Sustainability Profile Report

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Introduction

IKEA, Inter IKEA Holdings

Background:

IKEA is a retail furniture and home design company. They operate within the furniture and food industries. Their primary focus is on providing affordable furnishings to a global consumer base. They operate in roughly 63 countries with 479 retail locations.

Key Leaders:

1. Jon Abrahamsson Ring is the current CEO of IKEA. He has several degrees in business administration and began working for IKEA after graduate school. He spent some time working as a store manager and then moved up throughout the company over the next few years. He moved to a couple different companies, all of which are involved in retail markets in Sweden.
2. Pär Stenmark is the Chief Sustainability Officer (CSO) at IKEA. He has worked for IKEA for over 21 years now. In various positions such as Forestry Coordinator, TQEF manager (Technology, Quality, Environment, and Forestry), Product Quality Manager, Compliance Manager, and Public Affairs Manager. Prior to working for IKEA he worked for the Swedish Forestry Association as a Project leader. Also at the Swedish Ministry of Environment and Natural Resources and Forest Stewardship Council as a Committee Secretary.

Business Model:

IKEA uses the typical linear business model, where raw materials are used to manufacture home furnishings, which are then sold to customers online and in retail stores. There is also the Inter IKEA group and the Interogo Foundation. Inter IKEA group is responsible for managing IKEA businesses and the Interogo Foundation is responsible for “governing the investment business and providing the financial reserves required to secure independence and longevity”.

Focus Product:

The BILLY Bookcase, with glass windows. ("It is estimated that every five seconds, one BILLY bookcase is sold somewhere in the world."

Sustainability Challenge

Primary Challenge:

How can IKEA reduce/eliminate their reliance on virgin and non-renewable materials? This challenge is one of the remaining pieces of the IKEA value chain that is preventing them from operating in a completely circular business model.

Why Does This Challenge Exist?:

There are several reasons why the challenge of eliminating the use of virgin and non-renewable materials still persists. There may be problems with efficiency, quality, and cost when it comes to sourcing recycled materials. It takes a lot of effort to sort through waste to find materials that are able to be made into another product. IKEA also prides themselves on trying to be able to provide quality furniture and household items for reasonable prices. If prices go up as a result of material changes, IKEA could potentially lose sales.There is also a level of quality and consistency that is ensured when using virgin materials that cannot necessarily be upheld when using recycled material. The BILLY bookcase is one of IKEA's top sellers and high demand may cause bottlenecks in their value chain if they disrupt where/how they source materials.

In IKEA's 2023 Sustainability Report, contributors mention the idea of a "just transition" in reference to making sure that as industries shift towards net-zero, the communities that rely on employment from IKEA are not left behind. This means not only the people that manufacture IKEA products such as the BILLY case, but also those who are employed and responsible for "harvesting" the necessary materials such as lumber.

Who cares? Customers do. There are huge external pressures on IKEA from consumers to provide products that are made sustainably and without sacrificing peoples' livelihoods. Customers would most likely love to hear that their products are made from reused materials, but there has also been a push to make sure this is done ethically and with consideration for human rights. If consumers were to find out that IKEA was clear cutting forests to build their furniture, the customers would be a lot less likely to continue buying anything from them. There are also many activist groups that advocate for ethically sustainable products. They spread information about the impact current business practices have on the environment and society.

Key Performance Indicators and Evidence of Progress:

IKEA executives will know that the challenge of eliminating virgin and non-renewable materials is solved not only once the sourcing of materials is recycled, refurbished, or remade, but also once they can do this without negatively impacting the parts of their value chain that contribute to the circularity. In order for IKEA to achieve their goal of a circular business model, their production, product transport, retail/sales, deliveries, and “end of life” retrieval must also respond positively. For instance, production and waste can not be at an all time high, they must be able to sustain the next step in the cycle. IKEA needs to be able to collect as much used material and retrieve as many end of life products as possible so that they can continue to reproduce and manufacture products to sell. This includes everything from the product itself to the packaging it was shipped in. This “waste” can be returned to IKEA to start the whole process over again.

Sustainability Solutions

Information and Transparency

Potential Solution:

An information and transparency solution to phasing out virgin timber used in IKEA’s sourcing of raw materials for their products, specifically the BILLY bookcase, would take on a similar model to the company “Whereyourclothing.com”. This company provides step-by-step analysis of where the materials were sourced from, which factories/facilities were involved, all the way up until the shirts are sold to the consumer. This type of evaluation gives consumers a better understanding of the people and places that are impacted by the production of these items.

There have been several instances where IKEA has bought up forests to use in their timber sourcing. To avoid the use of virgin timber and only use sustainably managed forests and recycled/reused materials, traceability tools such as blockchain technology can be used to inform consumers on the production journey of their bookcase.

IKEA's BILLY bookcase could take on a model such as:

1. The timber/lumber harvested from FSC (Forest Stewardship Council) certified forests would be logged into blockchain technology
2. With the help of certain NGOs, the facilities and suppliers of timber can undergo third-party auditing that ensures there is precise data.
3. As the lumber moves through the value chain it will be tracked/logged into a system. Blockchain tech would ensure that individuals in the chain could not alter data to fit requirements.
4. This chain would be presented to consumers on the tail end, and include information about how to dispose of products at end-of-life. For instance, telling them the nearest IKEA collection center or retail center. To incentivize end-of-life returns, customers could earn credits back or replacement products.

Self-governance

Potential Solution:

In addition to IKEA taking responsibility for where they source materials from, the suppliers must also adhere to sustainable forestry practices in order to continue a contract with IKEA.

All suppliers must adhere to the FSC (Forest Stewardship Council) standards which are backed up by ASI (Assurance Services International). ASI ensures that the audits that are conducted on behalf of the FSC are accurate and maintain high levels of integrity. One of the standards required by the FSC is Principle 5, which states that "Forest management operations shall encourage the efficient use of the forest's multiple products and services to ensure economic viability and a wide range of environmental and social benefits." (*19).

Within Principle 5, subsection C5.6 states that "The rate of harvest of forest products shall not exceed levels which can be permanently sustained.". There are 4 indicators that this is being done properly, the first one being… "In FMUs where products are being harvested, the landowner or manager calculates the sustained yield harvest level for each sustained yield planning unit, and provides clear rationale for determining the size and layout of the planning unit. The sustained yield harvest level calculation is documented in the Management Plan."

The sustained yield harvest level calculation for each planning unit is based on:

- ➔ Documented growth rates for particular sites, and/or acreage of forest types, age-classes and species distributions
- ➔ Mortality and decay and other factors that affect net growth
- ➔ Areas reserved from harvest or subject to harvest restrictions to meet other management goals
- ➔ Silvicultural practices that will be employed on the FMU
- ➔ Management objectives and desired future conditions.

The calculation is made by considering the effects of repeated prescribed harvests on the product/species and its ecosystem, as well as planned management treatments and projections of subsequent regrowth beyond single rotation and multiple re-entries. " (22).

The Forest Stewardship Council works with several third-party auditors that are the organizations that actually visit the suppliers and farms. Organizations such as ASI and ISEAL are responsible for ensuring that there are little to no conflict of interests between those giving the certification (FSC) and those receiving/giving money.

*Resource: FSC Forest Management Standards

Collective Action

Collective Action Problem:

The collective action problem contributing to IKEA's challenge of eliminating virgin timber from their products, is that there are still some suppliers that are not using FSC certified wood. There is also the matter of where the wood comes from for packaging purposes. They would need to make sure that everyone is on board with sustainable practices and that there are positive impacts.

Partners in Collective Action:

IKEA sources their timber from a variety of countries including Poland, Sweden, Germany, Lithuania, and the Baltics. Within each country IKEA either has company-owned manufacturing and processing facilities, or they outsource work to other companies. Some include companies such as Mardom Pro in Poland, but the lumber sourced from Sweden would also need to undergo a higher level of collaboration.

Necessary Steps:

In order to solve a collective action problem the suppliers of wood for all products would need to adhere to certain rules. Sustainable forestry practices of the suppliers would also need to show that it has an impact on the operations of IKEA. Ensuring that all suppliers and companies adhere to the FSC sourcing standards should also improve long term outcomes for the actors involved. It would also be important to scale the collective effort so that the effort "catches on".

Risk of Freeriding:

There is the risk that some suppliers and actors would not be completely transparent with their operations and also IKEA doesn't necessarily have control over third party suppliers. They would need to be able to prove that sustainable forestry practices and FSC certification provide more benefits than costs.

Targets and Goals

Potential Solution:

To continue the quest of eliminating the use of virgin timber, IKEA will source 100% of their timber/wood materials from FSC certified forests and recycled materials by 2030. To achieve this goal, IKEA will need to increase the use of recycled materials by 3% every year to offset the 3% gap that prevents IKEA from using 100% FSC wood. To help IKEA reach their milestone, certain products such as the BILLY bookcase will be required to be made with 75% FSC certified wood and 25% recycled wood material. By 2035, if there is limited progress made on the goal to increase use of recycled wood by 3% every year, adjustments will be made to the percentage of recycled wood versus FSC wood in products.

Sustainability and Strategy

Rival analysis:

Rival 1: Wayfair

IKEA would have a major advantage over Wayfair by increasing their sustainability efforts because of how it impacts their public perception. IKEA can maintain a sustainable advantage over Wayfair by leveraging its efficient, vertically integrated supply chain to keep costs low and ensure reliability. Its in-store experiential shopping, complete with showrooms and family-friendly amenities, provides a unique, engaging experience that Wayfair's online model cannot replicate. By investing in omnichannel integration, including a seamless digital presence and streamlined delivery options, IKEA can enhance customer convenience. Its strong commitment to sustainability, through eco-friendly products and circular economy initiatives, further differentiates the brand. Additionally, IKEA's focus on affordable, functional Scandinavian design, along with customization options and loyalty programs, strengthens brand loyalty and reinforces its value proposition.

Rival 2: Froy

IKEA can leverage its robust global presence, efficient supply chain, and established brand reputation. IKEA's scale allows for cost-effective production and competitive pricing that smaller players like Froy may struggle to match. Additionally, IKEA's in-store experience, complete with immersive showrooms and family-friendly amenities, provides a unique touchpoint for customers, unlike Froy's primarily online model. By emphasizing its commitment to sustainability, offering eco-friendly and durable products, and engaging in initiatives like recycling and furniture buy-backs, IKEA can attract environmentally conscious shoppers. Furthermore, IKEA's wide product range, design innovation, and strong omni-channel presence, including integrated digital tools and in-store pickup options, provide convenience and variety that can surpass Froy's offerings.

Progress Assessment

This challenge is about 95% solved. There are key factors that contribute to IKEA being able to fully reach their goal of eliminating the use of virgin timber from their supply chain. IKEA has stated that they use about 95-98% sustainable timber and materials in their furniture.

In order to reach the goal of using 100% sustainably sourced timber or recycled material IKEA would need to refine their self governance and collective action. The last part of their goal relies on getting third parties to cooperate. The final switchover may be prevented by price barriers or certification barriers. However, long-term analysis can be conducted that provides an equitable rate of return.