

CORPORATE BRAND MANAGEMENT
AND REPUTATION

MASTER CASES

**NOBODY PUTS
IKEA IN THE CORNER**

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Corporate Brand Management and Reputation: Master's Cases

The "Corporate Brand Management and Reputation: Master's cases" is a case series for applying the case method of teaching and learning in higher education. The cases are relevant to brand strategists in private and public sector organizations, as well as academics and students at universities, business schools, and executive education.

The cases are written by groups of master's students as a course project. The specially developed case format is defined as: *"A management decision case describes a real business situation leading up to a question(s) that requires assessment, analysis, and a decision reached by discussion in class. The alternative approaches and recommendations from the class discussion are followed by a description of the choices made by the case company. This description is then discussed by the class."*

The student groups select the topics of their case providing updated and relevant insights into the corporate brand management. The cases can be used as "written cases" (handed out and read in advance, later to be discussed in class) and/or as "live case" (presented by the teacher following a discussion in class). Each case includes teaching notes, visuals with speaker's notes, learning objectives, board plans, and references.

The mission of the series is *"to develop cases for discussion providing insights into the theory and practice of corporate brand management and reputation, with the intent of bridging the gap between academic teaching and managerial practice."*

The series is a result of co-creation between students and teachers at the elective course Corporate Brand Management (BUSN35 – five-credit course/eight-week half-time studies), part of the master's program International Marketing and Brand Management at Lund School of Economics and Management, Sweden. The cases represent the result of the intellectual work of students under the supervision of the head of course.

Although based on real events and despite references to actual companies, the cases are solely intended to be a basis for class discussion, not as an endorsement, a source of primary data, or an illustration of effective or ineffective management. The cases are free to be used and are to be cited following international conventions.

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Nobody Puts IKEA in the Corner

WRITTEN CASE

The authors prepared this case solely as a basis for class discussion and not as an endorsement, a source of primary data, or an illustration of effective or ineffective management. Although based on real events and despite occasional references to actual companies, this case is fictitious and any resemblance to actual persons or entities is coincidental.

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Introduction

Nothing we do is simply for the environment.

We do it for the customer, for the environment and for IKEA.

- IKEA Circular Business Designer, Interview on 17th of February 2022

It is June 7th of 2018 and Inter IKEA's Group CEO Torbjörn Lööf has just made a big announcement at the Democratic Design Days in Älmhult, the home of the first IKEA store. IKEA aims to become people and planet positive by 2030, less than twelve years from today.

Two years later, IKEA's management team is walking towards the bistro to try the newly introduced plant-based assortment. Across the check-out counters, they see it ... The Bargain Corner. Located at the very end of the otherwise well organized store, with piled up furniture and big red signs that promote 65% discounts, the Bargain Corner stands out like a sore thumb. One of the managers points out that the look of the Bargain Corner does not match the rest of the store, and that it negatively contributes to IKEA's 'wear and tear' reputation. Another manager replies, "still, the Bargain Corner is a great way to sell off the stock that we cannot sell at full price".

IKEA's Organization and Business Model

With the innovative element of flatpacking and customer self-assembly, IKEA embraces high volume and a unique pricing strategy, making them a household name. IKEA's vision is "to create a better everyday life for the many people" and the IKEA concept encapsulates a strive to create well-designed and functional furniture at a price that makes it accessible to ordinary people. IKEA is consistently growing, as their retail sales in FY21¹ amounted to €41.9 billion, a 5.8% increase since FY20.

As the IKEA business was expanding in the early 1980's, the founder Ingvar Kamprad realized that he needed to protect the IKEA concept and decided that a franchise concept was the best alternative. IKEA describes their franchise model as a people-oriented system that allows for international expansion, while protecting

¹ FY21 refers to IKEA's financial year in 2021, lasting from September 1 in 2020 to August 31 in 2021

underlying concepts and stimulating the company's entrepreneurial spirit. The IKEA franchise system is a network of different companies operating under one and the same IKEA brand.

Inter IKEA Group is the worldwide IKEA franchisor and owner of the IKEA concept. Ingka Group is one of the franchisees and is operating IKEA stores and other sales channels under franchise agreements. Both have the same founder, as well as common heritage, but are two groups of companies with different management and owners. Furthermore, Ingka Group operates the three businesses - IKEA Retail, Ingka Centres and Ingka Investments. IKEA Retail is the core business and is operating 464 IKEA stores generating 90% of all IKEA sales worldwide. Ingka Centres operates 47 shopping centers in 16 countries and Ingka Investments makes responsible investments to strengthen Ingka Groups long term growth, support IKEA's sustainability goals and secure their financial position.

EXHIBIT 1 - STRUCTURE OF IKEA'S ORGANIZATION



Due to IKEA's large size, innovations are difficult to implement. "Everything is made to be done in a particular way. To do things in the opposite way is very complicated." Also, since IKEA operates globally in 63 different markets, IKEA must adhere to each market's legal regulations with different solutions.

EXHIBIT 2 - IKEA STORE LOCATIONS

Area	Number of Stores	Percentage
USA	68	14,7%
Europe	274	59,1%
Middle East	16	3,4%
Asia	93	20,0%
Africa	3	0,6%

Oceania	10	2,2%
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IKEA's online channels welcomed five billion visitors in comparison to the stores' 775 million visits. Online sales now account for 26% of total sales in FY21.

Transitioning to a Circular Business

With a consumer culture where customers value transparency and are becoming more sustainability-conscious, IKEA has altered their business model to stay relevant. With Kamprad's ambition of providing furniture at a low price, IKEA faces some challenges regarding the trade-off between low cost and sustainable value. IKEA's Head of Circular Development says, "We believe that you shouldn't have to compromise on quality of life or products to act responsibly. People should still be able to refresh their space as often as they want to and improve their life at home, with functional, beautiful and affordable furniture of good quality, without damaging the planet."

As a result, IKEA lists three sustainability ambitions for 2030:

1. Inspire and enable more than 1 billion people to live a better everyday life within the boundaries of the planet
2. Become circular and climate positive, and regenerate resources while growing the IKEA business
3. Create a positive social impact for everyone across the IKEA value chain

In line with the United Nations' 12th Sustainable Development Goal *Ensure sustainable consumption and production practices*, IKEA has a strategic goal of designing products with an increased lifespan. For IKEA, this means that the furniture can be "reused, refurbished, remanufactured and eventually recycled", a policy in place since 2017.

Moreover, IKEA has four commitments related to their sustainability ambitions:

- All products should be circular in the aspects that are relevant to them
- All material should be reusable or reused
- IKEA will find solutions for how customers can acquire, care for and pass on products
- IKEA will join forces with others, e.g. suppliers, social entrepreneurs, legislators, waste management companies and second hand furniture solutions

IKEA's Decision-Making Process

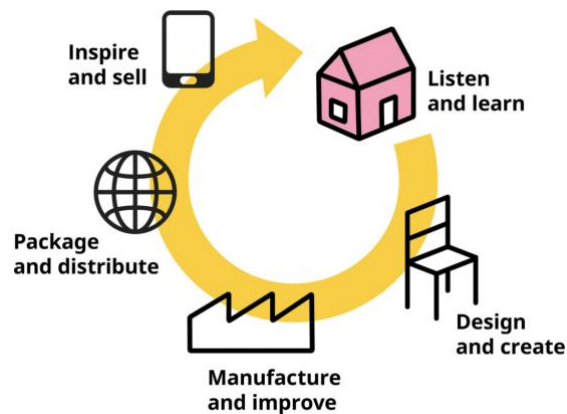


EXHIBIT 3 - IKEA'S VALUE CHAIN

Before initiating a project, IKEA conducts market research to learn about how products enter the home, how they were used and how they left the home. This tells IKEA about the different values customers associate with a product, expressly whether a product has a functional, monetary or emotional value. This contributes to IKEA's formation of assumptions and hypotheses as well as risk formulations.

IKEA's sustainable innovation and development department works with agile project management principles in a scrum team. This team aims to find new perspectives; therefore, they do not operate through small changes. Rather they engage with large scale changes that if launched would have the potential to impact the entire IKEA organization. Their current scope includes ideas such as furniture of service (e.g. leasing of furniture), second hand initiatives (e.g. repair and refurbishing furniture and appliances) and what they call 'exploratory work' (e.g. the circular neighborhood where IKEA can support local trades of furniture, or product passport).

This team, consisting of 14 members, works with so-called 'labs' or 'pilots' where assumptions and hypotheses are tested. Examples of this include refurbishing sofas in Poland or a conscious decluttering in Portugal, a service in response to market research indicating customers' feelings of owning too many things. Every circular solution is adapted to local capabilities in said market, such as the infrastructure in place for recycling, and local customer's needs and preferences.

To make decisions, IKEA utilizes a design thinking methodology. This means IKEA looks at desirability, viability and feasibility of the proposed innovation. For the circular initiatives, desirability can refer to seeing what products customers are interested in, at what price and how the customers will use the products. Feasibility can refer to, for example, what repair methods can be used and what spare parts are necessary. As for viability, IKEA views this both from a sustainability and profit

perspective. “We believe that we can be both circular and earn money. Our ambition is to find new business models”.

IKEA’s Sustainability Reputation

We are fighting our profile of ‘wear and tear’. That is not at all what we want to be viewed as since that is not how we design our products.

- IKEA Circular Business Manager, Interview in February 2022

According to Interbrand, IKEA’s brand is ranked #27, illustrating a 6% growth and valued at 20,034 million USD as of 2021. Similarly, IKEA had a reputation score of 75.3 (strong) on the Global RepTrak 100 that shows how “people feel, think, and act towards companies globally”.

In the 2000’s, IKEA encouraged their customers to replace furniture often, as exemplified by their critically acclaimed 2002 ad “Lamp”. Further, IKEA is the largest purchaser of wood in the retail industry, representing almost 1% of all commercial timber. $\frac{2}{3}$ of IKEA’s climate footprint is connected to their supply chain and especially suppliers’ production.

In response, IKEA committed to planting at least as many trees as they used and much of the wood IKEA uses is certified by the FSC (Forest Stewardship Council). Also, IKEA further invested €600 million during FY21, increasing overall investments into sustainability into €3.8 billion”.

As a result of the pandemic, IKEA was forced to close a large number of locations, resulting in 8% less visitors in FY21 in comparison to FY20. Further, by the end of 2021, IKEA increased their otherwise low prices by an average of 9% to compensate for the global increase in raw material and transportation prices. “Unfortunately now [...] we have to pass parts of those increased costs onto our customers.”

The Bargain Corner

The Bargain Corner (in Swedish “Fyndhörnan”) is an area located at the end of each IKEA store near the check-out. The purpose with the bargain corner is to minimize the store’s costs by selling furniture that cannot be sold for ordinary price. Hence, the inflow of products is irregular.

The Bargain Corner offers the following four product types at a bargain price:

- Displayed products: Products used for store display or events
- Discontinued products: Products discontinued and no longer sold by the normal product corner
- Package damaged products: New products that have packaging damage
- Damaged products: Products returned from customers that are not inconvenient to use but are damaged or scratched

Depending on the market, the Bargain Corner has many different names. In Australia, among many other countries, it is called “As Is”, while in Denmark “Rødebutiken” which translates to the rummaging boutique. The services offered in connection with the Bargain Corner include Product Disassembly Information, where the customers can borrow tools for disassembly, and a Delivery Service for the products that meet the criteria for delivery.

The branding of the bargain corner is focused on the price discounts, mediating to the customers that they have a unique chance to make a bargain. This feeling is enhanced by its branding profile, using large sale signs in red that lead the customer in by informing them of the 65% discount deals. Starting in 2017, IKEA offers a one year return policy on products from the Bargain Corner, which is the same policy offered on IKEA’s ordinary products, to make the customers feel more secure of their purchase.



EXHIBIT 4 - A BARGAIN CORNER IN AN IKEA STORE

IKEA Hackers is a website that collects individuals’ refurbished, or ‘hacked’, IKEA furniture in blog posts. The furniture renovated by IKEA Hackers is often sourced from the Bargain Corner, much to do with the discounted prices. IKEA responds positively to the IKEA Hackers, “This ‘hacking’ is a part of lifestyle, an expansion of individuality and a way to renew, update and make things last much longer.”



EXHIBIT 5 - 'HACKED' IKEA OUTDOOR SOFA

Lastly, the second-hand furniture market has grown significantly over the past few years. In 2019, IKEA sold 47 million products through Bargain Corners around the world. Pre-pandemic predictions showed that the market for used furniture will increase by four times as much as the new furniture market by 2027. Simultaneously the economic downturn caused by the pandemic has made affordability a key factor influencing people's purchasing decisions.

Management Question

Assuming the role of a consultancy, how would you go about answering the following Management Question:

How can IKEA develop the Bargain Corner concept in line with their sustainability ambitions?

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