

A marketing analysis of ikea



**ASSIGN
BUSTER**

IKEA, which stands for Ingvar Kamprad Elmtaryd Agunnaryd, was founded by Ingvar Kamprad in Sweden. The concept of IKEA is to tempt customers with a catalog, have them visit IKEA, and then write an order for items they want while seeing/feeling it in person. Their vision is to, “ create a better everyday life for the many people.” There are nine basic aspects of IKEA. The first one is selling well-designed, home furnishings for good quality at prices that a majority of people can afford. The second one is IKEA being enthusiastic, renewal, thrift, responsibility, being humble and always being simple. The third is achieving profits with low prices, good quality and saving up money to provide products. The fourth is getting good results with few things and therefore not wasting anything. The fifth is being simple. The sixth is to do things differently and unheard of such as having t-shirt factories make seat cushions. The seventh is to concentrate on the most important thing to complete first to the least important one. The eighth is not being afraid to make mistakes because without them, there is no progress. Lastly, but not least, believing in a glorious future and wanting to grow as big as it can.

History

At first Kamprad started out in Sweden, but when he was unable to meet demands in Sweden due to Sweden’s large furniture retailers feeling threatened and opposing, IKEA had to go abroad. While abroad, they formalized their concept. Customers were able to bring furniture in flat packages and assemble it themselves. It was a great success and was satisfying for both the consumers as well as IKEA.

By the mid-1990s, IKEA was the world’s largest specialized furniture retailer, with estimated profit levels at about \$375 million. However great IKEA was, a

little bit before this time (1980s) and afterwards, they started to encounter legal problems. It is said that at a concentration above 0.1 mg/kg of formaldehyde in the air, people can be at risk for watery eyes, headaches, having a burning sensation in the throat and/or difficulty breathing.

Therefore one problem was when some of IKEA's products emitted more formaldehyde than 0.1 mg/kg. IKEA was fined. Even though they tried to fix it as soon as possible, they lost many sales and the company's reputation suffered.

Another problem occurred in 1992 when a large German newspaper and TV company targeted IKEA's "Billy Bookcases." These shelves had more discharge of lacquer than German legislation allowed. Too much lacquer is considered poisonous. IKEA put an end to these wood problems by "not accepting any timber, veneer, plywood or layer-glued wood from intact natural forests or from forests with a high conservation value."

Lastly, but not least, a large problem that occurred was in 1994 when one of IKEA's suppliers from India used child labor to create the rugs and carpets. IKEA although unaware of this was being portrayed as a supporter of child labor in a television and this turned off many customers as well as the company itself. IKEA was not for child labor, and fixed this problem by enforcing the "black and white" clause where if the supplier employed children under legal working age, the contract would be cancelled.

Just two months into the job and Marianne Barner faced a challenge that shook up all of IKEA in 1994. IKEA had been accused of using child labor through a Swedish documentary about weaving looms in Pakistan. However

IKEA was still in the process of working to resolve the formaldehyde problems, when the chemical compound in binding glue would cause physical discomfort, that were found in their most popular bookcase, Billy. It was during this time that Marianne Barner's business area of carpets was under attack from the rising concern for child labor. Up to this point however child labor was not a high-profile issue at the time. It was only in December 1989 that the U. N. Convention on the Right of the Child was published. So the role of this Swedish documentary was to raise awareness and it sure did its job, even raising awareness to IKEA.

Up to this point IKEA was not aware of the fact that they were involved in the use of child labor for their products. After being aware of the fact, IKEA responded with an immediate apology for their ignorance and acknowledged the fact that they were not in full control of the issue. Instead of just stopping there with their apologies IKEA committed to do something about it. Sure enough IKEA did. In response IKEA sought help asking for input and advice from the International Labor Organization (ILO). IKEA soon learned that the Convention 138 was adopted by ILO in 1973 and ratified by 120 countries around the world, which sought to ratify countries to work for the abolishment of labor by children under the age of 15 or the age of compulsory schooling in that specific country. However countries like India, Pakistan and Nepal were not signatories to the convention. After having found out all this information from ILO, IKEA placed a "black-and-white" clause in all their contracts with suppliers as mentioned previously, stating that if the supplier were involved in the use of child labor that the contract would be terminated.

To go even further with their commitment IKEA appointed a third-party agent that would monitor child labor practice at its suppliers. However finding a third-party agent to do this was not a simple task. This was still a rising issue and there were no companies that were reputable and competent in performing the task assigned by IKEA. So IKEA resolved the issue by appointing a well-known Scandinavian company with experience in external monitoring for companies' quality assurance. This appointed company would have the power to not only investigate complaints but also to randomly audit a supplier's factory to check for any breach of the child labor laws.

Recent Issues

The issues outlined previously were not an issue that can be resolved with just simply having laws and clauses in contracts placed. This was an issue that was more deeply embedded than IKEA had thought. India was the main supplier of IKEA's rugs and carpets, so Barner sought out more information from Swedish Save the Children, UNICEF, and the ILO to understand better of the situation she was facing. Children were not just employed for jobs but many bonded in order to pay off debts of their parents or help to make a living for the family. It was true that the Indian government was against bonded child labor, but their stance on un-bonded child labor was uncertain. India did prohibit the use of child labor in "hazardous industries" but also specifically permitted children to work in craft industries so that the specialized handicraft skills could be passed on from generation to generation. Even with these laws, child labor was prevalent and widespread because there was very little enforcement of the law and the extent of prosecution did not prevent companies from breaking the law.

After having managed the initial response to the crisis that arose from the Swedish documentary, Barner and her direct manager went to go witness themselves the extent of child labor that was occurring in India, Nepal, and Pakistan. While traveling, Barner and her direct manager met with unions, politicians, activists, NGOs, U. N. organizations, and carpet export organizations to further her knowledge. They went on carpet factory raids with local NGOs, and witnessed themselves the use of child labor. On that trip Barner came across the Rugmark Foundation which fought against the child labor problem in the Indian carpet industry. Rugmark Foundation had developed a system in which carpets that were made without the use of child labor would receive a specialized label. So IKEA was invited to join with the Rugmark Foundation to fight against the use of child labor in products from India.

Barner however is not a social activist who just fights to eliminate child labor, but she was still a business area manager with responsibility for the profits-and-losses of the carpet area. She needed to not only protect her business, but also IKEA's brand image. So IKEA worked to eliminate any complications with child labor among their suppliers. However a former issue put to rest comes back to haunt them which leaves them little time for action. The following section underlines the situational analysis along with sound recommendations for the company.

Issue #1: Should IKEA participate in the German documentary?

It was after a year since IKEA began to address the issue of child labor, in the spring of 1995, that IKEA faced another crisis. A well known German

documentary maker had produced a film that was going to be broadcasted on German television, one of IKEA's biggest markets, of children working at looms at one of IKEA's major supplier, Rangan Exports. The producer refused to allow IKEA preview the video but was willing to show still shots taken from the actually video and invited IKEA to have someone take part in a live discussion when the documentary was airing. However this was clear that this was not a documentary about a serious issue but more of an attack directly against IKEA.

Barner had a choice to participate in the live discussion during the airing of the documentary. This is a choice IKEA has to make wisely in order to control the crisis as much as possible. By participating in the live discussion IKEA can represent itself right from the beginning. Like last time IKEA can apologize and prove that they have been striving to rid child labor from any of their processes, proving that it has been a rather short period of time since IKEA has started to fix the issue. This may aid in controlling the crisis before it gets too big and out of control for IKEA. Additionally, Germany is the biggest market for IKEA, so the documentary can cause a devastating blow.

However by participating in the live discussion there would be more disadvantages for IKEA. The company would be giving into the threat of the German producer who may desire IKEA to be part of the live discussion to even further damage the company. The producer is a well-known reputable figure that may be difficult to overcome. Not only would the producer be difficult to overcome but also to explain the situation from IKEA's point of view would be difficult when a documentary is concrete evidence. IKEA

would be on the defense when in actuality IKEA has been on the offense of tackling this issue. So IKEA has to weigh the pros and the cons.

It would not however make sense for IKEA to participate in the live discussion after having weighed the pros and cons. IKEA has been working to address the issue and have even taken so drastic actions. To be a part of the live discussion shows that IKEA has to defend itself. It is certain that the immediate response that IKEA takes after the crisis is to apologize. But from there IKEA needs to prove that they have been addressing the issue and that while the issue is beyond IKEA's control, that they are doing their best. It may damage IKEA's image initially but by not participating in the discussion IKEA can better control the situation and find ways to manage the crisis.

Issue #2: How should IKEA deal with Rangan Exports' violation of the contract?

In order to address this question, it is important to identify the implications of IKEA's relationship with Rangan Exports. Firstly, Ragan Exports is a large and well-regarded company that is also one of IKEA's major suppliers of Indian rugs. Cutting off relations with this company would not only disrupt IKEA's supply chain, but it would also affect sales due to the large involvement of Rangan Exports. The company also signed the addendum to its supply contract with IKEA which forbids the use of child labor. This "black and white" clause ultimately translates to an "acceptable" or "unacceptable" level. That is, the signing of the contract meant that if Rangan Exports were to violate this term, the contract would be terminated.

This issue belongs in the short-term category where although results may take some time to be derived, an immediate plan of action is required for the well-being of IKEA as a whole. Simply put, regardless of what IKEA decides to do about this particular issue, it must be done as soon as possible.

Scenario 1:

A possible option to deal with this issue is for IKEA to negotiate with Rangan Exports and to ultimately stop them from utilizing child labor. However, it is important to realize that the contract has already been violated and that technically the relationship should be terminated. However, simply terminating the contract will not make the issue disappear since the problem regarding child labor has already been widely publicized – such as the media production by the German producer as mentioned in the previous section.

Scenario 2:

Another approach is to take a legal stance in the matter. That is, IKEA may choose to sue Rangan Exports for the violation of the supply contract. This would allow IKEA to obtain compensation for the negative effect on its reputation due to this violation. Additionally, IKEA may in turn invest the settlement to aid Rangan Exports in eliminating child labor (as well as any other companies within IKEA's supply chain that utilize child labor).

Some examples of aid include; improving working conditions, providing education, proper training, and benefits – whatever is in the “ best interest of the child”. This scenario would also have a big media effect which in turn

may increase the company's overall reputation while attempting to mitigate the child labor problem within IKEA's supply chain.

Scenario 3:

Similarly to scenario 2, IKEA may sue Rangan Exports for the violation of the contract; however instead of investing the settlement, the company may choose to withdraw completely from the Indian rug market ("run with the money"). This would seem to be the most economically sound option as IKEA would no longer be at risk of being accused of utilizing child labor.

However, Barner may be reluctant to use this approach due to the fact that she will most likely lose her place in the company once IKEA withdraws from the rug market. She is, after all, the "business area manager for carpets" with "full profit-and-loss responsibility for carpets". The case states that she must protect her division and the IKEA brand image – however these two values contradict each other in this particular situation. Therefore, although it may be the most logical course of action, she may not be willing to withdraw from the rug market.

Conclusion for Issue #2:

It would seem logical that IKEA should terminate their contract with Rangan Exports immediately – make an example out of the company for any other possible companies within the supply chain that utilize child labour. Since Indian rugs account for only a small portion of IKEA's turnover, it is not surprising that many within the company believe that the potential profit

derived is not worth the time, cost, and reputation risk of continuing this product line.

However, in this day and age, corporate social responsibility (CSR) is becoming increasingly important in the business world. Although IKEA could choose to sue Rangan Exports and experience a small amount of capital gain from the settlement, in the long-run IKEA is unlikely to reap any long-term benefits. Therefore, IKEA's course of action should involve a method in which the company can remain sustainable in the long-run. Keeping this in mind, the optimal solution for IKEA in regards to the issue with Rangan Exports is to continue its operations with a number of changes.

Course of Action:

Firstly, in order to maintain a strong and positive relationship between IKEA and Rangan Exports, it would be best not to take legal action in regards to the violation of the contract. However, it must be stressed that the violation of the contract is a serious issue and that Rangan Exports should take partial responsibility for this act. The goal is for IKEA and Rangan Exports to work together in order to overcome the issues regarding child labour.

Secondly, it is important to note that child labor is not a problem that can be mitigated by one company alone. In fact, it is unlikely to be completely solved by anything other than major government intervention as well as a complete changeover in the economic state of the effected country. In some cases, child labor is required in a family in order to survive daily and simply outlawing has the potential to create even more problems. With this in mind, the natural course of action would be to aid as much as possible to relieve

the harsh conditions of child labor. That is, to act “ in the best interest of the child”.

IKEA and Rangan Exports should work together (including providing capital) to avoid unnecessary child labor (as in when there is no reasonable circumstance for a child to be working) while improving working conditions and providing education for those that are left with no choice. Although IKEA may sign with various third-parties that attempt to prevent and correct child labor issues, an internal division should be created in order to facilitate random audits to suppliers (not just Rangan Exports) to decrease the chances of unnecessary child labor. This is to make sure all bases are covered to prevent future problems from occurring regarding child labor.

Naturally, IKEA should participate and support in all possible campaigns which attempt to improve children’s rights in countries plagued with child labor issues. It is crucial for the company to improve upon its public image as CSR is becoming increasingly important. Therefore, although this is an issue that is to be dealt with in the short-run, long-term measures also needs to be taken into account.

Issue #3: Is IKEA’s overall approach in regards to the issue of child labor appropriate?

Barner had very good foresight in the prediction that child labor may become a bigger issue later on. Although she had other more pressing issues to deal with within the company, she still took the time to research and learn about the issues of child labor. Also, even though she and a few of her staff did research to learn about child labor and its causes/effects, there was still very

little Barner could accomplish. She had many options and those options posed different degrees of outcomes depending on which route she chose.

Looking at this situation from a purely business perspective, without taking into consideration humanitarian issues, IKEA could continue to do business in India, Pakistan and Nepal. Although some of their factories utilize child labor, there is nothing in the "Furniture Dealers Testament" which states anything against child labor. This testament is supposed to be the founding values of IKEA. Also these countries provide IKEA with the low costs which they utilize to give their consumers the best quality items at the lowest prices. However, everything is not that simple. One could argue that there is a sense of responsibility towards child labor. While the testament does not state anything directly towards child labor there are parts where the testament does focus on making a better tomorrow and taking responsibility (Cornerstone #2). This could indicate that in a sense this issue about child labor is a very important aspect to IKEA.

On the other extreme IKEA could just pull out of these countries. The suppliers violated their contract and therefore, IKEA has a right to cancel any relations with those companies and find new companies. However, finding new suppliers and working out contracts with them will take sufficient time, money, and research so as to not repeat the same problem. This will then put a delay in production of the rugs and therefore, sales may drop. IKEA will also need to raise their prices for the rugs because of all the time and money which went into finding a new supplier the company needs to alleviate those costs somehow. The only logical way would be to raise the prices of the rugs. The prices may also need to be raised because of the new country that IKEA

could be using. In the country there could be higher labor costs and therefore, the cost to purchase the products are higher, making the price of the product for consumers higher as well.

Although these are very extreme cases IKEA would probably do best in finding a middle ground between these two extremes. Although Barner and her team have done extensive research there seems to be no further action on this topic. As shown through Barner's research this problem of child labor is not something which can be fixed very easily. Some reasons for these children to be working are to help out their families and by pulling out of these countries will only increase the possibility of increased child labor. Since a source of income has disappeared the children will be forced to find work elsewhere and or there may even be more children who need to find work. Therefore, pulling out of the countries is not a very good option since this could inflate the problem.

Also by not doing anything IKEA's image could be damaged. Although there has not been any big media focus on IKEA and their suppliers utilizing child labor, the issue is starting to become known to the mass media more and more each day. This is evident through the German documentary.

Therefore, a recommended solution(s) for IKEA would be to utilize the "Rugmark" label. This will ensure the supplier is not utilizing child labor for the production of their rugs. Barner also has the option of continuing to perform random audits on the suppliers using either a third party or people from their own company. This will also ensure and discourage child labor. IKEA also has the option of going a step further on this issue and actually

taking a pro-active approach to child labor. While eliminating child labor within their suppliers there are still hundreds of thousands of children being employed/bonded elsewhere. Therefore, IKEA also has the option of contributing to the social aspect of the country. While these children have to work they have no chance to attend school or experience a childhood. IKEA can find ways of improving their living environment or even their education by building schools or investing in NGO's which have a focus on these types of issues. This however, may not be sufficient enough since child labor is so widespread within these countries. Therefore, IKEA can also start to research on other countries which have signed the Convention 138. IKEA can research different countries in which have low labor costs, but have signed this convention in order to eliminate the concern of child labor in the future. Any number or mixture of these solutions would be sufficient solutions for IKEA.

Conclusion: How should IKEA deal with the problems regarding child labor in general?

Dealing with the continuing problems regarding child labor in general is important. IKEA does not accept child labor, and they actively participate in many activities in order to prevent one of the most challenging issues that they are facing. According to the case, it was simply recommended that IKEA should negotiate with suppliers personally, to let the Rugmark Foundation take care of the problem, or simply discontinue supplier relations with those who utilize child labor. For some countries, discontinuing child labor is not as easy as it sounds due to debt and poverty.

IKEA could negotiate with their suppliers personally in order to stop the child labor, but this does not guarantee 100% prevention of child labor. Even

though IKEA does not work with suppliers or sub-suppliers utilizing child labor, child labor still exists in those countries where IKEA products are manufactured (IKEA US). The rule that IKEA came up with is interesting and it could be effective. According to the rule that they established, they require the supplier to act in the best interests of the child if child labor is discovered. Given a certain amount of timeframe, the supplier is allowed to implement a corrective action plan but if this does not go well, IKEA stops all business with the supplier.

During Barner and her direct manager's trip to South Asia in the fall of 1994, they had learned of the formation of the Rugmark Foundation, which was organized to supervise the use of label to ensure that the carpets are made without the use of child labor. IKEA was invited to join Rugmark in dealing with ongoing child labor problems. This is one of many actions that IKEA takes to reduce the act of child labor, but it does not completely resolve the issue.

There are many actions that the company could take to prevent the child labor, but this positive stand could put the business at a cost advantage to its competitors. On the other hand, this is good for the company's image. The company is reputable for their responsible actions toward international problems and environmental issues. Although IKEA's proactive stand could show their positive brand image, this is not enough to overcome the serious issue of their significant cost disadvantage which will put the business in trouble.

Terminating all business with suppliers when child labor is discovered in their countries without any corrective plans is not effective for both IKEA and the supplier's country where the utilization of child labor is likely to continue in the future. What IKEA decided to do as mentioned earlier for those suppliers is a good idea. " The supplier must implement a corrective and preventive action plan, including education and training. IKEA visits the school the child attends and makes unannounced visits to the supplier" (IKEA US). This provides a second chance to the supplier and IKEA is actually taking an action to demonstrate that " you always do what is in the best interests of the child."