability strategy - People & Planet Positive Strategy; Focus on entire value chain
- 2013:** 345 stores in 42 countries; 135,000 employees in total

Activate V Go to Sleep

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## IKEA GROUP'S GROWTH STRATEGY

- Strategy to double worldwide sales to €50 billion by 2020
- Increasing revenue by 10% each year
- Planned to achieve the target by growing sales at their existing stores and opening new stores
- Increasing number of stores from 303 in 2013 to 500 in 2020

**€45.3 billion in 2019**

**433 stores in 2019**

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## EXPANSION OF IKEA

IKEA's approach for successful expansion in emerging markets:

- Move away from its conventional approach of designing a common product range
- Offer different subsets of its product to different regions
- Provide products and services targeted to specific regional needs

*€ 16 bn.*

IKEA's expansion in emerging countries (growing middle class):

- Russia: Opened 14 stores, recorded sales €1.96 billion
- China: Opened 16 stores, recorded sales €740 million
- India: Planned to open 25 stores, investment €2 billion ~~X~~

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## SUSTAINABILITY AT IKEA GRO

Sustainability became IKEA Core business strategy

- A role of CSO was created

Steve Howard was the 1st CSO

- Grow and be Sustainable

The sustainability group had 4 teams:

- Communication** – To develop sustainability communication strategy
- Innovation** – To develop innovative solutions
- Policy** – To improve the guidelines
- Retail** – To inculcate sustainable practices at the stores



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## IKEA GROUP'S SUSTAINABILITY

People and Planet Positive strategy

- Consumer* A more sustainable life at home for consumers
- Firm* Resource and energy independence for the company
- Supply Chain* A better life for people and the communities touched by IKEA

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## IKEA GROUP'S SUSTAINABILITY *Long-term oriented.*

SAVING ENERGY AND WATER & REDUCE WASTE

50% EFFICIENCY OF ENERGY INCREASE

ALL LIGHTING CONVERTED INTO LED

*100%*

10 TIMES EFFICIENT THAN OTHER OPTIONS

*10x.*

Transform all aspects of the company's value chain

Designing products to minimize use of raw materials

Sustainably sourced materials to reduce environment impacts


Improving labor conditions within supply chain

Improving efficiency in production and logistics

Programs to ensure products can be reused or recycled

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## SOURCING SUSTAINABLE WOODS



**Wood Supply Chain**

Raw material – largest cost item for wood-based product

- IKEA group worked with 384 wood suppliers in 50 countries in 2013
- Forests were owned by third-parties, IKEA group leased nearly 500,000 hectares

Revenue from Particleboard was 3 times that of solid wood furniture


**Sustainability Concerns**

Sourcing wood posed concerns:

- 1.6 billion people relied on local forests for their livelihood
- Managing natural forests inevitably affected biodiversity and ecological processes
- Deforestation was a leading contributor to global climate change

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## SOURCING SUSTAINABLE WOODS



**Wood sourcing standards:**

In 2000, IKEA launched IWAY – IKEA way on purchasing products, materials and services

- It specified minimum acceptable standards for working conditions and environmental protection
- By 2013 it enlisted 90 auditors who approved all their home furnishing suppliers

*↳ NGOs*

**Forestry standards:**

IKEA was one of the founding members of Forest Stewardship Council (FSC) created in 1993

- FSC standards were based on set of 10 principles.
- IKEA group commitment to reach 50% woods from sustainable sources by 2017 and 100% by 2020.

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## BETTER LIFE FOR PEOPLE & COMMUNITIES



Influence people to live a better life	Meeting the future customer needs
Good working condition for co-workers	Keeping their products in low price
IWAY - Code of Conduct	Addressing higher price and energy
Support human rights & prevent child labour	Reducing environmental impacts

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## OPTION 1 – OWNING MORE FOREST

*FSC Prices ↓ - lock in supply - quality of tree - type of tree*

*100%*

**Pros**

- Strengthening backward integration
  - Locks in supply
  - Avoids monopoly pricing
- No customer impact
  - Diversify procurement away from costly wood supply market, for China
- Traceability
  - End consumers – trace source of wood for each product
- Access to FSC-certified wood supply
  - Avoid surprises that forests are not certified




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*lock-in*  
*long-time non-core*  
*maintenance ↑ cost*

### OPTION 1 – OWNING MORE FOREST

**Cons**

- Balance sheet (increase assets)
  - High capital investment
- Locks in geography – demand disruption risk
  - Country risk
- Locks in species – disease, changes in trend
  - In case of problems can't blame suppliers
- Non-core activity
  - Managing forests - degree of uncertainty
  - Time consuming




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*quality ↑*  
*100% FSC*  
*core-business*

### OPTION 2 – DRIVING HIGHER PROCUREMENT TARGET AND STANDARDS

**Pros**

- Efficient way to improve forest governance
- Increase in FSC-certified forest areas
  - Certification of 28 million hectares of forest in Russia and 2 million hectares of forest in China
  - Aim to increase the FSC certification of 15 million hectares of forest in high-risk areas by 2020
- Heighten quality of raw woods - IKEA's products
- Managing NGOs
  - Collaboration of IKEA Group and 11 WWF projects in 13 countries
- Concentration on core business – design & manufacturing



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*Market Hazard*  
*Price ↑ Hold-up*  
*Control FSC*

### OPTION 2 – DRIVING HIGHER PROCUREMENT TARGET AND STANDARDS

**Cons**

- Difficult to convince suppliers to invest
- Suppliers may shift to other companies – lost investment
- Passive role in supply chain of wood
- Pricing or supply fluctuations
- Vulnerability of FSC brand
  - Downgrades – IKEA brand affected
  - Upgrades – IKEA cost affected




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### OPTION 3: USING MORE PARTICLEBOARD

More particleboard can be made than solid wood from the same wood log, allowing for 20% savings.

IKEA developed 30% less dense particleboard than the standard one, reducing wood usage and transportation costs.

Consumer's willingness to pay the same amount for particleboard furniture was low.




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**OPTION 3 – USING MORE PARTICLEBOARD** *longevity.* *low quality.*

**Cons**

- Limited demand in developing countries
  - Berggren believed that consumers 'willingness to pay' may reduce.
- Lack of production capacity in emerging markets
  - Significant Investment Upfront is needed in regions like China and India.
- Limits design to lower end products that might erode profits
- Might prevent the sale of some categories that require wood.



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**OPTION 4- USING MORE RECYCLED WOOD**

**Pros**

- Cheaper than particleboards & solid wood
  - Utilization of Plants near to Urban areas to reduce collecting costs
- Regulations and subsidies
  - Its was cheaper than particleboard in several countries due to Landfilling regulations.
- Significant reduction in costs
  - They planned to increase its share from 4% (2013) to 20% (2020)
- Reduces demand for timber



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**OPTION 4- USING MORE RECYCLED WOOD**

**Cons**

- Heavy investment & broad plants
- Only few locations suitable for plants
- Quality and quantity may be difficult to forecast
- No incentives and less viability
  - Considerable challenges in collecting used wood in many countries.



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**WHICH OPTION SHOULD THEY CHOOSE?**

*Recycled-wood*  
*4 particle board.*  
*2- Supply chain*

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## THE “THREE PS” OF PEOPLE, PLANET, AND PROFIT: THE TRIPLE-BOTTOM-LINE

Managing sustainability is a task with many potential fields of action

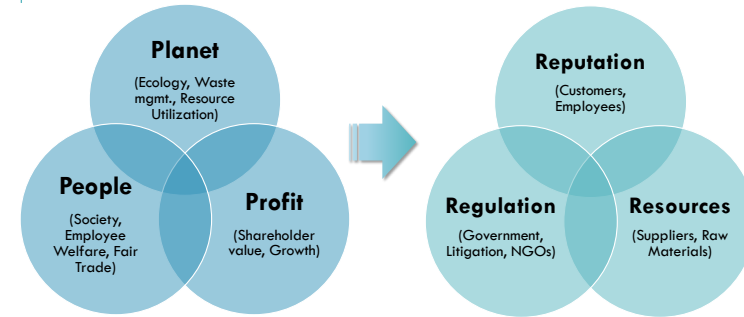
Idea of the three pillars of “economic, ecological, and social responsibility” is to make sustainable development more comprehensible and manageable at the company level

- **Economic pillar** (profit): Businesses generate profits to be sustainable in an economic sense
- **Ecological pillar** (planet): Focusing on issues such as achieving resource efficiency
- **Social pillar** (people): Covers topics such as social justice and equal opportunity

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## TRIPLE BOTTOMLINE



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