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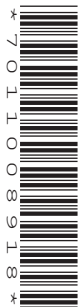
## **A Level Business**

**H431/03** The global business environment

Resource Booklet

**Monday 11 June 2018 – Afternoon**

**Time allowed: 2 hours**



### **INSTRUCTIONS**

- This is a Resource Booklet.
- You should refer to it when answering the examination questions which are printed in a separate booklet.
- The business described in this Resource Booklet is a real business.

### **INFORMATION**

- This document consists of **8** pages. Any blank pages are indicated.

## IKEA

**Extract A – An introduction to IKEA**

IKEA is a Swedish multinational group of companies which designs and sells ready-to-assemble furniture (such as beds, chairs and desks) and home accessories. It has been the world's largest furniture retailer since at least 2008 and is known for its modern designs. In addition, the business has a reputation for its attention to cost-control and continuous product development. This enabled IKEA to lower its prices by an average of 2–3% over the ten years to 2010, during a period of global expansion.

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As of December 2016, IKEA owns and operates 392 stores in 48 countries. The IKEA website lists about 12,000 products. The company is responsible for approximately 1% of industrial wood consumption in the world, making it one of the largest users of wood in the retail sector.

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Source: Adapted from <https://en.wikipedia.org/wiki/IKEA> (January 2017)

**Extract B – Corporate social responsibility – Equality and sustainability at IKEA**

For years, the IKEA group of companies has been continuously developing a supportive policy for diversity and inclusion. It covers human resource policies such as flexible work practices, recruitment, benefits, training and mentoring.

At IKEA, we want to have a positive impact on people and the planet. That is why we are focusing on things that really matter, from switching our entire lighting range to energy-efficient bulbs to sourcing all of the cotton we use in our products from more sustainable sources.

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Source: Adapted from <http://www.ikea.com/gb/en/this-is-ikea> (January 2017)

**Extract C – Does IKEA truly deserve its non-profit status?**

IKEA has managed to position itself as a non-profit organisation\* that does not play by the same tax rules as other firms – IKEA is reported to have managed to pay around 33 times less tax than its competitors. It is somewhat questionable whether a company the size of IKEA, which is unrivalled within its marketplace, deserves such a status.

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*\*IKEA is 100% owned by a charitable foundation that is not legally allowed to make a profit.*

Source: Adapted from <http://www.worldfinance.com/markets/does-ikea-truly-deserve-its-non-profit-status> (Published 12 January 2016)

**Extract D – IKEA's marketing strategy**

IKEA's marketing strategy uses various forms of print and media advertising, sales promotion, events and experiences, public relations and direct marketing techniques. These include:

- print and media – the company uses a range of popular journals and magazines and TV channels globally 25
- 'billboard-fitted wardrobes' - placed by IKEA in selected outdoor locations in Vienna, people passing by are encouraged to slide its door open to assess IKEA's solutions to fit many items into the wardrobe 30
- the publication of more than 200 million catalogues
- social media advertising and viral marketing.

Source: Adapted from <http://research-methodology.net/ikea-marketing-strategy>  
(Published 9 November 2015)

**Extract E – IKEA brings motivation to employees by increasing wage rate**

IKEA is going to raise the basic wage level in all of its stores in the USA. According to an IKEA senior spokesperson, this will lift the average IKEA employee's minimum hourly wage to \$10.76, a 17% increase, and will mean pay rises for approximately half of the company's 13,650 employees in the USA. This may be a first step towards other retailers raising their basic wage levels. 35

Source: Adapted from <http://www.marketinginfo.org/2014/10/Ikea-raise-minimum-wage-for-employees.html> (Published 20 May 2016)

**Extract F – IKEA's logistics and supply chain – how does IKEA manage its stock?**

At IKEA, thousands of products are handled daily. The movement of goods must be as efficient as possible under all circumstances – guaranteeing service to customers and ensuring that the products they seek are available to buy at all times. Jobs in logistics account for about 20-25% of each store's workers.

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The business impresses not just its customers but also its competitors, with its unique supply chain and stock management techniques. Each IKEA store is huge and holds more than 9,500 products.

IKEA has a clear vision – to provide well designed, functional home furnishings at prices so low that as many people as possible will be able to afford them. IKEA is distinctive by committing to a catalogue of products that will be stocked for a year at a guaranteed price. IKEA designs unique products that incur low manufacturing costs while meeting strict requirements for function, efficient distribution, quality and impact on the environment.

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IKEA encourages competition among suppliers to ensure it attains the best prices and materials. However, it also believes in making long-term business relationships with them by signing long-term contracts, further lowering prices of products.

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Most IKEA furniture is designed and sold in pieces for the customer to assemble at home. The pieces are placed into convenient and efficient flat packages. This allows for low-cost transport because they take up less room in trucks, maximising the number of products which can be transported at a time. The unique packaging also takes up less space in warehouses, allowing for more room to stock additional items.

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Every IKEA store has a warehouse on site. On the main showroom floor customers can browse for items. They then obtain the products themselves from the warehouse, with shelves only as high as the typical person can reach. The furniture can then be purchased and taken home.

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Source: Adapted from <http://www.ikea.com/gb/en/this-is-ikea> (January 2017) and <https://www.tradegecko.com/blog/ikeas-inventory-management-strategy-ikea> (Published 23 April 2014)

**Extract G – How IKEA adapted its strategies to expand in China**

In 1998, IKEA started its retail operations in China. IKEA understood early on that Chinese living spaces were small and so the company made slight modifications to its furniture to meet local needs.

IKEA identified the strategic challenges it faced. These included:

- prices considered low in Europe were higher than average in China. 65
- the product catalogue, which is a major marketing tool in Europe. In China, however, the catalogue provided opportunities for competitors to imitate IKEA's products.
- store location. In China most customers use public transportation, so the company set up its outlets on the outskirts of cities which are connected by rail and metro networks. 70

As IKEA now prepares to enter the Indian market, its experiences in China will come in useful. It understands that in emerging markets, global brands may not repeat their success using a low-price strategy. There will always be local manufacturers who will have a lower cost structure. IKEA, famous for its flat-pack furniture which consumers have to assemble themselves, realised that understanding the local culture is important. Chinese people hate the do-it-yourself concept and the Indian market is likely to hate it even more. IKEA will have hopes of attracting India's urban middle-class buyers, who are keen on decorating their homes with stylish international brands. 75

Source: Adapted from <http://www.businesstoday.in/magazine/lbs-case-study/how-ikea-adapted-its-strategies-to-expand-in-china/story/196322.html> (Published 21 July 2013)

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