Risk Management and Supply Chain Strategy - A Case Study of IKEA

Background note

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This background note was written by Madhu Vij (Global Risk Management Institute), Subhashis Nath (Global Risk Management Institute) and Shalini Kumar (Global Risk Management Institute). It is intended to be used as the basis for class discussion rather than to illustrate either effective or ineffective handling of a management situation. The case was compiled from published sources.

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Introduction and Background

Founded in 1943 by Ingvar Kamprad in Sweden, IKEA has grown from a modest mail-order business into a global leader in home furnishings. Its commitment is to provide affordable, well-designed products. The company's vision is "to create a better everyday life for many people." It has revolutionised the furniture industry with its unique business model and is known for selling inexpensive, cost-efficient, self-assembley furniture to be found almost anywhere in the world. Known for its modern designs, IKEA operates in more than 50 countries, and its stores have been strategically designed for its customers to provide a seamless shopping experience. The layout of the stores is meticulously crafted to guide customers through a series of showrooms, showcasing products in realistic home settings. This layout is designed to maximise product exposure, encourage customers to view all products and encourage impulse buys. Through its innovative business model and commitment to sustainability, IKEA has managed to create an experience of stylish and functional home solutions accessible to a broad audience that is very convenient and easy to use

IKEA employs a mix of strategies including economies of scale, global sourcing, in-store experience, cost efficiency, sustainable practices, affordability, strong online presence and innovative product designs. Cost efficiency is achieved through its flat-pack designs, where furniture is sold in pieces and assembled by the customer. This helps to reduce costs, minimise storage space and make transportation of the pieces easy. Standardisation of the products helps to achieve economies of scale through the mass production of the items. This strategy also maintains consistent quality across its products. IKEA sources its materials from suppliers across the globe, helping the company get the best prices and materials without compromising on quality. A strong commitment to sustainability has become central to IKEA's brand philosophy, reinforcing its reputation as a socially responsible business and attracting a growing audience of environmentally conscious shoppers. Additionally, the design of IKEA stores is thoughtfully arranged to create a smooth shopping experience, allowing customers to flow effortlessly from one section to the next.

IKEA has faced recent challenges due to a combination of factors, primarily declining sales in some markets and rising inflation, which made their products less affordable, resulting in a decrease in sales volume. COVID-19-related disruptions also impacted supply chain issues in some markets with increased transport and raw material costs. This case study explores the risk management and supply chain strategies employed by IKEA. It also discusses the risk management framework, identifying key risk areas for IKEA and how to mitigate them.

IKEA's Supply Chain Strategy

IKEA has embraced sustainability for the longest time, and it intends to maintain it for the times to come. Such practices not only help the planet but also resonate with eco-conscious consumers. Sustainability indeed is becoming one of the key strategic pillars of IKEA. It has gone as far as integrating sustainability into its operations to address a few significant critical concerns in the wider picture, such as deforestation, labour practices, and carbon footprint. However, there are still major issues about ethical sourcing, environmental responsibility, and resilience to supply chain disruptions. A wholly sustainable supply chain can only be achieved through the redressal of the key issues concerning ethical sourcing of materials and risk mitigation against a volatile global network.

IKEA faces several risks when it comes to supply chain disruptions, like political instability, fluctuations in prices of raw materials, and environmental hazards such as deforestation. Wood is one of the key raw materials for IKEA, and the company has had to address several issues regarding deforestation. In response, IKEA developed a policy on sustainable sourcing of wood. Working closely with certifying bodies like the Forest Stewardship Council (FSC) ensures that forests are managed sustainably, timber is sourced legally, environmental impacts are taken care of, and ethical sourcing practices are maintained. FSC certification guarantees that forests are managed according to environmental, social, and economic standards and that the health of the forest ecosystem is maintained.

Tackling the risks of labour has greatly affected the supplier network of the company. Issues from this angle usually concern fair wages, workers' rights, the prohibition of child labour, and working conditions for some segments of its suppliers. The company has implemented these codes through the IWAY Standard. This standard serves as a code of conduct for IKEA's suppliers, outlining ethical and green practices they must adopt for an effective supply chain. Hence, through this initiative, the company conducts regular audits to ensure compliance with the IWAY standards, leading to a more efficient and sustainable business model.

The company plans to improve its supply chain strategy to become more resilient, sustainable, and collaborative with customers and suppliers. In future, strategies for adopting a more flexible logistics system will be investigated. Besides investing in digitalization and automation, increasing investment in supply chain technologies like AI and analytics, robotic process automation, will also be the focus. Cost optimisation in the supply chain with cost reduction will always remain a top priority.

IKEA has committed to cutting carbon emissions and becoming climate positive by 2030, while simultaneously growing the business. It is also implementing the principles of a circular economy by using renewable and recycled materials. The company is also investing in various renewable energy sources like solar energy, biogas fuels, etc. IKEA has made a commitment to halve emissions by 2030 and reach net-zero emissions by 2050. The company is also using electric delivery vehicles and providing charging stations at its stores. However, although a lot has been done thus far; a lot will still be left in an endless process. IKEA aims to achieve this in order to tell its longer-term sustainability story: supplementing these efforts with responsible sourcing, appropriate labour ethics, and resistance against disruption, with hopes that this will keep it at the forefront of planning in the global furniture market.

Sustainability Initiatives at IKEA

Sustainable supply chain initiatives adopted by IKEA have led to numerous long-term benefits to the company and industry. The strategic contours of IKEA have guarded its position in the market while promoting global sustainability trends in retail and manufacturing.

Reputation and Brand Loyalty

The increasing concern for sustainability has gained consumer confidence and increased brand loyalty. IKEA is fast becoming an environmentally friendly leader, and consumers are recognising the company for aggressively adopting sustainability measures like reducing carbon footprint, ethical sourcing of materials, and fair labour practices.

Industry Influence

IKEA has attempted to set new industry benchmarks for sustainable business practices beyond its own operations. Its leadership in responsible sourcing, renewable energy adoption, and waste reduction has become an example to emulate for other players in the sector. Many new and existing organizations are trying hard to copy IKEA's way of putting sustainability into their own supply chain operations.

Increased Operational Efficiency

Investing in sustainability and renewable energy offers IKEA long-term benefits by significantly cutting operational expenses. By producing its renewable energy through solar and wind power, IKEA has reduced its dependence on non-renewable sources and lowered its energy costs. Additionally, by responsibly sourcing recycled and renewable materials, the company has improved resource efficiency and reduced costs throughout its supply chain.

Regulatory Compliance and Risk Reduction

IKEA is committed to remaining proactive in terms of adopting the changing regulations and compliance across the globe. In the context of various stringent environmental and labour regulations being rolled out by various governments, IKEA has made a firm commitment to comply with all of them to protect and safeguard the company from penalties and trade restrictions. Therefore, the conformity of IKEA with global sustainability standards also serves to reinforce its access to markets and resilience in business.

Continued Innovation and Business Adaptability

IKEA as a company remains dedicated to its commitment to sustainability, continuous innovation and adaptiveness in business. The sustainability angle leans into all its operations, starting from innovation in product design, materials sourcing, and logistics. It creates products that are more easily recyclable, repairable, and repurposable. Such innovation helps to save the environment in part and also provides unique, environmentally friendly products that are attractive to the modern consumer.

Key Risks in the Supply Chain

The IKEA Group has made a commendable attempt to come up with a risk management plan that often tilts between conflicting considerations of sustainability and cost-effectiveness while still allowing for the delivery of their products. Supply chain strategies are laden with different challenges and complexities. A few of them are as follows:

Sourcing Pressure Caused by Deforestation and Ethics*:* Sourcing raw materials responsibly has remained a major challenge for IKEA, as it stands amongst the biggest wood consumers. The company faces sourcing pressure due to deforestation, with accusations of using illegally sourced wood from various regions. This calls for greater transparency and accountability from IKEA. If left unchecked, deforestation would cause environmental extinction, environmental damage, and environmental degradation. All timber must be sourced from sustainable forests, certified by international standards such as the Forest Stewardship Council (FSC). To tackle these challenges, IKEA has updated its IWAY code of conduct, placing a stronger emphasis on sustainable sourcing practices.

Labour Rights*:* A vast supplier network has exposed IKEA suppliers to labour risk, as some labourers are working in places where labour laws may not be as per international standards. This exposes the company to a direct risk. Child labour in these factories, miserable working conditions for adult workers, and unfair wages increase the level of legal and ethical grievances against the company. To ease such issues, IKEA has put in place the IWAY Standard, a code of conduct that binds its suppliers to the observance of fair labour practices and the safeguarding of working conditions.

Environmental Impact Mitigation**:** Mass production and transport of commodities are the primary contributors to the carbon footprint and waste production issues. This has compelled the organisation to put up an argument against the environmental footprint and thus to make investments in renewable energy, recyclable materials, and energy efficiency across the board in its operations. This also includes setting up various other measures for keeping a low waste profile, such as circular economy initiatives, buy-back and resale programs for furniture.

Supply Chain Disruptions: Natural disasters, trade wars, and political unrest all disrupt the supply chain workings of IKEA worldwide, causing delays and incurring extra costs. The COVID-19 pandemic, for one, has since exposed vulnerabilities that had existed in logistics and material availability. To mitigate the risk involved, IKEA has pursued diversification amongst suppliers while continuing to build visibility and responsiveness of its supply chain with an investment in digitalization.

Over-reliance on a few regions for sourcing raw materials***:*** Over-dependence on a few sourcing regions puts IKEA at the risk of raw material deprivation owing to price fluctuations and geopolitical instabilities of these regions.

Sustainability and Profitability**:** Companies often face the challenge of balancing the cost of implementing sustainability initiatives with the Profitability aspect. The cost of investment in sustainability initiatives is expected to largely outweigh costs. Adopting sustainable practices can result in cost savings, greater operational efficiency, and improved financial performance. By investing in sustainability efforts, IKEA can successfully balance offering lower prices to customers while boosting its profitability over time.

IKEA will thus have to embrace all means of transparency with respect to its sustainability challenges and initiatives so that it can cater to consumers' expectations of environmentally responsible manufacturers and thereafter build brand loyalty above its competitors through effective, continuous communication on sustainability and eco-friendly product lines.

Risk management at IKEA

IKEA has undertaken a collection of very smart and strategic options; these include a spectrum ranging from the sustainable features considered in business ethics to the resilient supply chain. They primarily focus not only on long-term operational sustainability but also affordability, and environmental responsibility at IKEA.

a. Sustainable Wood Sourcing – Managing Environmental and Reputational Risk

Collaboration with FSC: Audits and Monitoring: IKEA's collaboration with the Forest Stewardship Council (FSC) is considered the single best and most impactful environmental collaboration IKEA has undertaken. IKEA aims to use only FSC-certified or recycled wood in all their furniture production, demonstrating a strong commitment to sustainable sourcing. This partnership promotes responsible wood harvesting and management and ensures only responsibly sourced wood is used in their furniture production by aiming for 100% certified or recycled timber. This minimises their impact on virgin forests and encourages sustainable forestry practices from other companies. Through this initiative, IKEA contributes to the preservation of forest ecosystems and sets a benchmark for responsible wood sourcing in the global furniture market.

Audits and Monitoring: IKEA closely monitor suppliers, conducts regular audits, to ensure that illegal practices such as logging are not in place and sustainability requirements are adhered to.

Investments in Tree Plantations: The company invests in tree plantations so that it can source at least some of its wood from domestic sources.

b. Supply Chain Ethics – Minimizing Compliance and Operational Risk

IWAY Code of Conduct: IKEA enforces a robust supplier code (IWAY) that emphasises environmental protection and labor rights, reducing exposure to supply chain violations and potential sanctions.

Routine Supplier Audits and Compliance Verification: It is done by the company in order to check the regular compliance of wages, working conditions, and ethical labor practices, as applicable.

Supplier Training: These are trainings aimed at improving the ethical standards by educating suppliers about labour rights, environmental accountability, and sustainable business practices.

c. Environmental Initiatives – Addressing Climate and Regulatory Risk

Climate Positive Goals: IKEA is working towards becoming climate positive by 2030, focusing on cutting carbon emissions and boosting the use of renewable energy sources.

Renewable Energy Investments: The company has invested hundreds of millions into solar and wind energy projects, aiming to generate more renewable energy than it consumes.

Circular Redesign: IKEA has redesigned some of its products to reduce waste and promote sustainability by encouraging recycling, reuse, and refurbishment.

Materials Conservation: To lower its environmental footprint, IKEA is increasing its use of sustainable materials such as bamboo, recycled plastics, and biodegradable fabrics.

d. Resilient Supply Chain – Tackling Disruption and Operational Risk

Supplier and Sourcing Region Diversification: IKEA has adopted a supplier and sourcing region diversification strategy – a strategy aimed at diversifying its supplier network across multiple regions. This helps IKEA reduce the risk of being too dependent on some sourcing areas. Diversifying helps mitigate potential issues like geopolitical disruptions, economic downturns, or trade wars, ensuring a more resilient and flexible supply chain process.

Data Analytics Management: The application of advanced technologies to provide visibility in the supply chain, manage logistics, and forecast disruptions is what the company does.

Localised production and distribution centres: With increased production facilities in important markets, IKEA has managed to reduce transportation emissions and ensure quicker and more efficient delivery of products.

Advanced Warehouse Management System and Logistics: Automatic and optimised warehouse systems have been implemented to streamline inventory management and distribution, ensuring overall improved efficiency.

Global return policy: IKEA believes in very generous terms, which makes the return process relatively easy and keeps customer satisfaction high. All products can be returned within a year, and they can be returned assembled. The customers are also free to choose the most convenient return option for them.

Thus, IKEA continues to prioritise sustainability, seeking to reduce its environmental impact through responsible sourcing, innovative and environmentally friendly packaging solutions and offering a unique customer experience. As a globally recognised leader in furniture retail, IKEA delivers high-quality furniture at low prices, accessible to a broad base of consumers. IKEA's commitment to accessibility and affordability of creating good design for everyone ensures that their products are accessible to a wide range of consumers. IKEA's business model ensures that their products are both functional and visually appealing, creating an engaging customer experience. To stay competitive, IKEA is exploring and investing in various channels –

both online and digital, and also in various latest apps to enhance the customer shopping experience.

1. Risk Assessment Matrix for IKEA

Having grown from humble beginnings, IKEA now operates in several nations throughout the world. Its greatest strength is its clear vision, along with a well-defined and innovative company strategy aimed at providing value to its consumers. In 2024, the company faced global challenges like climate change, geopolitical uncertainty, rising input prices, inflation, higher living costs and quality issues. In the coming years, IKEA could face issues like maintaining consistent standards across countries, quality assurance, strong competition, decreasing customer base, disgruntled employees and sustainability issues. Despite these challenges, the company shows good prospects.

This section presents a risk assessment matrix for IKEA. The 11 important risks facing IKEA, along with likelihood, impact and total risk score, are presented. The risks are presented in the form of a matrix with red, yellow and green signifying the extent of risk. Table 1 presents the risk assessment scale and interpretation for the risk assessment matrix. The probability shows the likelihood of a risk occurring in terms of a scale from 1-5, where 1 means low likelihood and impact, while 5 means high likelihood and impact. Table 2 gives the likelihood (or probability), impact (or severity) and the risk score for the 11 risks identified for IKEA. The total Risk Score is equal to = Likelihood × Impact

TABLE 1: Risk Assessment Scale and Interpretation

Impact (severity) Rating	Description	Likelihood (Probability) Rating	Description
1	Negligible	1	Rare
2	Minor	2	Unlikely
3	Moderate	3	Occasionally
4	Major	4	Likely
5	Catastrophic	5	Frequently

Note: This table represents the scale of Impact and Likelihood along with their interpretation

Table 2: Risk Identification Matrix for IKEA

Risk	Risk Description	Likelihood 1-5 (A)	Impact 1-5 (B)	Total Risk Score (A*B)
R1	Labor Rights Issues	3	5	15
R2	Deforestation	4	4	16
R3	Ethical Consideration Issues	3	5	15
R4	Sourcing Requirements Concentrated on a few regions	4	4	16
R5	Evolving Consumer Preferences	3	4	12
R6	Environment regulations becoming stricter	4	4	16
R7	Violating Customer Expectations of Reliance on Sustainability	4	4	16
R8	Supply Chain disruptions due to geo-political issues	5	5	20
R9	Cybersecurity threats	4	4	16
R10	Product recall due to safety, quality, supplier details etc	2	4	8
R11	Entry of competitors	2	2	4

***Table* 3** presents a risk assessment matrix for IKEA. A risk assessment matrix would help IKEA identify, analyse, and prioritise potential risks. The 5* 5 matrix, as presented in Table 3, presents the likelihood and impact of the risks. The likelihood shows the probability of a risk occurring, e.g. rare, unlikely, occasionally, likely, frequently, while Impact shows the severity if the risk materialises, e.g. catastrophic, major, moderate, minor and negligible. The matrix helps to identify high priority risks that fall in the high impact and high probability quadrants, as shown in Table 3 by red colour. These risks require immediate attention and are critical. Risks falling in the yellow quadrant are moderate risks. Finally, the risks falling in the green quadrant are low probability and low impact risks that do not require immediate attention. The matrix is a powerful tool to monitor risks over time and assess the effectiveness of the measures employed.

Table 3: Risk Assessment Matrix for IKEA

Likelihood

Risk Assessment Matrix	Rare (Very Unlikely to happen)	Unlikely (Unlikely to happen)	Occasionally (Possibly could happen)	Likely (Likely to happen)	Frequently (Very likely to happen)
Catastrophic (e.g. Not considering IKEA)	Moderate	Moderate	High (R1,R3)	Critical (R2)	Critical R8
Major (e.g. Consumers not opting for IKEA)	Low	Moderate (R10)	Moderate (R5)	High (R4, R7, R9)	Critical (R6)
Moderate (e.g. Cancellations of orders with IKEA)	Low	Moderate	Moderate	Moderate (R10)	High
Minor (e.g. Postponing the Purchases)	Very Low	Low (R11)	Moderate	Moderate	Moderate
Negligible (e.g. Switching to alternatives of IKEA)	Very Low	Very Low	Low	Low	Moderate

Impact

The IKEA Risk Matrix explained

IKEA faces several significant risks in the coming years. Supply chain disruptions due to geopolitical issues present a high likelihood, high impact risk, as the company heavily relies on a global supply network; trade wars, tariffs, and shipping bottlenecks could severely affect product availability. The risk mitigation strategy suggested here is to diversify the supplier base and also build local suppliers in each region. Tightening environmental regulations, driven by stricter government rules around ESG compliance, deforestation, and emissions, pose a medium likelihood, high-impact threat. To mitigate this, IKEA could focus on sustainable sourcing and green manufacturing practices. Additionally, concerns related to labour standards, deforestation, and broader ethical considerations are viewed as high impact with a medium to high likelihood of occurrence, requiring stronger supply chain governance. Risks associated with sourcing concentration in a few regions, violating customer expectations on sustainability, and increasing cybersecurity threats are assessed as high likelihood and major impact areas, necessitating strategic diversification and robust digital protections. IKEA needs to upgrade its IT and cyber defences regularly to take care of cyber breaches. Meanwhile, evolving consumer preferences and the potential for product recalls due to safety or quality issues are considered moderate risks. Lastly, while new market competitors may emerge, this is seen as a low likelihood, low impact risk given IKEA's strong brand position and scale advantages.

2. Conclusion and Implications

IKEA has encountered significant disruptions in its risk management and supply chain operations, particularly in recent years. In response, the company has implemented strategies to mitigate these challenges, focusing on sustainable sourcing and production practices. This includes collaborating closely with suppliers to ensure compliance with IKEA's sustainability standards, effectively managing risks across the entire supply chain, and adapting to shifting customer preferences and demands. Additionally, IKEA is navigating global disruptions and leveraging the latest technology and artificial intelligence across various processes to enhance operational resilience.

Some measures adopted by IKEA include, First, responsible sourcing, the use of renewable energy, and fair labour practices that have actually saved IKEA from reputational and financial crises. Second, its credibility has been enhanced through collaborations with sustainability and environmental NGOS by reducing climate impact and improving livelihoods in forest communities. Third, transparency regarding the environmental projects, ethical sourcing policies, and even carbon reduction targets have enhanced stakeholder trust while further solidifying its name as a responsible corporation. Finally, on its sustainable product designs, renewable energy, and digital supply-chain optimisation, IKEA pre-emptively responds to the upcoming environmental and consumer trends by investing in new technologies and exploring alternate business models. By continuously changing its sustainability plans, IKEA has proven that high profits and environmental responsibility can go together. The long-term effect that this has created on the industry is a testimony to how positively companies can affect the world while making money.

Way Forward for IKEA

IKEA has set ambitious goals and sustainability strategies for the coming years. They have committed to addressing climate change, promoting sustainable consumption, and reducing inequality by 2030. By proactively addressing risk through sustainable wood sourcing, strengthening supplier accountability, investment in renewable energy, imposing stricter fines for breaching supplier non-compliance, increased investment in blockchain technology and logistic resilience, IKEA safeguards its long-term competitiveness and brand positioning. Through consistent and innovative sustainability initiatives, IKEA has emerged as a global leader recognised for its scientific approach to sustainable and ethical business practices.

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