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Sustainability at IKEA Group

In 2014, the IKEA Group was pursuing an aggressive growth strategy, initiated in late 2012 to double sales to €50 billion by 2020. The Group Management (GM) planned to achieve this growth by increasing the market share of their 303 existing stores and by opening nearly 200 more stores, many of which would tap into the billions of new customers entering the middle class in emerging markets, especially China and Russia. The market share of IKEA Group in emerging markets was far lower than its conventional markets in Europe and North America, where demand was expected to grow much more slowly.

Steve Howard, IKEA Group's Chief Sustainability Officer (CSO) saw major opportunities from this planned growth: "Growth is the priority: if you're growing as a company, everything becomes possible." But he also viewed the implications of such aggressive growth through the lens of the company's equally ambitious sustainability plans, noting: "Worldwide economic activity, if left unchecked is already on track to consuming 150% of planet earth's resources, and on top of that we will have 3 billion extra consumers by 2030, mostly from the emerging market countries. If we're growing as a company, we have to balance how we use resources to be sustainable. We can grow and be sustainable."

In late 2012, IKEA Group launched a comprehensive sustainability strategy called People and Planet Positive that focused on the company's entire value chain, from its raw materials sourcing to the lifestyle of its consumers. Sustainability had become integral to IKEA Group's core business strategy. As Howard put it, "We are transforming our material base, becoming an independent power producer, lifting working conditions through the supply chain, and accelerating change in product sectors by becoming one of the world's largest retailers of energy efficient LED lighting. Sustainability is a driver of growth and is now a fundamental part of our decision making - we have changed the mindset across the business." Peter Agnefjäll, IKEA Group's President and CEO since September 2013, was confident that the company's growth strategy would not conflict in any way with the company's sustainability targets.

Sustainability issues in the IKEA Group wood supply chain were especially challenging because the company sought to procure wood and wood products close to its consumer markets to minimize

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transportation costs, but the growth plans focused on emerging markets in which wood supply chains lacked well-developed markets for wood that met the company's stringent sustainability standards. The enormous scale of IKEA Group's wood procurement—its global lumber purchase volume trailed only Home Depot and Lowe's among global retailers¹ and represented 60% of IKEA Group's total raw material procurement by volume and 40% by value (followed by plastic, steel, and cotton)—made the company's management of its wood supply chain an especially salient issue to the company's bottom line, environmental activist groups, and many ecosystems.

Company Overview

IKEA was founded in Sweden in 1943 by Ingvar Kamprad when he was 17 years old. He named the company with an acronym for his initials and the village in which he grew up, Elmtaryd, Agunnaryd. Initially selling small items and then furniture through a mail-order catalog, the company had grown by 1974 from one showroom in Älmhult to more than a dozen stores throughout Europe. Kamprad sought to sell affordable, quality furniture to mass-market consumers around the world. He believed his company would succeed if it operated according to a particular set of values: "Our enthusiasm, our constant will to renew, on our cost consciousness, on our willingness to assume responsibility and to help, on our humbleness before the task, and on the simplicity of our behavior." By 2013, the company had grown to earn €3.3 billion in net income on €28.5 billion in sales^a (see **Exhibit 1** for IKEA Group's financial performance since 2010).

IKEA Group

Organizational structure In 2013, IKEA Group employed 135,000 people, of whom 75% worked in retail and 70% were in Europe. IKEA Group was organized into three operating units (see **Exhibit 2** for IKEA Group's organization chart). *Range and Supply* was responsible for all new product design and development, and for supply chain management. *Production* operated and managed several company-owned furniture and particle board factories that produced roughly 15% of the furniture sold at IKEA stores. *Retail and Expansion* managed the company's owned and operated IKEA stores. IKEA Group franchised the IKEA retail system from Inter IKEA Systems B.V., which was the owner of the IKEA concept and was the worldwide IKEA franchisor.

Stores There were 345 IKEA stores in 42 countries by the end of 2013, most of which were located at the outskirts of large cities. IKEA Group owned and operated 303 IKEA stores, and franchised the remaining 42 stores (see **Exhibit 2**). IKEA Group store sales were predominately in Europe (69%), followed by Asia and Australia (16%), North America (8%), and Russia (7%) (see **Exhibit 3** for the geographic distribution of IKEA Group stores). IKEA Group stores averaged 28,700 square meters (309,000 square feet) and €85 million in annual sales. The largest store, in Shanghai, was twice the average size. IKEA stores were designed to maximize customer time in the store, with a meandering pathway laying out a designated route to guide customers through all departments. The store layouts had been described as "effectively IKEA's catalogue in physical form, with furniture placed in different settings, which is meant to show you how adaptable it is."²

Home furnishing market Home furnishing was IKEA Group's main market. Roughly 60% of its sales were in furniture and 40% in non-furniture items in 2011. The €331 billion global home furnishing market was highly fragmented, with the top five companies accounting for less than 8% of

^a This equates to USD 4.5 billion in net income on USD 39.2 billion in sales, using a USD 1.376 to €1 exchange rate as of Dec. 31, 2013.

sales value in 2011. The market was characterized by a large number of category specialists with limited geographic scope. As a whole, IKEA stores were the world leader in the home furnishing market, capturing 4.9% of the global home furnishings market in 2011, and faced no comparable global competitor. The world's second largest furniture retailer was Ashley Furniture Inc., whose €4 billion sales spanned just three countries (the US, Canada, and Mexico), constituting a 1.2% share of the global furniture market. Sealy, the world's third largest furniture retailer, recorded sales of €1.7 billion, mainly in North America and Europe, achieving a 0.5% share of the global furniture market.³

Products The company's Scandinavian roots were key to the IKEA brand identity and was manifest in its product designs and Swedish product names (see **Exhibit 4** for a sampling of IKEA Group furniture). IKEA produced a range of 9,500 products of home furnishing, indoor furniture, home improvement, housewares, and gardening supplies. Indoor furniture represented 80% of IKEA Group's sales.⁴ Much of the company's furniture was designed and sold in unassembled flat packaging, which the company introduced in 1953 to help keep costs and prices low by minimizing transportation costs and transferring assembly costs to customers. The company had retained Kamprad's founding principles of maintaining very low prices without compromising on functionality or technical quality. For example, its LACK coffee table was priced at less than €10, "cheaper than the coffee itself," as one IKEA designer joked. IKEA's continuous efforts to reduce costs had enabled it to reduce prices every year since 2000. On the revenue side, the company had experienced a compound annual growth rate (CAGR) of 5% between 2010 and 2013.

Supply chain IKEA Group managed 1,046 home furnishing suppliers in 52 countries. Nearly 60% of production, including third-party suppliers and wholly-owned suppliers, took place in Europe, followed by Asia and Australia (33%), North America (3%), Russia (3%) and South America (1%) (see **Exhibit 3** for the geographic distribution of IKEA production units).

While it relied heavily on third-party manufacturers, the IKEA Group furniture and particle board factories manufactured 25% of its own particle board and nearly 15% of its furniture (representing 27% of its total volume of sourced wood). IKEA Group had already invested €550 million in 2013 to expand its own board manufacturing capacity by 66%, increasing the number of plants from two to six. The company also owned and operated 38 furniture manufacturing plants worldwide by the end of 2013 (see **Exhibit 3**).

IKEA Group's Growth Strategy

We have a strong foundation for future growth. Our company structure is built to last over time, and fortunately we also have the financial strength to grow in a balanced and sustainable way. By creating better products at lower prices, being more inspiring, improving our existing stores, opening new stores and expanding our e-commerce offer, we plan to double sales by 2020.

— President and CEO Peter Agnefjäll, IKEA Group Annual Report 2013

IKEA Group's ambitious growth strategy to double worldwide sales to €50 billion by 2020 required increasing revenue by 10% each year. IKEA Group planned to achieve this by growing sales at their existing stores and by opening new stores, which would increase the number of stores from 303 in 2013 to 500 in 2020. Nearly 90% of IKEA Group sales in 2013 were in OECD countries, and 70% in Europe, but IKEA Group management expected to open few new stores in those markets. Instead, senior management planned to achieve roughly half of its growth targets from expanding sales at their existing stores and the rest from opening 200 new stores primarily in emerging markets, where the company had much lower penetration. The rapidly growing markets in China and Russia were

key (see **Exhibit 5** for the world's fastest-growing home furniture markets and IKEA Group's market share in each).⁵

Since IKEA Group had entered Russia in 2000, it built a network of 14 stores that generated sales of €1.96 billion in 2013. In China, the company had opened 16 stores over a similar period, recording sales of €740 million in 2013,⁶ and sought to triple its pace of store openings by 2020.⁷ IKEA Group entered India in April 2013 with a planned US \$2 billion investment to open 25 stores, under an agreement with the Indian government to locally source 30% of the products sold in those stores.⁸

To successfully expand in emerging markets, IKEA Group anticipated that it might need to depart from its conventional approach of designing a common product range for all of its stores. Instead, it would have to offer different subsets of its product range to different regions. In addition, as it had done when it entered Japan in 2005 by designing products to specifically suit local tastes, IKEA Group expected that its designers would also create new products and services targeted to specific regional needs including, perhaps, designing furniture to suit smaller living spaces in China and offering in-home furniture assembly services in India.⁹

Sustainability at IKEA Group

To meet future customer needs and address the higher price of raw materials and energy, while driving down emissions and maintaining our low prices, we need to transform our business. Simply working towards being less bad will not get us where we need to be – we need transformational change – which means changing old ways and embracing the new, being bold, innovative, and committed to taking action.

– IKEA Group 2012 Sustainability Report

IKEA Group's CEO created the role of Chief Sustainability Officer (CSO) in 2011 to be the seventh member of the company's Group Management (GM) that was responsible for formulating and implementing the company's strategy. Before being hired as the first CSO, Howard had founded and led The Climate Group, a nongovernmental organization that advised business and government leaders on how to address climate change. Hiring Howard and including him in the GM was an indication that IKEA's leadership was seeking transformational change to enable the company to better anticipate and address sustainability issues. Through discussions throughout Howard's initial six months with the company, the GM announced its "People and Planet Positive" strategy, which focused on three areas: (1) a more sustainable life at home for consumers; (2) resource and energy independence for the company; and (3) a better life for people and the communities touched by IKEA (see **Exhibit 6** for highlights). The strategy sought to transform all aspects of the company's value chain, including designing products to minimize the use of raw materials, selecting sustainably sourced materials to reduce the environmental impacts and improve labor conditions within its supply chains, improving efficiency in production and logistics, and developing programs to ensure its products could be reused or recycled at their end of life. At the consumer level, for example, the company planned to convert its entire range of lighting products by 2016 to LED, which were nearly 10 times more efficient than incandescent lighting and twice as efficient as compact fluorescents.

In its production, distribution, and store operations, IKEA Group was investing substantially to reduce energy consumption. Its €21 million investments in energy efficiency measures between 2011-2013 had yielded cost savings of around €40 million over that period. IKEA Group was seeking by 2020 to produce as much renewable energy as the total energy it consumed in its operations, and was a third of the way toward its goal by 2012. The company had already begun investing in wind farms, using biomass to power its production facilities, and installing solar panels at its stores.

Howard led a 22-person corporate Sustainability Group consisting of four teams: (1) Communications developed IKEA Group's sustainability communication strategy; (2) Innovation developed sustainable innovative solutions; (3) Policy improved guidelines throughout IKEA Group; and (4) Retail worked to inculcate sustainable practices at the stores. These teams worked with the operating units to implement the People and Planet Positive strategy. In total, nearly 500 people at IKEA Group were directly accountable for implementing various aspects of the company's sustainability objectives. As Howard explained, "95% of actions will happen through leadership and sustainability being embedded in the organization."

Howard believed that communicating the new strategy's goals to non-government organizations (NGOs) was critical to gaining their support and building trust. IKEA Group's Head of Sustainability Communications, Olivia Ross, pointed out, "We have values which mean we are less likely to find ourselves in Greenwash^b territory. Everything we do must be rooted in humility, facts and must communicate the journey." Howard also initiated a People & Planet Positive Advisory Group, which included board-level representatives from key environmental and development NGOs such as the World Resource Institute and Oxfam Great Britain. The Advisory Board was charged with holding IKEA Group accountable, and challenging and inspiring the company on strategic sustainability issues. Moreover, as Ross added, "Customers, co-workers and general public also hold IKEA Group accountable."

Sourcing Sustainable Wood

Wood Supply Chain

Raw material often constituted the largest cost item for wood based products. IKEA Group worked with 384 wood suppliers in 50 countries in 2013. Its wood supply chain began in forests or with recovered wood. Nearly all of these forests were owned and operated by third-parties, although IKEA Group leased nearly 500,000 hectares (1.24 million acres) of forest land in Russia's Leningrad Oblast and Republic of Karelia and leased a smaller forest in Slovakia. Timber harvested from forests provided the raw material to primary processors, including saw mills, board manufacturers, and the pulp and paper industry. Byproducts from sawmills and plywood mills were often shipped to board mills, which produced board material. Lumber and board material were converted to components in factories. Furniture manufacturers then assembled solid wood and particle board components into finished (but unassembled) furniture pieces, and shipped nearly half of these boxed components directly to IKEA stores and the rest to IKEA Group's distribution centers, which ultimately delivered them to stores. IKEA Group's revenue from particle board furniture was about three times as much as from solid wood furniture. (See **Exhibit 7** for data on IKEA Group's wood supply chain). Some of these supply chains were fully owned by IKEA's suppliers, and others by independent chains of sub-suppliers.

IKEA Group was one of the largest lumber consumers in the global retail and consumer goods industry. The 14 million cubic meters of round wood equivalent it sourced in 2013^c amounted to 1% of all industrial wood sourced on the planet (see **Exhibit 8** for IKEA Group's wood procurement volume). IKEA Group sourced 21 wood species, primarily pine (nearly 50% of its procured volume), birch (27%), and beech (12%). IKEA Group sourced most of its wood from countries in Eastern

^b Greenwash referred to environmental claims that exaggerated a company's overall environmental performance.

^c Round-wood equivalent (RWE) volume is a measure of the volume of logs (round wood) used in the manufacture of wood-based products (including wood pulp, paper, wooden furniture, joinery and plywood).

Europe, and sold most of its products in Western and Northern Europe (see **Exhibit 9** for IKEA Group's wood procurement value by region).¹⁰

Sustainability Concerns

Sourcing wood posed several sustainability concerns. First, 1.6 billion people worldwide relied on local forests for their livelihoods—including food, clothing, or shelter—many in regions where their rights were not adequately protected by governments. As such, harvesting virgin forests and clearing wood for plantations risked substantially disrupting many people's lives. Second, managing natural forests inevitably affected biodiversity and ecological processes, and converting natural habitats to timber plantations substantially reduced biodiversity. Third, deforestation—often sparked by the desire to convert forests to cropland and pasture—was a leading contributor to global climate change by preventing photosynthesis from sequestering atmospheric carbon into the soil. Deforestation also reduced long-term wood availability, a particular concern in China whose timber trade deficit was already acute.¹¹

Wood Sourcing Standards

IKEA Group had already invested a great deal of time and effort to assess and improve the sustainability of its wood procurement practices. In 2000, IKEA Group had developed its code of conduct—the IKEA Way on Purchasing Products, Materials and Services (IWAY) to specify minimum acceptable standards for working conditions and environmental protection at its manufacturing suppliers. In 2013, IKEA Group's 90 auditors conducted 917 audits and approved 100% of the company's home furnishing suppliers, up from 54% in 2008. As Lin Wang, Sustainability Manager at IKEA Group China noted, "IWAY is not only an auditing framework, but a business discipline. If suppliers choose not to maintain compliance they can no longer supply IKEA Group. By having internal auditors in all business areas, we integrate IWAY in the business and enforce suppliers' compliance." Suppliers in high-risk locations were audited annually, and others were audited at least every two years. Suppliers that did not comply with IWAY were phased out.

In 2002, IKEA Group introduced an IWAY standard for forestry practices spanning its entire supply chain, from forests to furniture. As IKEA Group *Range and Supply* Forestry manager Anders Hildeman noted, "By engaging with suppliers on IWAY Forestry Standard, we were able to take a step-wise approach that has led to higher standards across the supply chain - creating a new base level of what we consider to be more sustainable wood." By 2013, the IWAY Forestry Standard prohibited sourcing wood:

- from forests that had been illegally harvested;
- from forestry operations engaged in forest-related social conflicts;
- harvested in geographically identified Intact Natural Forests or High-Conservation Value forests, unless they were certified as responsibly managed;
- harvested from natural forests in the tropical and sub-tropical regions being converted to plantations or non-forest use;
- from officially recognised and geographically identified commercial genetically modified tree plantations.

Beyond these minimum requirements, the IWAY Forestry Standard also specified conditions under which wood would qualify as coming from “More Sustainable Sources” to be either:

- Wood certified to the Forest Stewardship Council’s “Forest Management” and “Chain of Custody” standards ; or
- Pre- and post-consumer reclaimed wood (recycled).

The Forest Stewardship Council (FSC) was created in 1993, in the wake of the failure of governments and NGOs to achieve a consensus on the appropriate measures to fight deforestation at the 1992 Earth Summit. The FSC embodied a consultative approach to solving deforestation and was governed by its multi-sector stakeholder members, which included environmental NGOs, the timber trade, community forest groups, and forest certification organizations. IKEA Group was one of the founding members. FSC governance was based on the principles of participation, democracy, and equity. These principles influenced the structure of the FSC’s General Assembly—comprised of delegates from national FSC initiatives, FSC members, NGOs, FSC certification bodies, FSC certificate holders, trade unionists, NGOs, and others—and subdivided into three chambers (environmental, social and economic) that were further split into sub-chambers of global North and South. Any major decision—national or international—required a majority vote from these chambers.

The FSC Forest Management standard referred to timber management practices that were based on a set of 10 principles including to respect indigenous peoples’ rights, to maintain or restore forest ecosystems including their biodiversity and landscape, to implement a documented management plan, and to comply with all laws, regulations, treaties, conventions and agreements. The FSC Forest Management standard was adapted to local conditions to reflect the diverse legal, social, and geographical conditions of forests. The FSC Chain of Custody standard provided an information trail for wood products as they flowed through every stage of the supply chain—including timber harvesting, processing, manufacturing, and distribution—to verify that FSC-certified material was identified or kept separated from non-certified material. Howard estimated that FSC Forest Management and Chain of Custody certified wood often commanded a 5% price premium.

IKEA Group favored FSC over alternative standards such as PEFC because of FSC’s distinctive governance process that emphasized balance across various stakeholders. FSC certification was the most widely available commercially within its key sourcing regions. It had the greatest consumer recognition among various standards (see **Exhibit 10** for a comparison of the certifications and **Exhibits 11a** and **11b** for the area of FSC certified forest land).

Hildeman suggested that “IKEA Group’s contracts with suppliers include action plans that specify the production level and the type of articles or products expected in the future, and typically range from 1-5 years, and therefore lock in sustainability standards, yield, quality, and cost.” IKEA Group only accounted for solid wood in the volume of wood coming from More Sustainable Sources until 2010, when the company decided to also include particle board. IKEA Group had committed to reach 50% of wood from More Sustainable Sources by 2017 and 100% by 2020. By the end of 2013, the company had reached 32.4% from More Sustainable Sources composed of 28.4% FSC-certified wood and 4% recycled material (see **Exhibit 8**).

Achieving A Sustainable Wood Supply Chain: Next Steps

As CSO, Howard was proud of the progress being made on implementing the People & Planet Positive strategy and the integration of sustainability concerns into core business decisions. This was

certainly true with the company's sustainable wood initiatives, which spanned its design, procurement, and supply chain functions. But Howard wanted to construct a framework for how these inter-related tactics might be integrated into a coherent strategy.

IKEA's managers faced a substantial challenge as they attempted to decide how to meet the goals laid out in the company's ambitious sustainability plan. Among the four potential options described below, it was unclear which was preferable in terms of risks, profits, and growth. What were the tradeoffs, and what were the potential synergies among them?

Option 1: Owning More Forests

Per Berggren, IKEA Group Industrial Strategy Manager, noted, "We could possibly replicate what we do in Russia and Slovakia and lease more forest land." This would have IKEA Group employees directly managing timber land and being responsible for ensuring that it is managed according to its More Sustainable Source terms. Currently, IKEA Group could not tell customers what forest a particular piece of wood in a product came from, and directly managing forest land could improve IKEA Group's ability to trace wood from the forest to the end consumer.

By 2013, IKEA Group was sourcing 20% of its wood from leased forests in Russia. Hildeman explained, "In Russia there is limited regulatory oversight of illegal logging and low protection of high conservation value. Integrating vertically can considerably strengthen the control of the origin and the sustainability aspects of the wood. What's more, Russian forestry legislation mandates clear cutting, which means uniformly cutting all trees in an entire square of forest, which is contrary to sustainable forestry practices." He added, "In Russia, there are also a lot of small scale sawmills so wood availability, quality, and prices can fluctuate a lot. In these conditions, it makes sense to vertically integrate our supply chain." He therefore wondered if IKEA Group could increase its share of wood sourced from direct timber management in the coming years, maybe up to 80%.

Vertically integrating the supply chain could also help IKEA Group secure access to more FSC-certified wood in the future. IKEA Group had started in 2012 to import wood from Russia into China to overcome the wood shortage in China. IKEA Group contracted with an exclusive supplier, a Russian and Chinese joint-venture firm that built the entire supply chain to meet IKEA Group's specifications. The advantage for IKEA Group was twofold. First, it allowed the company to diversify procurements away from China's costly wood market for the logging of birch and pine, which combined represented 60% of wood used by IKEA Group in the country. As a result, 25% of the wood sourced in Russia was used in furniture sold in China. Second, it allowed IKEA Group to closely monitor every step of the supply of wood from Russia to China. IKEA Group China's Forestry Manager Mikhael Tarasov commented, "Backward integration allows IKEA Group to control the entire supply chain and push for a sustainable change."

While there were many advantages to owning/leasing more timber forests, there were some downsides too. To manage more forest land, IKEA Group would need to deploy more capital to cover the high fixed costs of lease holds. It would also divert management attention to leasing and managing timber land, which would require developing forestry planning. Berggren explained, "Managing a forest in essence makes you a wood trader, which means you need to sell most of the wood you produce, including residual material that can be hard to sell." Furthermore, reaping the benefits of sustainably managing forest lands could be uncertain because the forest rotation period – the time it takes to the forest to grow again after being harvested – could exceed the lease term. Hildeman explained, "The forests we have in Russia produce birch and pine, which have rotation periods of 70-80 years and 50-60 years, respectively. Meanwhile our lease period is only 49 years, which means that we cannot be sure to reap the benefits from the investments made in better forest

management. In Sweden, owning the forest has been key in incentivizing better forestry management.” In Slovakia however, the forest land that IKEA Group leased had a shorter rotation period, which allowed the company to manage the forest from plant to harvest.

Leasing and managing land directly would enable IKEA Group to be fully responsible for forest practices, but made it directly accountable when problems arose. In May 2012, Swedish NGO Protect the Forest and the Russian Karelia Regional Nature Conservancy SPOK publicly condemned IKEA Group for logging old-growth forests and other High Conservation Value Forests areas in the two forests the company leased in Russia.¹² IKEA Group publicly responded that both forests had been certified by the FSC in 2007, and that it had respected the Russian FSC standard that, given Russia’s vast acreage of ancient forests, had a narrower definition of old-growth forests than the FSC standards deployed in the West.¹³ In particular, the FSC standard in Russia was adapted to reflect the Russian context, which included vast hectares of old-growth forest land that would be eligible for protection in many European countries. Protecting all such forests in Russia was not viewed as necessary to protect vulnerable species, as it was in Western Europe where old-growth forest land was much more scarce. IKEA Group indicated it would increase dialogue with SPOK and other NGOs in Russia to better ensure future common understanding of the local standards.¹⁴

Option 2: Driving Higher Procurement Targets and Standards

IKEA Group followed a risk-based approach to determine the amount of FSC-certified wood it would include in its 50% target for More Sustainable Sources by 2017. For example, this meant its target was 100% in the following regions it deemed to be high risk: South East Asia, Greater China, North East Europe, and South East Europe. These regions totaled 20% of the wood sourced by IKEA Group worldwide. Hildeman believed FSC was a good fit in the IKEA Group global supply chain. He explained: “IKEA Group is three or four steps away from the forest; it usually concentrates on the front-end, on design and production, so to exercise forestry management control through FSC certification makes sense to us.” Ross added, “Setting a target for using more FSC-certified and recycled wood is a simple and efficient message to our customers: they see we are clearly committed to sustainability.”

Furthermore, Hildeman noted that “It is not enough if we just ask for FSC-certified materials: we need to increase the availability of such materials.” In 2002, IKEA Group partnered with WWF to work on responsible forest management. As part of that effort, WWF and IKEA Group collaborated to increase FSC-certified forest areas. Overall, IKEA Group supported 11 WWF projects in 13 countries that focused on four themes: improved forest governance, responsible forest management, responsible and transparent trade, and improved production efficiency. By the end of 2013, the partnership had contributed to the certification of nearly 28 million hectares of forest in Russia (of a total of 200 million hectares of managed forest land in Russia), and around 2 million hectares in China (of a total of 107 million hectares of managed forest land in China). By the end of 2013, only 7% of the world’s forests were FSC-certified, but IKEA Group strived to increase that rate, announcing it would contribute to the FSC certification of 15 million additional hectares of forest in high risk areas by 2020.

Option 3: Using More Particle Board

IKEA Group sourced solid wood and particle board, also known as engineered wood (or board material) that was wood particles or fibers bound with glue, often topped with a thin layer of solid wood called wood veneer. Particle board was often used for the less visible structural framing of furniture, but could not be used for some components such as round surfaces, which instead required solid wood.

In 2013, particle board and solid wood represented respectively 55% and 45% of all wood sourced by IKEA Group. Berggren explained that particle board more efficiently used wood, noting that, “The yield from log to lumber is a lot higher for particle board than it is for solid wood, meaning that we can get more particle board than solid wood from one log of wood. By shifting from solid wood to particle board, we can reduce the global amount of wood we use.” He cited an example, “IKEA has, for instance, developed a new lightweight particle board which is 30% less dense than a standard particle board. This means less wood and resin is used and the product is lighter to transport, so trucks can be filled up to 30% more efficiently.” He also noted economic benefits, “A product made of particle board is around 20% cheaper than a product made of solid wood.”

IKEA Group could redesign its products to increasingly shift from relying on solid wood to particle board. Berggren believed the current replacement rate of solid wood by particle board was around 5% per year, and believed it would be technically possible to accelerate this to increase the share of particle board to 80% by 2022. Design and commercial concerns prevented all solid wood from being replaced by particle board, however. Berggren noted that consumers perceived solid wood to be worth more than particle board, and particular board could diminish consumers’ willingness to pay. As a result, Berggren estimated that around half of IKEA Group’s procurement of solid wood could realistically be substituted by board in the coming years. Limited demand for particleboard in markets like China and India resulted in little or no particleboard production capacity that would meet IKEA’s quality specifications. This meant that developing board production capacity in these regions would require significant upfront investment from IKEA Group.

Option 4: Using More Recycled Wood

To increase the share of wood coming from More Sustainable Sources, IKEA Group could also focus on increasing the share of recycled wood from 4% of all wood sourced by IKEA Group in 2013 to 10% by 2020. Recycled wood was cheaper than virgin particle board in countries (such as France and Germany) that had an ample supply of recycled wood due to landfilling regulations and bioenergy subsidies and in countries (such as Italy) that had limited access to virgin wood-based board.

To increase the share of recycled wood, IKEA Group would need to adapt its board manufacturing plants to accept recycled wood, which required heavy investment. To minimize the cost of collecting recycled wood from individuals, only board plants located near urban areas could be used for recycled wood. Furthermore, the availability of used wood could prove problematic in many regions, where there was no incentive to collect wood for recycling. For example, used wood in Russia was mainly sent to landfills, and used wood in Sweden was mainly combusted to produce energy. Countries like India lacked the logistical infrastructure to transport and process used furniture into recycled wood.

Conclusion

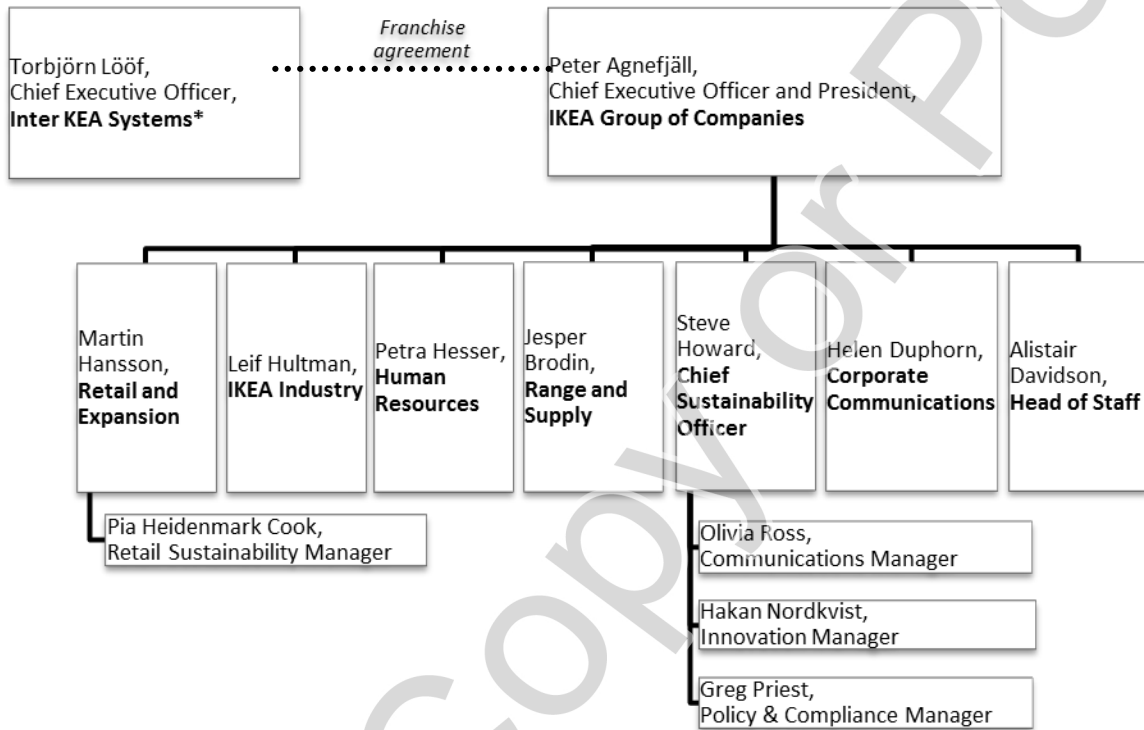
The wood supply chain was just one of many strategic dimensions that IKEA Group would have to address in going forward with its ambitious growth plan to double sales to €50 billion by 2020. Howard believed that IKEA Group would continue to refer to the multifaceted “People and Planet Positive” strategy (see **Exhibit 6**) over the next few years, using it to help guide the business, while each department had its own strategies, aligned with “People and Planet Positive.” Wood sourcing nevertheless constituted a key lever that IKEA Group could use to increase its positive impact on sustainability. Worldwide consumers and employees throughout the entire IKEA Group organization would therefore look to how the company would develop a transformative wood sustainability strategy, especially with respect to the company’s aggressive growth plan in emerging markets.

Exhibit 1 IKEA Group Financial Figures from 2010 to 2013 (in euro million)

Income Statement	2010	2011	2012	2013
Revenue	23,539	25,173	27,628	28,506
Cost of sales	<u>12,454</u>	<u>13,773</u>	<u>15,723</u>	<u>15,786</u>
Gross profit	11,085	11,400	11,905	12,720
Operating cost	<u>7,888</u>	<u>7,808</u>	<u>8,423</u>	<u>8,709</u>
Operating income	3,197	3,592	3,482	4,011
Total financial income and expense	<u>76</u>	<u>165</u>	<u>427</u>	<u>81</u>
Income before minority interests and taxes	3,273	3,757	3,909	4,092
Tax	<u>577</u>	<u>781</u>	<u>695</u>	<u>775</u>
Income before minority interests	2,696	2,976	3,214	3,317
Minority interests	<u>-8</u>	<u>-10</u>	<u>-12</u>	<u>-15</u>
Net income	2,688	2,966	3,202	3,302

Balance Sheet	2010	2011	2012	2013
Property, plant and equipment	15,982	16,173	17,264	17,036
Other fixed assets	<u>2,683</u>	<u>2,416</u>	<u>2,672</u>	<u>2,493</u>
Total fixed assets	18,665	18,589	19,936	19,529
Inventory	3,415	4,387	4,664	4,257
Receivables	2,238	2,077	2,270	2,193
Cash and securities	<u>16,955</u>	<u>16,828</u>	<u>17,878</u>	<u>16,000</u>
Total current assets	22,608	23,292	24,812	22,450
Total assets	41,273	41,881	44,748	41,979
Group equity	22,841	25,411	29,072	29,202
Long-term liabilities	4,296	3,123	2,523	1,898
Other non-current liabilities	<u>1,325</u>	<u>1,469</u>	<u>1,625</u>	<u>1,567</u>
Total non-current liabilities	5,621	4,592	4,148	3,465
Short-term liabilities	7,724	7,107	6,814	4,763
Other payables	<u>5,087</u>	<u>4,771</u>	<u>4,714</u>	<u>4,549</u>
Total current liabilities	12,811	11,878	11,528	9,312
Total equity and liabilities	41,273	41,881	44,748	41,979

Source: Compiled by casewriters from company documents.

Exhibit 2 IKEA Group Management and Sustainability Group


Source: Compiled by casewriters from company documents.

Note: * Inter IKEA Systems BV is the franchisor of the IKEA Retail System. IKEA Group is one of twelve independent groups of companies that own and operate IKEA stores under franchise agreements with Inter IKEA Systems BV. Franchisees pay a franchise fee of 3% of net sales.

Exhibit 3 All IKEA Group Retail and Production Units at the end of 2013



Source: Based on IKEA Group 2013 facts and figures, 2014, accessed July 2014.

Exhibit 4 Sampling of IKEA Group Furniture sold in the United States, with Indicated Retail Prices (in USD)



Source: IKEA 2014 US Online Catalog, http://onlinecatalog.ikea-usa.com/US/en/IKEA_Catalog/, p. 84, accessed August 2014.

Exhibit 5 World's 10 Fastest-Growing Home Furnishing Markets and IKEA Group's Market Share

Country	IKEA Group's Market Share in 2011	Market Size in 2011 in USD million	% Market Growth, 2006-2011
China	0.8 %	61,363	15.3
South-Africa	0 %	28,999	7.8
Brazil	0 %	20,271	8.4
Russia	10.5 %	13,527	8.0
Turkey	5.0 %	11,411	7.6
Indonesia	0 %	3,491	11.1
India	0 %	3,176	15.3
Argentina	0 %	2,126	19.4
Ukraine	0 %	1,470	8.7
Thailand	1.1 %	683	8.3

Source: Casewriters, compiled from company data and Euromonitor report, "Passport: Company Profile on IKEA Group," 2012, accessed June 2013.

Note: A 0 market share indicates that IKEA Group was not present in that country in 2011. Market growth is expressed as compound annual growth rate (CAGR).

Exhibit 6 Highlights from IKEA Group's "People and Planet Positive" Strategic Plan Principles and Goals, as of 2014**1. A more sustainable life at home**

- Take the lead in developing and promoting products and solutions that enable customers to love a more sustainable life at home.
- By August 2020, achieve more than a fourfold increase in sales from products and solutions, inspiring and enabling customers to live a more sustainable life at home.
- Engage and involve people and communities around our stores, our suppliers and co-workers through impactful, relevant and unique communication.
- By August 2020, IKEA seen as number one home furnishing retailer for operating in a way that is better for people and the environment on each market. Observe, on a country basis, a minimum 3% increase in awareness annually on two strategic areas related to People & Planet Positive topics.

2. Resource and energy independence

- Strive for resource independence by using resources within the limits of the planet and by encouraging all waste to be turned into resources.
- By August 2016, 50% of projected wood volumes will come from More Sustainable Sources* (These sources are currently defined as FSC certified or recycled wood. Once the 2017 more sustainable sources goal has been met, we will re-evaluate this criteria).
- By August 2020, we aim to source 100% of our wood, paper and cardboard from more sustainable sources.
- By August 2015, all cotton used will be sourced from more sustainable sources, such as Better Cotton.
- By August 2015, all main home furnishing materials, including packaging, will be either made from renewable, recyclable, or recycled materials.
- By August 2020, 90% of our home furnishing products will be more sustainable with documented environmental improvements, covering both resource use and product functionality according to our sustainability product score card.
- Develop our business through investing in renewable energy sources, energy efficiency, store expansion and refurbishment, low carbon transportation and range development.
- We will maintain or exceed current investment levels and publicly report on progress.
- Every new IKEA Group store, distribution centre, or industrial group factory will be located, designed, equipped, and operated to be the most sustainable IKEA Group facility at that point in time.
- Strive towards energy independence through being a leader in renewable energy, and becoming more energy efficient throughout our operations and supply chain.
- By August 2015, we will produce renewable energy equivalent to at least 70% of our energy consumption.
- By August 2020, IKEA Group will produce as much renewable energy as we consume in our operations.

Exhibit 6 (continued)**3. A better life for people and communities**

- Take a lead in contributing to a better life for people and communities impacted by our business.
- Maintain 100% IWAY approval of all suppliers of home furnishing and other key products and services.
- By August 2015 secure 100% IWAY approval for all national IKEA Food, Indirect Material and Services and retail suppliers within the scope of IWAY.
- By August 2017 secure compliance to IWAY Musts at all sub-suppliers of critical material and processes.
- By August 2017 develop and implement a transparent and reliable system for the responsible recruitment of migrant workers at first tier suppliers in identified critical areas.
- Continuously identify and develop setups for home based workers to improve working conditions, protect labour rights and prevent child labour. By August 2020, all home based workers are transitioned into improved setups and part of our handmade development programme.

Source: Compiled by casewriters from company documents.

Exhibit 7 IKEA Group's Supply Chain Wood Volume

	Forest	Sawmill/ Boardmill	Component Manufacturer	Furniture Manufacturer
	Volume of wood harvested (in RWE million)	Volume of wood after sawmill (in million cubic meters)	Volume of wood after manufacturing (in million cubic meters)	Volume of wood after manufacturing (in million cubic meters)
<i>Solid Wood</i>	6.3	3.2	1.6	1.5
<i>Particle Board</i>	7.7	5.5		5.0

Source: Compiled by casewriters from company documents.

Exhibit 8 Selected Sourcing and Certification Volumes for Wood at IKEA Group, 2005-2017E

Metric	2007	2008	2009	2010	2011	2012	2013	2017 (expected)
World wood market (in 000 m3 except %)	214,700,000	214,300,000	213,900,000	213,500,000	212,700,000	213,100,000	213,500,000	
Total wood reserve in forests								
Total wood harvested	1,694,000	1,573,000	1,429,000	1,528,000	1,578,000	1,742,000	1,645,000	
FSC-certified wood reserve in forests	14,400,000	14,720,000	16,320,000	19,200,000	21,440,000	23,680,000	25,860,000	
% FSC-certified	6.7%	6.9%	7.6%	9.0%	10.1%	11.1%	12.1%	
IKEA Group procurement				13,320	13,780	13,560	13,970	
(in 000 m3 except %)								
All wood FSC-certified				2,105	2,232	3,065	3,967	
% FSC-certified				15.80%	16.20%	22.60%	28.40%	50%*
Solid wood	7,080	7,223	5,800	5,320	5,920	5,690	6,287	
Solid wood FSC-certified	425	505	928	1,256	1,356	1,337	1,421	
% FSC-certified	6%	7%	16%	23.60%	22.90%	23.50%	22.00%	35%
Particle Board				8,000	7,860	7,870	7,683	
Recycled wood**							0,560	
Particle Board FSC-certified				848	880	1,723	2,188	
% FSC-certified				10.60%	11.20%	21.90%	28.00%	

Source: Compiled by casewriters from company documents.

Notes: * The 2017 figure indicates a target of 50% of wood from More Sustainable Sources by 2017, mainly coming from FSC-certified wood.

** Recycled wood amount is included in Particle board amount.

– indicates not available. IKEA Group did not disclose particle board procurement prior to 2010.

Wood reserve in forests indicates the amount of wood estimated to be present and available for commerce in forests around the world. Wood harvested per year indicates the amount of that wood harvested per year. FSC-Certified wood reserve in forests indicates the amount of certified wood present in forests around the world.

Exhibit 9 IKEA Group's Wood Procurement in 2013, by Region (% of Total Value)

Region	Wood Procurement
East Europe	44
West and North Europe	27
South Europe	13
Asia and Australia	12
North America	4

Source: Compiled by casewriters from company documents.

Exhibit 10 Selected Standards on Forestry and Chain of Custody, as of 2013

	Forest Stewardship Council (FSC)	Program for Endorsement of Forestry Certification (PEFC)	Russian National Forest Code	Forestry Law of the People's Republic of China
Creation date	1993	1999	2011	1984
Forest Management Global superificies of forests FM certified (in 000 hectares)	180,000 (including 14,275 in the US)	245,000 (including 24,600 in the US)	1,184,000 (including 35,000 FSC FM certified)	17,000 (including 3,133 FSC FM certified)
Number of countries using FM certification	79	36	Russia	China
FM Geographical footprint	Europe: 43%, North America: 40%, South America: 7%, Africa: 4%, Asia: 4.5%, Oceania: 1.5%	Europe: 32%, North America: 61%, South America: 1%, Asia: 2%, Oceania: 4%	Russia	China
Three main countries using FM certification	Canada: 32%, Russia: 19%, USA: 8%	Canada: 46%, USA: 14%, Finland: 9%	NA	NA
Chain of Custody (CoC)	Number of CoC certificates (including 3,400 in the US)	15000 (including 2,500 SFI* certificates in the US)	215	2,966
Number of countries using CoC certification	107	64	Russia	China
CoC Geographical footprint	Europe: 52% North America: 17% South America: 5% Asia: 24.5% Oceania: 1.5%	Europe: 84% North America: 5% South America: 1% Asia: 7% Oceania: 3%	Russia	China
Governance	Producers NGOs Local Communities Government Agencies	Yes Yes Yes No	No No No Yes	No No No Yes

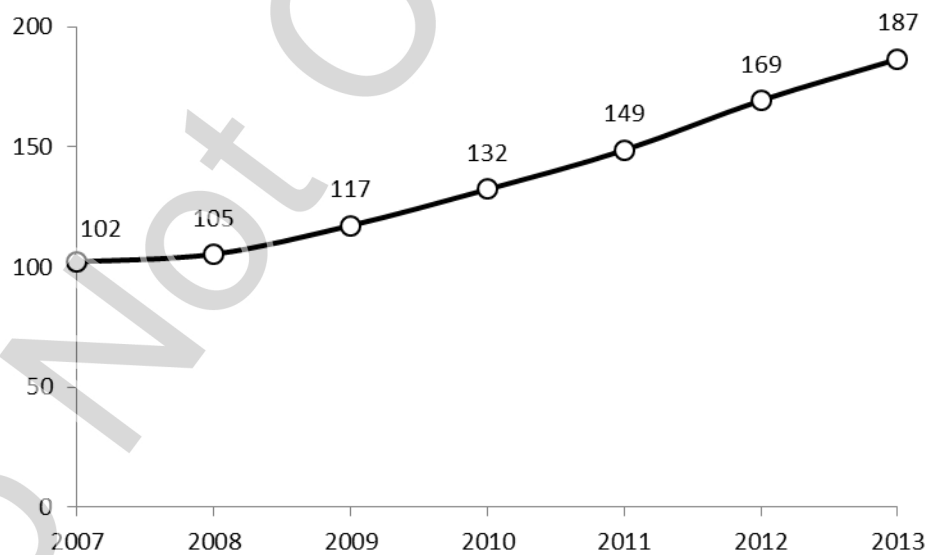
Source: Compiled by casewriters, from data from Forest Stewardship Council (FSC), the Program for Endorsement of Forestry Certification (PEFC), Russian and Chinese Forestry Standards organizations.

Note: * The Sustainable Forestry Initiative (SFI) is a forestry program endorsed by the Program for Endorsement of Forestry Certification (PEFC).

Exhibit 11a Forests certified to Forest Stewardship Council standards, in million hectares

FSC-certified forests (in hectares):	2011	2012	2013
Europe	64.0	72.9	80.9
of which Russia	28.8	33.1	38.2
Asia	5.0	5.6	7.7
of which China	2.7	2.5	2.6
North America	60.5	69.0	74.9
Latin America & Caribbean	9.5	12.2	13.8
Africa	7.4	7.2	6.7
Oceania	2.2	2.4	2.7
Total	148.6	169.3	186.5

Source: Compiled by casewriters, based on data from Forest Stewardship Council.

Exhibit 11b Annual forest land certified to Forest Stewardship Council standards, in million hectares

Source: Compiled by casewriters, based on data from Forest Stewardship Council.

Endnotes

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