

SUSTAINABLE GLOBAL VALUE CHAIN: THE CASE OF IKEA

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The increasing global fragmentation of production and the rise in cross-border transactions highlight the significance of tracing and understanding global value chains (GVCs). Discussing sustainability in GVCs demands a thorough examination of their intricate components. The value chain (VC) framework may be used to depict and advance sustainable paths of companies. There is a research gap in exploring sustainability implementation in the GVCs since there is no academic consensus on the relevant theoretical framework. In this case study, we link the business model and the value chain frameworks to explore the strategic and operational aspects of creating value through sustainability in the GVC. Studying the good practices of IKEA's sustainable business model and GVC, our case study aims to provide a systematic approach to identifying value creation through cost-efficiency and differentiation in various upstream and downstream activities of the company's value chain. We have found that this approach can increase the depth of GVC sustainability due diligence, improving insight into sustainability as a driver of a company's competitive advantages.

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TRAJNOSTNA GLOBALNA VREDNOSTNA VERIGA: PRIMER PODJETJA IKEA

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Vedno večja globalna razdrobljenost proizvodnje in porast čezmejnih transakcij poudarjata pomen sledenja in razumevanja globalnih vrednostnih verig (GVC). Obravnavanje trajnosti v GVC zahteva temeljito preučitev njihovih zapletenih sestavnih delov. Okvir vrednostne verige (VC) se lahko uporablja za prikaz in pospeševanje trajnostnih poti podjetij. Pri raziskovanju implementacije trajnosti v GVC obstaja raziskovalna vrzel, saj ni akademskega soglasja o ustreznem teoretičnem okviru. V tej študiji primera povezujemo okvir poslovnega modela in okvir vrednostne verige, da bi raziskali strateške in operativne vidike ustvarjanja vrednosti s pomočjo trajnosti v GVC. S preučevanjem dobrih praks trajnostnega poslovnega modela in GVC podjetja IKEA želimo z našo analizo zagotoviti sistematičen pristop k ugotavljanju ustvarjanja vrednosti s stroškovno učinkovitostjo in diferenciacijo v različnih dejavnostih na višji in nižji stopnji v vrednostni verigi podjetja. Ugotovili smo, da lahko ta pristop poveča poglobljenost skrbnega pregleda trajnosti GVC, kar vodi k izboljššanemu vpogledu v trajnost kot dejavniku konkurenčnih prednosti podjetja.



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1 Literature Review

1.1 Value Chain

Successful companies create value with each transaction - for their customers in the form of satisfaction and for themselves and their shareholders in the form of profit (Stobierski, 2020). Value chain is a conceptual framework developed by Michael Porter in 1985 for the analysis of a company's activities and processes that contribute to creating value for customers. It focuses on understanding how a company can maximize its competitive advantage by optimizing the value creation process. A company that understands its value chain will create strong connections between customers' perceived values and the company's activities. Value chains provide a strategic view, emphasizing innovation, technology, social trends, and research and development.

Porter (1985) defines a firm's value chain as comprising two categories of activities impacting its margin: primary and secondary.

Primary activities are core functions of the company, creating and delivering products and services for customers:

- *Inbound logistics*: Receiving, storing, and distributing raw materials and components.
- *Operations*: Converting inputs into finished products.
- *Outbound logistics*: Collecting, storing, and distributing finished products to customers.
- *Marketing and sales*: Promoting, selling, and delivering products to customers.
- *Service*: Providing customer support, maintenance, and other after-sales services.

Secondary activities support and enhance the efficiency of primary activities, contributing to the company's competitive advantages:

- *Procurement*: Sourcing and purchasing raw materials, equipment, and other inputs.

- *Technology development*: Investing in research and development and adopting new technologies to enhance products and processes.
- *Human resource management*: Recruiting, training, and retaining employees.
- *Infrastructure*: Overseeing the company's organizational structure, legal and financial matters, and other administrative functions.

Critical drivers of value creation are the interrelations between primary and secondary activities of the value chain (Hollensen, 2019).

1.2 Value Chain Analysis

Value chain analysis is a process where a company identifies the primary and secondary activities that add value to its final product and analyzes these activities to reduce costs or increase differentiation (Hill & Hult, 2019). It aims to discover which activities deliver the most value in terms of lower costs or competitive differentiation and which could be improved. Successful companies focus resources and investment on the activities that bring them most value. They will also reduce the focus on the activities that do not deliver higher value from the customer's point of view. Conducting a value chain analysis assists companies in informed decision-making, identifying ineffectiveness, understanding interconnections, optimizing activities, establishing a competitive edge, and enhancing core competencies insights.

1.2.1 Competitive Advantage Types

There are two approaches to analyzing a company's competitive advantage, i.e., the cost advantage approach and the differentiation advantage approach.

The cost advantage approach is used when a company aims to compete on costs and wants to understand the sources of its cost advantage or disadvantage and what factors drive those costs. A company has to go through 5 steps analysis to gain cost advantage (Daniels, Radebaugh & Sullivan, 2013):

- *Step 1*. Identify the company's primary and support activities.
- *Step 2*. Establish the relative importance of each activity in the total cost of the product.

- *Step 3.* Identify cost drivers for each activity.
- *Step 4.* Identify links between activities.
- *Step 5.* Identify opportunities for reducing costs.

The differentiation advantage approach is used when a company aims to understand its possible sources and intends to prepare differentiation strategies. A company has to go through 3 steps analysis to gain advantages from differentiation (Daniels, Radebaugh & Sullivan, 2013; Hill & Hult, 2019):

- *Step 1.* Identify the customers' value-creating activities and focus on activities that contribute the most to creating customer value.
- *Step 2.* Evaluate the differentiation strategies for improving customer value (e.g., add more product features; focus on customer service and responsiveness; increase customization; offer complementary products).
- *Step 3.* Identify the best sustainable differentiation.

1.3 Value Chain vs. Supply Chain

Value chain and supply chain are interconnected concepts highlighting different elements of producing, delivering, and consuming goods and services. Both play crucial roles in comprehending the entire process of providing value to customers, yet they emphasize different aspects and objectives (Daniels, Radebaugh & Sullivan, 2013; Hill & Hult, 2019).

From the supply chain point of view, the flow of activities is from the source to the consumer. Companies begin at the state of raw materials or primary inputs and then follow the chain to the end user, looking at all the processes along the way. From the value chain perspective, the analysis starts with the consumer. The process begins with the end user and assigns a higher value to the activities most important to the customer.

A supply chain is a component of a value chain. The main objective of a supply chain is to efficiently and effectively manage the flow of materials, information, and finances, aiming to reduce costs and ensure timely delivery. It is a network of entities, activities, and processes that facilitate the production, transportation, and

distribution of goods and services. Key components of a supply chain include (Daniels, Radebaugh & Sullivan, 2013; Hill & Hult, 2019):

- *Suppliers*: They supply the raw materials, components, or services required for production.
- *Manufacturers*: They convert raw materials into finished goods.
- *Distributors*: They handle the transportation and storage of finished products, making them accessible to retailers or customers.
- *Retailers*: They sell products directly to consumers.
- *Customers*: They buy and use the products.

1.4 Global Value Chain

By utilizing outsourcing and offshoring, companies have fragmented their value chains, distributing activities to regions and partners where production/operation is most efficient, capitalizing on resources that are either specialized and skilled or economically advantageous (Ambos et al., 2021). Distributing production tasks across various countries allows companies to focus on specific functions rather than on handling the entire product/service lifecycle (The World Bank, 2020). A company is integrated into a global value chain (GVC) when the product's/service's value is created globally. GVC links economic activities from multiple geographically dispersed locations by leveraging each other's comparative advantage. It refers to the complex process of enhancing the value of products/services at different stages with input from global participants (CCICED, 2021). The emergence of GVCs is driven by advancements in communication, transportation, and logistics, alongside the liberalization of trade policies, which provide companies with greater flexibility in managing global production links. GVC represent a dynamic framework where value is consistently added to products/services through the skills and resources of worldwide contributors, promoting efficiency and specialization in specific production/operation elements. GVCs reshape international trade patterns and significantly transform many national economic structures and development strategies (Yuan & Mähönen, 2024).

1.5 Sustainable Business Model

A business model represents how a company creates, captures, and delivers value (Osterwalder & Pigneur, 2010). The traditional business model (TBM) is linear and focused on growth, emphasizing rationality and efficiency. However, business strategies concentrating solely on maximizing financial returns have not addressed sustainability challenges like climate change, resource scarcity, and evolving customer expectations. Today, companies are increasingly implementing a sustainable business model (SBM) based on sustainable development as a company's value proposition and value creation mindset, which provides value to the customer, as well as to the natural environment and society (Geissdoerfer, Vladimirova & Evans, 2018). The SBM aims to implement proactive stakeholder management, seek business solutions that achieve economic and sustainable development goals, reduce the negative impact of business activities on the environment and society, improve the business model's social value creation, and adopt a long-term perspective. While the TBM is based on a profit model and transaction structure that ignores the enterprise's sustainability elements, the SBM emphasizes that it actively seeks to incorporate environmental and social responsibility, ultimately increasing value for multiple stakeholders (Antikainen & Valkokari, 2016). Thus, the SBM focuses on creating economic value for a broader range of stakeholders and considering the benefits from a social and environmental standpoint. As a result, the corporate sustainability value is formed by the intersection of the three values (Figure 1).

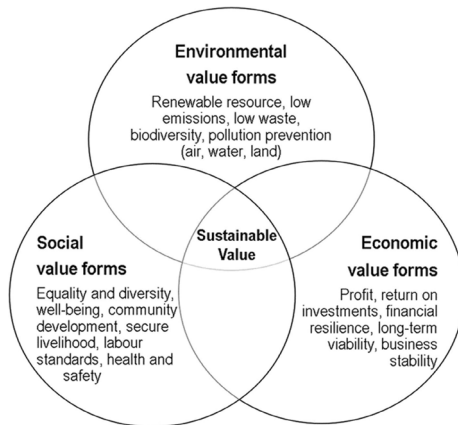


Figure 1: A holistic view of sustainable value
Source: (Evans et al., 2017).

1.5.1 Sustainable Business Model Canvas

Business Model Canvas (BMC) (Osterwalder & Pigneur, 2010) can be adapted and used as a strategic tool for supporting the SBM, although it has not been designed for specific contexts (see Bocken et al., 2019; Geissdoerfer, Vladimirova & Evans, 2018; Pieroni, McAlloone & Pigosso, 2019). BMC visualizes critical elements of a company's value creation: value proposition, customer segments, channels, customer relationships, revenue streams, key resources, key activities, key partnerships, and cost structure. In the case of the SBM, a company should integrate sustainability principles in each of these elements. Integrating the adapted BMC into strategic planning helps companies analyze their nine key elements of value creation, providing insights into strengths and areas for improvement. Besides economic criteria, the sustainable BMC focuses on the environmental and social consequences of the company's activities. It aims to maximize positive and avoid negative impacts on society and nature, supports communication with third parties, and prepares for a solid business plan.

1.5.2 Sustainability integration into BMC elements¹

Value proposition

A sustainable value proposition defines the company's distinctive benefits and services while emphasizing its dedication to sustainability. From a consumer perspective, a sustainable value proposition means products and services that meet their needs and align with their sustainability values. For investors, it indicates long-term viability and effective risk management. Employees value working for organizations that emphasizing sustainability, enhancing job satisfaction and loyalty. The role of value proposition in sustainable business can be seen in deeper customer engagement, innovation facilitation, higher operational efficiency, unique brand differentiation, higher risk mitigation, supply chain sustainability, and greater community engagement.

¹ Adapted from FasterCapital, 2024.

Customer segments

In the SBM, companies target the green market as a customer segment that prioritizes sustainability and ethical practices. Understanding this segment is essential for tailoring products and communication, as these consumers are discerning and often willing to pay more for eco-friendly products and services. Their values and lifestyles are related to sustainability elements. They expect transparency, demonstrate loyalty to brands with genuine sustainability efforts, and promote them through word-of-mouth, highlighting innovative sustainability without greenwashing. By grasping the green market's nuances, businesses can align their strategies with the values of this customer segment.

Channels and customer relationships

Channels and customer relationships have evolved beyond mere communication and distribution; they now focus on creating a synergy that reflects the values of environmental stewardship and social responsibility. By establishing sustainability connections, companies can cultivate more robust bonds with customers who share their dedication to the planet while paving the way for new opportunities for innovation and growth. Sustainable communication and distribution channels and customer relationships are related to green marketing, eco-friendly packaging and labeling, digital platforms, customer engagement in sustainability efforts, sustainable after-sales services, community involvement in sustainability projects, and education about the company's sustainability efforts. By adopting these practices, companies create meaningful connections with customers, paving the way for brand loyalty and a sustainable future.

Key activities

Sustainability has become essential to business operations, driving value and innovation. Companies recognize that integrating sustainability is vital for their long-term profitability. Companies with the SBM strive to engage in key activities toward resource efficiency, sustainable supply chains, sustainable product lifecycle management, green logistics, employee engagement in the SBM, sustainable innovation, stakeholder collaboration, reporting, and transparency of their operations. Focusing on these critical activities helps companies achieve cost

savings, innovation, and a competitive advantage in a sustainability-conscious market.

Key resources

In the SBM, essential resources can be the following: renewable energy sources, sustainable supply chains, green infrastructure, innovative materials, circular technologies, collaborative consumption, digitalization and dematerialization, biodiversity conservation, water stewardship, and employee engagement and education. By leveraging these key resources, businesses can minimize their negative environmental and social impact while fostering innovation and resilience.

Key partnerships

Key partnerships are vital in sustainable business practices, enhancing the impact of sustainability efforts by leveraging diverse strengths and resources. Collaborating allows companies to tackle complex challenges more effectively. Partnerships span various sectors, each offering unique perspectives. The key ways they foster sustainable impact are related to resource sharing, innovation acceleration, knowledge exchange, market expansion, policy influence, community engagement, and educational initiatives.

Cost structure and revenue streams

Transitioning to the SBM requires significant changes in companies' revenue models and cost structure. This shift involves adopting sustainability practices and achieving economic viability through innovative financing. Companies are reassessing costs to incorporate long-term sustainability benefits, often involving initial investments in green technologies that promise reduced operational costs and improved efficiency. Key elements of the cost structure include capital and operational expenditures, research and development expenditures, compliance costs, and economies of scale. Regarding revenue streams, companies are exploring green products and services, carbon credits, energy savings, government incentives, and sustainable investments.

1.6 Sustainable Global Value Chain

GVCs are increasingly exposed to numerous risks and shocks that can disrupt operations and affect overall business performance. These risks encompass a variety of factors, including global pandemics, climate change, natural disasters, geopolitical tensions, and cybersecurity threats (AXA, 2020; Berthet & Fusacchia, 2024). Increasing demand for scrutiny of GVCs in recent years also stems from concerning trends, such as the challenge of ensuring equitable distribution of benefits from GVCs participation across different locations (OECD, 2017; The World Bank, 2020). Environmental and social risks within GVCs - like greenhouse gas emissions, hazardous waste, poor working conditions, and child labor - have raised concerns about GVCs potentially worsening these risks (De Marchi & Gereffi, 2023).

Companies must incorporate sustainability into their GVC risk management strategies to anticipate and mitigate these risks (OECD, 2021). Adopting effective, sustainable management strategies before a shock can significantly enhance a company's resilience. By fostering a culture of preparedness and adaptability, companies can respond more rapidly and effectively to unforeseen challenges. This proactive approach helps minimize the immediate impact of shocks and contributes to long-term sustainability and competitiveness. Companies can adopt various approaches, such as diversifying supplier locations, maintaining redundancy among suppliers, shortening supply chains, fostering strong relationships with suppliers, and integrating supply chain stress-testing into the sustainable business practices due diligence framework to withstand disruptions better and ensure continuity. Over the past decade, risk-based due diligence has emerged as a crucial tool for addressing business activities' actual and potential adverse environmental and social impacts throughout GVCs (Ibidem, 2021). Sustainable business operation due diligence explicitly addresses the effects that companies may have on individuals, the environment, and society.

Companies that regard environmental and societal interests as values incorporate sustainability into their GVCs and adopt a systems-thinking approach. Integrating sustainability into GVCs can offer competitive advantages and foster sustainable growth (Nidumolu, Prahalad, & Rangaswami, 2013). Additionally, companies with sustainable GVCs contribute to sustainable development by viewing business

challenges as part of a broader system and creating shared value for businesses, local communities, and the environment.

Companies can use various frameworks to evaluate how they create value and what needs to be improved. The company's good knowledge and understanding of its GVC and continuous assessment of its activities from the costs and differentiation point of view can improve its business model through streamlining and innovation. Sustainability implementation in the GVC and business model can support these efforts, lower the risks of GVC disruptions, and improve its resilience. The existing research has a gap in systematically assessing cost and differentiation competitive advantages based on GVC sustainability implementation. This case study aims to fill this gap by studying the sustainable aspects of IKEA's GVC and dividing them into cost and differentiation competitive advantages. The identified advantages will be inserted into IKEA's sustainable business model canvas, and the ideas to reduce eco-social costs will be developed.

2 Case Study

2.1 Learning Outcomes

By the end of this case study, students should be able to:

Learning Outcome 1: Explain the concept of a company's value chain and its activities;

Learning Outcome 2: Explain the value chain analysis and its significance;

Learning Outcome 3: Differentiate between value chain and supply chain and understand their interconnectedness;

Learning Outcome 4: Differentiate between value chain and global value chain;

Learning Outcome 5: Explain the sustainable business model and the purpose of the business model canvas;

Learning Outcome 6: Explain the sustainable global value chain and its relations to the business model;

Learning Outcome 7: Describe the IKEA's business model;

Learning Outcome 8: Describe IKEA's strategic approach to sustainability implementation and link it with IKEA's business model;

Learning Outcome 9: Describe key characteristics of IKEA's sustainable global value chain and supply chain;

Learning Outcome 10: Describe the significance of IKEA's IWAY code of conduct;

Learning Outcome 11: Describe the role of IKEA's assessment of sustainability impacts, risks, and opportunities within its global value chain;

Learning Outcome 12: Visualize IKEA's sustainable business model using an expanded business model canvas.

2.2 Story (i.e. Case)

2.2.1 Brief History of IKEA

IKEA is a Swedish global retail company of consumer goods known for its affordable, high quality, and ready-to-assemble furniture and home accessories. It is owned by Inter IKEA Holding B.V. and headquartered in Delft, Netherlands. Founded in 1943 by Ingvar Kamprad, it transformed from a small mail-order business into a multinational company (Inter IKEA Systems B.V., 2024). Ingvar Kamprad was born in 1926 in Agunnaryd, Sweden, where he began showing entrepreneurial spirit by selling matches, pencils, and seeds when he was just seven years old. At 17, he founded his mail-order business, IKEA, named after his initials, the family farm (Elmtaryd), and his hometown (Agunnaryd). In 1948, IKEA shifted its focus to furniture, driven by Kamprad's belief in affordable, high-quality furnishings for everyone. This was revolutionary, as furniture was typically expensive. In 1953, IKEA opened its first showroom, allowing customers to experience products before purchase. The introduction of flat-pack furniture in 1956

further transformed the industry by reducing shipping costs and simplifying assembly. With over 470 stores across over 60 countries, IKEA has a significant global presence (Inter IKEA Systems B.V., 2024a).

2.2.2 Business Model of IKEA²

IKEA's business model focuses on self-service and flat-pack design, reducing manufacturing, storage, and transportation costs, which benefits consumers. Ready-to-assemble furniture also lowers IKEA's warehousing expenses and encourages customer participation in the assembly. This approach allowed IKEA to expand rapidly. By adopting flat-pack, ready-to-assemble furniture, IKEA identified a unique opportunity to have customers participate in the assembly process, enhancing their role in the value chain.

The company's customer-centric approach emphasizes value through affordability, design, and convenience, supported by an efficient supply chain and store operations that create a competitive edge. IKEA's commitment to innovation allows it to adapt to evolving consumer preferences and market trends. Moreover, its focus on sustainability and community engagement balances profitability, social, and environmental impact.

Value proposition

IKEA's value proposition is based on four key pillars:

- *Affordability*: The company provides high-quality furniture and home accessories at accessible prices through economies of scale and efficient supply chain management.
- *Design*: Known for its Scandinavian aesthetic, IKEA emphasizes simplicity and functionality, collaborating with global designers to create appealing products.
- *Convenience*: The flat-pack concept allows easy transport and assembly, while self-service store layouts guide customers through the product range.

² Adapted from Inter IKEA Systems, 2024a.

- *Sustainability*: Committed to reducing environmental impact, IKEA sources materials responsibly and aims to become climate-positive by 2030.

Customer segments

IKEA targets the mass market, focusing on value-conscious customers seeking affordable and stylish home furnishings. The company has successfully penetrated the market and built a loyal customer base by serving families, young adults, and professionals.

Key channels

IKEA primarily uses a network of brick-and-mortar stores as its primary distribution channel. With over 470 locations in more than 60 countries, most are large standalone units on urban outskirts, providing ample parking and showcasing the entire product range. In addition to physical stores, IKEA has developed digital channels, including e-commerce and a mobile app that features augmented reality room planning and personalized recommendations. Its website offers an extensive online shopping experience that complements its in-store offerings. The company has also introduced smaller urban stores and planning studios in selected cities to enhance customer accessibility.

Customer relationships

IKEA cultivates customer relationships through a mix of self-service and assisted shopping. Customers can explore showrooms at their own pace, with staff available for support. The company offers home delivery, assembly, and a robust after-sales support system, including warranties and returns. The IKEA Family loyalty programme enhances this strategy by providing members with exclusive discounts, product previews, and access to in-store events. IKEA excels in emotional and functional engagement by allowing customers to personalize their furniture and offering ready-made solutions. Their store layouts create sensory appeal, while mobile apps ensure smooth digital interactions. With about 2 million members in its loyalty programme, IKEA effectively builds community, fostering belonging and enhancing customer loyalty beyond just selling products.

Revenue streams

IKEA's primary source of revenue comes from the sale of furniture and home accessories, which constitutes the bulk of its turnover. Additionally, the company generates income from its in-store restaurant and food market, along with ancillary services such as home delivery, assembly, and installation, as well as from franchise and licensing fees. The company has expanded into real estate in certain markets by providing residential properties as part of its IKEA-inspired neighborhood projects.

Key resources

IKEA's key resources include:

- *Brand*: Known for affordable, well-designed furniture, the IKEA brand is a major asset.
- *Supply chain*: An efficient supply chain enables competitive sourcing, large-scale manufacturing, and global distribution.
- *Store network*: Stores act as showrooms and distribution centers, enhancing the shopping experience and product delivery.
- *Intellectual property*: Patents and copyrights protect IKEA's designs and innovations, ensuring a competitive advantage.

Key activities

IKEA's key activities include product design, supply chain management, store operations, and marketing. The company invests in research and development to create innovative products that meet customer needs while maintaining efficiency and cost control throughout its value chain, from procurement to logistics. IKEA employs a democratic design philosophy that balances form, function, quality, sustainability, and affordability, introducing around 2,500 new products annually to meet evolving consumer tastes. Committed to innovation, IKEA aims to be climate-positive by 2030, using over 60% renewable and 10% recycled materials in its products. IKEA showcases innovation through its self-service and hyper-market formats, enhancing the shopping experience with spacious layouts and pre-configured home solutions that promote cross-selling.

Key partnerships

IKEA's key partnerships include:

- *Suppliers*: It collaborates with over 1,500 suppliers in more than 60 countries for a reliable and cost-effective supply of materials.
- *Designers*: It partners with diverse global designers to merge international trends with Scandinavian design.
- *Local communities*: It engages with local communities to create jobs and support social and environmental initiatives.

Cost structure

IKEA's cost structure emphasizes efficiency and cost control. Key cost drivers include materials, product development and design, manufacturing, store operations, packaging and shipping, technology and IT, and marketing costs. The company's dedication to lean operations and continuous improvement helps minimize costs and sustain the company's competitive pricing strategy.

2.2.3 IKEA's Sustainability Strategy

According to the Sustainability Leaders Survey 2023 (Globescan & The Sustainability Institute by ERM, 2023), IKEA is ranked third globally after Patagonia and Unilever in sustainability leadership. A sustainable business model and evidence of impact and actions are the strongest drivers of a recognized company's sustainability leadership. IKEA's Sustainability Strategy "People & Planet Positive" focuses on three objectives (Inter IKEA Systems, 2024b):

- *Promote circular practices*: It encourages circular practices in households through sustainable products that save energy, reduce waste, and use less water.
- *Ensure resource independence*: It aims to secure long-term access to raw materials and build energy independence through effective supply strategies.
- *Enhance community well-being*: It aims to improve lives by implementing the IWAY code of conduct throughout IKEA's supply chain.

In its Sustainability strategy, IKEA identified three major sustainability challenges that it can impact: unsustainable consumption, climate change, and inequality (Inter IKEA Systems, 2024b). They are linked to three of IKEA's sustainability focus areas and commitments: healthy and sustainable living (inspiring and enabling people to live healthier, more sustainable lives, promoting circular and sustainable consumption, creating a movement in society around better everyday living), circular and climate (transforming into circular business, becoming climate positive, regenerating resources, protecting ecosystems, and improving biodiversity), and fair and equal (being a responsible business and contributing to resilient societies, providing and supporting decent and meaningful work across the IKEA value chain, being an equal, diverse and inclusive business) (Inter IKEA Systems B.V., 2024c, d).

Besides the three identified major sustainability challenges, the UN sustainable development goals and the requirements stemming from sustainability legislation have also played a role in developing IKEA's sustainability strategy. IKEA has linked each SDG with the company's sustainability impacts and commitments (IKEA SDGs Index) (Inter IKEA Systems B.V. 2024d).

Environmental and social aspects of doing business are IKEA's values. The company integrates these values into its business operations and global value chain. Its commitment to supporting UN SDGs is integrated into four key areas: better homes, lives, planet, and company (Ingka Group, 2024). In the area "better homes", the company has committed itself to offering affordable home furnishings to people with big dreams – regardless of wallet size. Within this commitment, the company strives toward affordability and accessibility of its products and services, healthy and sustainable living, and customer and end-user safety. Through "better lives," the company addresses the challenge of creating a fairer and more equal society by contributing to equality, diversity and inclusion, health, safety and well-being, skills development, fair income, human rights, and community impact. The area 'better planet' aims to tackle global environmental challenges through the company's impact on climate change, resource use, circularity and waste, water and biodiversity loss, and water scarcity. Within the "better company" area, IKEA aims to build a sustainable company through financial resilience, ethical business conduct, digital trust, and responsible sourcing.

Based on its Sustainability strategy, IKEA has integrated its support for UN SDGs into its value chain to assess its key impacts, risks, and opportunities along upstream and downstream activities (Inter IKEA Systems B.V., 2024d) and to develop the relevant sustainability measures.

2.2.3.1 The IKEA Way (IWAY) Supplier Code of Conduct³

IKEA recognizes its responsibility to consider the effects of its actions on people, society, and the planet throughout its value chain. Achieving this goal requires that its business partners align with its vision and commitment to sustainability. This is the foundation of IWAY, IKEA's code of conduct for suppliers. IKEA engages with over 1,500 direct suppliers in home furnishings, transport, logistics, distribution services, components, and food, alongside thousands of additional direct suppliers and service providers that support IKEA's operations. With the IWAY code of conduct, IKEA aims to exemplify responsible business practices.

The IWAY framework is grounded in internationally recognized standards and principles, including the UN Guiding Principles on Business and Human Rights, the UN Sustainable Development Goals, and IKEA's values and legal compliance requirements. IWAY represents IKEA's approach to responsibly sourcing products, services, materials, and components. It establishes clear expectations and guidelines regarding environmental sustainability, social standards, working conditions, and animal welfare. Compliance with IWAY is mandatory for all suppliers and service providers associated with IKEA.

The IWAY framework promotes continuous improvement among suppliers through a staircase model that categorizes requirements into four levels: Must, Basic, Advanced, and Excellent. While suppliers are required to meet minimum standards, they are encouraged to exceed these expectations, fostering ongoing development and sustainability. The IWAY framework encompasses the entire supply chain, with specific sections designed for various types of suppliers, including those providing housing, animal-based products, digital platform services, forest materials, and transport. This holistic approach ensures that every part of the supply chain adheres to IKEA's sustainability standards. IKEA utilizes technology to enhance supply

³ Adapted from Inter IKEA Systems B.V., 2019 and Inter IKEA Systems B.V., 2024f.

chain transparency and efficiency through its digital platforms, which monitor suppliers' sustainability performance and support the management of take-back and recycling initiatives.

IWAY is being regularly upgraded, introducing enhanced operational methods and new topics related to sustainability challenges.

The IWAY Standard is founded on ten principles embodying IKEA's goals and expectations for its suppliers. Each principle is further supported by specific IWAY requirements (Inter IKEA Systems B.V., 2019).

The IWAY code of conduct plays a crucial role in IKEA's due diligence process, helping to identify, prevent, mitigate, and account for the impacts of its operations throughout the value chain. Using a risk-based approach, IKEA teams can prioritize their activities and concentrate on achieving meaningful outcomes within the value chain. Before initiating a new business partnership, IKEA performs risk assessments to determine if a potential supplier is capable and willing to adhere to IWAY standards. These assessments are ongoing throughout the partnership. To evaluate risks, the company analyzes various data sets related to the specific supplier, including country and industry risk indices, general industry characteristics, and results from prior verification activities. This risk analysis informs IKEA's planning for implementation and verification activities with the supplier, determining the focus and frequency of these efforts. For potential new suppliers, these assessments are crucial in establishing a partnership and identifying the support needed to implement and sustain IWAY requirements over time. Initially, IKEA suppliers must meet all IWAY Must requirements at all times, which is stipulated in each business contract with IKEA, before any initial delivery or service. IKEA emphasizes the importance of empowering IKEA suppliers and service providers to implement the IWAY system within their operations and the IKEA value chain, tailored to their specific business and regional contexts. IKEA teams across various regions are crucial in assisting suppliers with IWAY compliance. They maintain regular communication, collaborate to achieve shared objectives, and provide training on relevant topics. Additionally, they facilitate peer learning and capacity-building initiatives, including developing and implementing performance improvement plans.

IWAY includes processes for verifying and monitoring compliance with its requirements among IKEA's suppliers and service providers. These verification activities, essential for ensuring effective implementation and development, are conducted by approved IKEA auditors and independent third-party auditors, with both announced and unannounced audits. To ensure the effective implementation of IWAY, non-compliance must not occur repeatedly. IKEA teams monitor the supplier's actions to prevent future non-compliance and offer support to facilitate adherence to IWAY. Failure to implement corrective actions or address issues consistently may result in business consequences, including the potential phasing out of the supplier.

IKEA's Sustainability strategy is consistently reviewed to ensure it aligns with IKEA's overall strategic goals and responds to external developments. The company actively gathers input from stakeholders, scientific reports, advisory boards, sustainability councils, regulatory changes, and partners. This process enables the company to identify and address trends related to major global challenges, revise its plans, and elevate its ambitions. IKEA regularly monitors the realization of its sustainability commitments.

2.2.4 Key Characteristics of IKEA's Sustainable Global Value Chain and Supply Chain⁴

IKEA's global sustainable business model is based on a complex network of value chain and supply chain activities, processes, strategies, and stakeholders:

- *Supplier selection and management*: Suppliers are selected based on their ability to meet quality, cost, and sustainability criteria. Regular audits ensure suppliers' compliance. IKEA builds solid and direct relationships with its suppliers, allowing for better control over product/service quality, costs, and working conditions.
- *Procurement*: Materials and components are procured with suppliers to ensure timely and cost-effective delivery.
- *Sustainable sourcing*: Sustainability is a key focus, with IKEA sourcing eco-friendly materials, minimizing waste, and reducing carbon emissions. This

⁴ Adapted from Inter IKEA Systems B.V., 2024g and Inter IKEA Systems B.V., 2024h.

commitment benefits the environment, enhances IKEA's brand image, and lowers long-term costs.

- *Overall supply chain sustainability:* To further improve supply chain sustainability, IKEA created a proprietary tool called the “e-wheel.” This tool evaluates the environmental impact of its products across five key stages of the supply chain, which are central to its strategy: raw materials, manufacturing, distribution, consumer use, and end-of-life.
- *Product design:* Products are designed in-house, focusing on affordability, functionality, and aesthetics.
- *Outsourcing of manufacturing:* The company outsources manufacturing primarily to low-cost countries such as China and Vietnam. This outsourcing leverages lower labor costs and specialized manufacturing expertise, allowing IKEA to focus on its core competencies like design and marketing.
- *Transportation and logistics:* IKEA utilizes various transportation modes (road, sea, air) for global distribution, maximizing efficiency through centralized warehousing and innovative logistics strategies. IKEA’s goals are to reduce the carbon footprint from every transport they do by an average of 70% and by 80% in absolute terms from its logistics operations. By 2040, IKEA aims to transport its goods using zero-emission trucks and vessels. It announced the intention to increase its fleet of electric delivery vehicles significantly. The company also employs a centralized logistics system that includes warehousing and distribution centers. Cross-docking and flat-packaging help reduce transportation costs and lead times, enhancing inventory management and lowering customer pricing. By managing logistics directly in-store, each IKEA location can effectively monitor and control all processes, ensuring high inventory accuracy at the store level. This approach helps IKEA to lower costs and enhances customer loyalty by creating a user-friendly shopping experience. Consumers can easily find and purchase the furniture and household items they need whenever and wherever they want.
- *Inventory management:* The company implements a just-in-time inventory approach, which minimizes excess inventory and associated costs. This strategy helps maintain lean inventory levels and reduces storage costs. IKEA utilizes a system of "minimum settings" and "maximum settings" to

prevent waste and cost inefficiencies associated with ordering large quantities of unsold items. The minimum settings dictate the least number of products that must be in stock before a new order can be made, while the maximum settings determine the maximum quantity that can be ordered at one time. This approach helps optimize warehouse space for better-selling products. IKEA's "do-it-yourself" model enhances inventory management efficiency and distinguishes its supply chain. By compactly packaging products, customers can conveniently transport their purchases from the warehouse to their homes for assembly. IKEA is renowned for its innovative packaging solutions, notably the OptiLedge, an alternative to traditional wood pallets, and offers benefits such as sustainability, cost efficiency, and flexibility. This strategy enables the company to sustain a more extensive inventory, lowering shipping costs. Additionally, automating the restocking of "high-flow" items—accounting for 80% of sales volume - allows the company to reduce reliance on shipping and manual restocking efforts. In the warehouses, IKEA is increasingly using inventory drones.

- *Retail operations:* Products are sold through uniquely designed retail stores, complemented by online sales and home delivery options to enhance customer experience.

Some key IKEA's supply chain sustainability targets, tools, and measures are evident from Table 1. Most of them are related to green logistics, characterized by optimizing transportation routes to reduce fuel consumption, using alternative energy sources, implementing reverse logistics to manage product returns and recycling, and minimizing packaging waste (Teixeira et al., 2018).

Table 1: Key sustainable characteristics of IKEA’s supply chain

Activity	Sustainability targets	Tools	Measures
<i>Transportation and fleet management</i>	Vehicle emissions and fuel efficiency	Electric and hybrid vehicles	Reconstruction of the vehicle fleet, regular maintenance
	Route optimization	Sophisticated technologies (GPS), algorithms for route optimization	Vehicle performance monitoring, data analysis, route adjustment
<i>Storage</i>	Energy efficiency	LED lighting, solar panels, efficient HVAC systems	Consumption monitoring,

Activity	Sustainability targets	Tools	Measures
			renewable sources, employee training
	Sustainable construction practices	Facilities certified according to LEED and BREEAM green building standards	Energy-efficient technologies, sustainable materials, water supply management systems, waste recycling
<i>Management of packaging and materials</i>	Sustainable packaging	Recycled, biodegradable, minimalist packaging design	Reduction of packaging waste, reusable packaging encouragement, user education on recycling
	Waste management	Waste reduction, recycling, and packaging optimization	Material recycling, customizable packaging, initiative to phase out single-used plastics
<i>Reverse logistics and circular economy</i>	Product return and recycling	Return processes of restoration, recycling, and sale of returned products (furniture take-back schemes and cardboard take-back programme)	"Buyback & Resell" programme, material recycling
	Circular economy initiatives	Product life cycle extension and resource optimization	Product renewal, packaging optimization
<i>Cooperation with suppliers and partners</i>	Sustainable procurement	Sustainable supplier practices through IWAY standards, audits, and environmental criteria	IWAY standard, emission reduction, recycled materials
	Cooperation and innovation	Collaborating with stakeholders on sustainable practices in logistics, fostering innovation through technology and research	Transport optimization, sustainable packaging, cooperation with technological partners

Source: (Baranašić et al., 2024).

Despite IKEA's considerable efforts to enhance sustainability within its supply chain, challenges remain in ensuring that all suppliers and partners comply with its sustainability and social responsibility standards. Furthermore, implementing sustainable practices often incurs higher costs, posing a challenge to IKEA's goal of maintaining low prices for its customers. IKEA must balance its sustainability costs

and revenues, aiming to follow its existing business model. Additionally, IKEA should keep investing in innovation and technology to enhance sustainable operations across its value chain. The case of Ikea shows that it is possible to achieve significant progress in sustainability. However, this process requires a strategic approach, long-term investments, and constant adaptation to changed market conditions.

3 Assignments and Discussion Questions

In this case study, the task for students is twofold:

Phase 1: Study and visualize the sustainable business model of IKEA using the attached sustainable business model canvas (see Appendix).

Phase 2: Study IKEA's global value chain and identify competitive advantages related to sustainability implementation. Divide the identified competitive advantages into the groups of cost and differentiation advantages. Insert them into IKEA's sustainable business model canvas and list the ideas to reduce eco-social costs.

The following questions should guide you in solving the tasks:

1. How does IKEA's flat-pack design and self-service model contribute to its competitive advantage in the furniture market? Discuss the implications of this approach for both customers and the company's operational efficiency.
2. How does IKEA balance its commitment to sustainability with its business goals of affordability and customer satisfaction? Consider how IKEA's sustainability initiatives impact its brand reputation, customer loyalty, and long-term profitability.
3. What role do customer relationships play in IKEA's business model, and how do they enhance customer loyalty and community engagement? Analyze the effectiveness of IKEA's loyalty programmes and customer service strategies in fostering a strong connection with its customer base.
4. How can IKEA effectively promote circular practices among its consumers, and what role does consumer education play in achieving sustainable consumption patterns?

5. How does IKEA's commitment to the UN SDGs influence its business strategy and operations? Can you identify potential conflicts or synergies between pursuing these goals and the company's financial objectives?
6. How does the IWAY framework, with its tiered staircase model for supplier compliance, encourage continuous improvement in sustainability practices among suppliers?
7. In what ways does IKEA's risk-based approach to supplier assessment and compliance monitoring enhance its overall sustainability strategy?
8. How does IKEA's approach to supplier selection and management contribute to the overall sustainability of its supply chain?
9. How does IKEA's focus on in-house product design—emphasizing affordability, functionality, and aesthetics—intersect with its sustainability goals?
10. Considering IKEA's initiatives, like using electric vehicles and inventory drones, how do these innovations enhance operational efficiency and sustainability? What potential barriers could hinder the implementation of such technologies in global supply chains?
11. Based on the IKEA Sustainability Report FY24, quantify and critically evaluate the climate footprint at each stage of the IKEA's value chain (see https://www.ikea.com/global/en/images/IKEA_Sustainability_Report_FY_24_2025_01_27_2c35989733.pdf (p. 13)).
12. Read the article Sustainability by Design: IKEA's Eco-Friendly Marketing Efforts (https://www.researchgate.net/publication/378333261_Sustainability_by_Design_IKEA's_Eco-Friendly_Marketing_Efforts) and identify IKEA's key sustainability marketing strategies employed.
13. Using IKEA as an example, describe sustainability as a competitive advantage for the company (see, for example, https://www.researchgate.net/publication/372353413_Sustainability_as_a_competitive_advantage_IKEA_as_a_case_study)
14. Describe the perceived problem of the "Fast furniture business model" using IKEA as an example (e.g. <https://www.euronews.com/green/2024/06/09/ikea-in-the-spotlight-flatpack-furniture-linked-to-systematic-destruction-of-romanian-forests>, <https://www.greenpeace.org/international/press-release/66349/ikea-furniture-destroys-some-of-europes-last-remaining-ancient-forests/>)

<https://www.brusselstimes.com/1000082/europes-last-ancient-forests-being-cut-down-for-ikea-furniture-report-shows>)

15. Identify IKEA's responses and challenges in the field of responsible global wood sourcing (e. g. <https://www.ikea.com/global/en/our-business/sustainability/wood-forestry/> <https://www.ikea.com/global/en/our-business/sustainability/wood-we-use/>).

4 Conclusions

The higher the value a company creates, the more customers will be willing to pay for its products or services. A company can ensure ongoing customer loyalty by surpassing the value offered by competitors. It can optimize its value chain for better efficiency and competitive advantage by understanding how it creates value. Identifying and understanding value chain activities and their drivers is necessary to monitor value creation. Although global value chains (GVCs) bring numerous benefits, companies should be aware of their risks and environmental and societal effects. Finding ways to adjust GVCs to reduce their negative environmental and social impacts and increase their resilience are vital challenges for the future.

Additionally, several emerging trends driven by technological advancements, evolving global business practices, and changing consumer expectations significantly transform value chains. These trends continue to evolve, presenting new opportunities and challenges for companies. To thrive in this ever-changing environment, companies must embrace continuous innovation, adaptability, and a commitment to integrating new technologies and sustainable practices. There is a rising focus on responsible sourcing, ethical labor practices, minimizing environmental impact, and ensuring transparency within value chains. Adopting sustainable practices and complying with environmental and labor regulations are becoming essential for maintaining resilience and long-term competitive advantages.

The effects of COVID-19 on GVCs have highlighted the necessity for holistic and integrated strategies regarding risk, resilience, and sustainability. This perspective encourages viewing businesses not as standalone entities but as integral components of a broader ecosystem encompassing other businesses, consumers, workers, communities, the environment, and society. Disruptions within any segment of this ecosystem can lead to various consequences. Consequently, fostering resilience

requires moving beyond conventional risk management methods and addressing the risks that sustainability challenges present to businesses and the wider community.

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Didactic Use: This case study is useful for courses in international business and marketing, where students analyze the role of sustainability management in value creation through differentiation within the discount retail industry. It is particularly relevant for topics covered in FEB courses such as *Basic of international business*, *Basic of international business and tourism*, *International marketing*, *International marketing management*, and *Strategic international marketing management* on undergraduate and master's programs.