9-719-420
REV: JANUARY 20, 2021

RAMON CASADESUS-MASANELL
GAMZE YUCAOGLU

KITEA (A): Democratizing Furniture in Morocco

2013 was the worst year of my life. I had nightmares every night. Every single person told me KITEA was going to die.

— Amine Benkirane, Founder & CEO of KITEA

In 2013, KITEA, whose name had become synonymous with furniture in Morocco, was celebrating its 20th year in business. The brainchild of Moroccan entrepreneur Amine Benkirane, in 1994 KITEA had introduced to Moroccans accessible furniture in flatpacks to be assembled at home. The company had been on a growth trajectory for the last two decades and by 2013 had 18 stores in 14 cities. (See **Exhibit 1** for KITEA store locations.) During that time, KITEA had achieved a robust market share of 24% in furniture retail and strong brand recognition across Morocco, becoming the undisputed market leader. After 19 years of profits and growth, 2013 would be the first year in KITEA's history to record a loss. (See **Exhibit 2** for KITEA's balance sheet and P&L statement, 2008–2013.)

There were two main reasons for the loss. First, the market was unsettled. Unemployment was on the rise, foreign direct investment had dropped, and tourism expenditure had declined. The purchasing power of Moroccan customers had also decreased. (See **Exhibits 3** and **4** for economic and demographic indicators in Morocco.) Together, these factors had reduced the demand for furniture in the market. Second, beginning in 2010, Moroccan newspapers had reported rumors that IKEA, the Swedish furniture giant, was planning to enter the Moroccan market. Coupled with the dire economic climate, the news hit KITEA hard. Banks reduced their credit lines because they did not believe the company would survive IKEA. Export credit agencies[a,1] that worked with KITEA did not want to take on much risk without first seeing how KITEA would be affected by the opening of an IKEA store. Thus, they reduced KITEA's insurance coverage overnight. KITEA was forced to delay its new store openings as interest piled up on the debt it had taken out to finance its expansion.

To many observers, this looked like a downward spiral that could lead to the end of KITEA. Since hearing the first rumors about IKEA in 2010, Benkirane had reassessed KITEA's business model and sped up its expansion plans. The company had made improvements to its product range, store layout,

[a] Export credit agencies were public entities that provided government-backed loans, guarantees, and insurance to corporations from their home country that sought to do business overseas in developing countries and emerging markets.

Professor Ramon Casadesus-Masanell and Associate Director Gamze Yucaoglu (Middle East and North Africa Research Center) prepared this case. It was reviewed and approved before publication by a company designate. Funding for the development of this case was provided by Harvard Business School and not by the company. HBS cases are developed solely as the basis for class discussion. Cases are not intended to serve as endorsements, sources of primary data, or illustrations of effective or ineffective management.

and inventory management. Would these improvements be enough to save the company, or would Benkirane's efforts prove futile? What could KITEA do to compete against a giant like IKEA?

Founding KITEA

In 1987, Amine Benkirane, founder and CEO of KITEA, was completing his undergraduate degree from Polytechnique Montréal in Canada. He was amazed by the vast range of affordable and simple furniture he was able to find for his dorm room. Born and raised in Morocco, Benkirane had grown up around traditional, heavy, artisanal furniture, which was not easily affordable by all income groups. Children from modest Moroccan families, lacking desks, often waited for the family to finish a meal before using the dining room table to do their homework. Seeing all kinds of furniture available for all income levels in Canada made Benkirane aware of a gap in the Moroccan furniture market.

On returning to his home country, Benkirane studied Morocco's furniture market closely and found it to be unorganized and informal. Ready-made options were rare; most furniture was made to order, and styles were classical. Filling orders took a long time and quality was not guaranteed. Yet customers had hardly any alternatives, except at the high end. Benkirane figured that, given Morocco's 1993 population of 26.2 million, the market was ripe for an entry at the mid–price point. He said, "I could see that lifestyles were changing in Morocco. The young generation was ready for modern, trendy, and affordable furniture."

During his travels, Benkirane noticed that developed countries offered cheaper furniture than poor countries. He quickly realized that the less organized the distribution, the higher the price was for the customer. He knew that retail in Morocco was unstructured and that he could be the one to organize it. Rather than sourcing designer furniture on the high end, he decided to go with factory-produced furniture for the masses, for which he would need to tap into suppliers from all over the world. To lower costs and facilitate storage and distribution, he decided to sell furniture only in flatpacks (i.e., as separate components ready for customer assembly). In 1993, he was ready to roll out his plan for KITEA.[b] In 1994, the first KITEA store—300 square meters (m^2) in size, with five employees—opened in Casablanca, Morocco. Casablanca was the country's commercial center, with a population of more than three million. Benkirane hoped the store would attract customers from all walks of life.

On its opening day, the first KITEA store was visited by more than 10,000 excited customers, some of whom were perplexed by the idea—alien in Morocco--of buying a kit of loose parts that needed to be assembled. Benkirane recalled, "Flatpacks were associated with low-quality plywood. To educate the market, I planned all of KITEA's marketing around the flatpack—both to spike people's interest and to instill this new way of thinking about furniture in their minds. My first marketing slogan was "Kit KITEA." Next came the issue of assembly. Benkirane commented, "Moroccan people don't have toolboxes at home; we don't have a do-it-yourself culture. Labor is cheap in Morocco, so people usually hire others to assemble things." To overcome this hurdle, he offered free shipment and assembly from day one. In addition, KITEA's marketing emphasized that it would bring down prices in the market.

Structuring the Business Model

Benkirane structured KITEA around the three pillars of good prices, good quality, and services such as free assembly and free delivery. Established against the backdrop of a large informal market, KITEA

[b] He created the name KITEA from three French words: "kit" (meaning "flatpack"), "et" (meaning "and"), and "ameublement" (meaning "furnishing").

was forced to create many of its own solutions—for example, setting up its own delivery fleet and warehousing system.

Target customers KITEA carried products that appealed to both high- and low-income groups, but it mainly targeted middle-income households, which were regarded as having the most potential for an increase in disposable income and mobility. The target audience was mostly urban customers 23–55 years old.

Product groups Benkirane created KITEA as a comprehensive store for families who needed to furnish their homes. It sold products for every room in the house except the bathroom and the kitchen. KITEA stores also stocked cash-and-carry items, such as trash cans and picture frames, that were small enough for a customer to take home right away. KITEA began with approximately 16,000 stock keeping units (SKUs) consisting of 80% furniture and 20% decorative items. It carried four to five models each of main pieces such as sofas, tables, and nightstands.

Supply chain KITEA outsourced all of its manufacturing. In order to have a variety of models and to diversify risk, it purchased from suppliers ranging from local manufacturers to manufacturers in Europe and Asia. Rather than purchasing a single supplier's entire capacity for a product, KITEA put in smaller orders with multiple suppliers. Local suppliers were used mainly for sofas and mattresses, which accounted for 20% of KITEA's merchandise; the rest was imported. All furniture was received at warehouses in Morocco. It arrived directly from the suppliers on pallets and was stored and sold in flatpacks.

Design KITEA had no design team. It relied instead on the collections of a variety of suppliers. During the early years of the company, Benkirane sought out suppliers and built relationships with them, and they cooperated in choosing the models for each year. Later, a purchasing team liaised with the suppliers to explore new designs and learn which items sold best around the world. The Procurement department also received feedback from the Commercial department about the previous season's bestsellers to gain insight into customer sentiment in Morocco and place orders accordingly. Because none of the furniture was manufactured exclusively for KITEA, it was not branded as KITEA; the company's logo appeared only on the flatpack packaging. KITEA secured exclusive rights for Morocco for its imported models.

Stores Since there were no major malls in Morocco in the 1990s, KITEA located its stores in city centers. Following its first store in Casablanca, KITEA opened stores in Rabat and Tangier, as well as Fes and Marrakesh, summer resorts favored by both locals and tourists. The company purchased the real estate for its stores. Its showrooms were located on the street levels of apartment buildings to facilitate access. Stores ranged in size from 750 to 1,200 m² and displayed furniture according to its function, grouping bedroom or living room items together and presenting various room layouts.

Inventory management In each city, KITEA had a central warehouse from which the furniture was distributed to both stores and customers. KITEA kept no inventory in its stores except for the cash-and-carry items; all the stock was in its warehouses. Once a customer purchased an item in the store and agreed on a delivery date, whichever warehouse was closest to the requested delivery point handled the delivery and assembly. Items were delivered within six days of purchase.

Service KITEA offered free delivery and free assembly for all purchases. In-store consultants helped customers select the right product for their needs, and all products came with a warranty, a novelty at the time. While most items were standard, KITEA did offer customization options for certain items such as sofas. Made-to-order pieces were delivered within ten days.

Logistics Morocco had no third-party logistics companies who could handle company deliveries, so KITEA assembled its own fleet of trucks and hired its own drivers and technicians. KITEA was thus the final point of contact with the customer.

Marketing As Morocco's GDP per capita trended upward and more people moved to urban areas,[2] KITEA aimed to make furniture easily accessible for all income groups. However, the company kept mid-income Moroccan customers in mind when setting prices, since they made up the largest population bracket. In serving this growing customer group, KITEA positioned itself to compete with artisanal manufacturers in both price and delivery time. Moroccan customers were used to haggling in street shops where products did not have price tags. At KITEA, however, all prices were fixed and final and were displayed on the product. KITEA advertised on outdoor billboards in cities and also published quarterly brochures, which were delivered to customers' homes to publicize promotions.

KITEA's Sales Culture

From the beginning, KITEA's internal slogan was, "Offer what people want to buy, not just what you want to sell." At the same time, its first years were all about educating the customer, trying to alter ingrained perceptions around furniture. The typical Moroccan mindset was to buy furniture that would last a lifetime. Benkirane said, "Our job was to create a need. Our salespeople tried to change customers' thinking and have them question whether a particular piece of furniture really needed to last so long it could be passed down to their kids." KITEA salespeople strove to understand customer needs. They received a fixed salary, but the company's incentive system rewarded them based on the revenue they brought in. All other departments were regarded as support mechanisms for maximizing sales.

Regarding merchandising, Benkirane recalled, "We closely monitored the bestsellers and the worst sellers and then adjusted the next batch of orders accordingly. The Moroccan customer was unaware of all the things they could ask for, so we experimented. We brought in new concepts and trendy designs to test their reaction. The range of products we carried expanded as customers' tastes evolved." Once KITEA's orders reached a certain size, it was able to request customization from its suppliers. As a result, it began asking for certain colors or design modifications to localize the products. Benkirane could see the furniture market evolving. He developed the company's second marketing campaign, "Think before you buy," to motivate customers to break their habits and to move them away from the informal market and toward KITEA.

Growing KITEA

KITEA's early growth was impressive. The company benefited from positive economic developments in Morocco: between 1994 and 2010, the country's GDP grew by approximately 3.8% year over year. During this time, Morocco experienced the emergence of a middle class, an increase in mobility—especially among the younger population—and a real estate boom. The fact that supermarket chains such as Marjane and Carrefour[c,3] were also growing in Morocco during this period helped familiarize consumers with new ways of shopping. Consumer preferences shifted toward dedicated modern retail facilities in large cities,[4] where retail was becoming more organized in malls and outlets.

[c] A local chain, Marjane opened its first store in 1990. Carrefour entered the Moroccan market in 2009.

Until 2005, KITEA relied on its street-level stores, which were an average of 1,000 m^2 in size. In 2005–2006, however, observing the global trend toward megastores, Benkirane realized that the customer had come to want everything in one place and that he needed to increase KITEA's average store size. He explained, "Every season, I had to change everything in each store, take out the past season's items, and redo the layout of the store in line with the concept of the new season. This was not feasible unless we had enough space to exhibit everything at once." He began to develop the concept of KITEA Géant, French for "giant." Initially envisioned as 4,000-m^2 one-stop shops selling both furniture and decorative items, Géants would operate in parallel to the classic KITEA stores. Benkirane believed that by being the first Moroccan retailer to emulate global trends with this larger format, KITEA would have a competitive advantage over other players.

Benkirane chose Marrakesh, the fifth most populous city in Morocco,[5] as the location for the first KITEA Géant. It took two years to secure a premium location and complete the construction. The 4,000 m^2 store opened in 2007. However, Benkirane recalled, "This trial immediately showed us that this was not large enough." In 2008, the second KITEA Géant, 7,500 m^2 in size, made its debut in Casablanca, and in 2009, another 3,443 m^2 KITEA Géant opened Oujda, a city in northeast Morocco. While costs varied based on land acquisition cost and store size, KITEA spent an average of $12 million for each Géant, including the costs of land, construction, and inventory. Within a year of their opening, Géant stores were outperforming classical KITEA stores in the same cities, so it was clear to Benkirane that the larger format was the future of KITEA.

Although KITEA had competition, it enjoyed a dominant position as market leader in 2010, setting the trends in furniture retail. Benkirane was a well-respected businessman and a celebrated entrepreneur. He commented, "Since the founding of KITEA, we've come a long way. Today, when people in Morocco think about furniture, they no longer think about artisans, they think KITEA." He described the broader change in customer habits, recalling: "Each year, my grandfather would buy fabric for two djellabas[d] and have them made by his tailor. My father wore prêt-à-porter and bought three to four suits a year. Today, I buy online and have 20 shirts. Consumption patterns have changed." Riding this change, in 2010, its 17th year of operation, KITEA had 18 stores in 14 cities and served 90,000 customers per year. Its market share hovered around 20%.

Competitive Environment

Following KITEA, other local branded furniture chains appeared in the market: Mobilia, Fou Meublement, and Bricoma. In 2010, despite the emergence of these brands, organized retail still constituted only about 15% of the market.[6] Most Moroccan families preferred to buy their furniture from the independent retailers scattered throughout the traditional shopping areas in the city centers. In essence, therefore, KITEA competed mainly with artisans. In the organized sector, however, its main competitor was Mobilia, a Moroccan company that specialized in solid wood furniture for bedrooms and dining rooms. Founded in 2009, Mobilia had grown thanks to its emphasis on durability, practicality, and design.[7] KITEA also faced competition from Istikbal, a Turkish furniture retailer that entered the Moroccan market in 2008 and opened a second store in just six months.

[d] Traditional dress for men and women in Morocco.

Rumors of an International Player

In 2010, a rumor circulated that a big multinational player was about to enter Morocco's furniture retail market. That year, with a GDP of $93.2 billion,[8] Morocco climbed to the rank of the world's 61st largest economy.[9] Despite the global economic crisis, the Moroccan economy had performed relatively well, and real GDP had grown by 3.9% in 2009. Morocco's strategic location at the northwest corner of Africa, about 14 kilometers from Spain (which was just across the Strait of Gibraltar), not only facilitated trade activity between Africa and the European Union, but also made the country an attractive destination for European tourists. Since 2000, Morocco had focused on expanding its economic and political presence in Africa, and was increasingly regarded as the gateway to the continent.[10] This growth had made Morocco an attractive market and put it on the radar of numerous international brands.[11]

Later in 2010, newspapers reported that it was IKEA that was planning to enter the Moroccan market. IKEA's Moroccan business would be operated by the Al Homaizi Group from Kuwait, which owned the IKEA franchises in Kuwait and Jordan. The first store was planned for Casablanca. According to the *Morocco World News*, IKEA planned to open four more stores across Morocco in the long term. The company had allegedly selected Rabat as the location for its second store.[12]

IKEA

IKEA, founded in Sweden by Ingvar Kamprad in 1943 as a mail-order company, had evolved into a globally renowned furniture retailer, selling low-priced stylish products in flatpacks. Its stores were strictly self-service. Customers viewed the furniture in showrooms and then fetched the pieces they wanted from warehouse-like shelves.[13] In 2010, IKEA was the world's top furniture retailer, with more than 300 stores in 39 countries and global revenues of €23.5 billion.[14] Cited by Interbrand as one of the world's most valuable brands,[15] the privately held company was known for its large, brightly colored stores that offered affordable, contemporary furniture to young, middle class, and upwardly mobile customers.

Product groups and design IKEA stores carried approximately 12,000 SKUs.[16] The internal team of IKEA designers, based at the company's headquarters in Sweden, was challenged to design good products at the lowest possible price, scrutinizing each item to determine the best materials and manufacturing opportunities. All products were designed and manufactured exclusively for IKEA, and the brand name appeared on the items as well as the flatpacks. The flatpacks came with instructions for customers to assemble the furniture using simple tools.

Supply chain In its early years, IKEA sourced its products from Swedish suppliers, but as the company expanded globally, it grew its supplier base in search of lower labor and raw material costs. Over time, the company built close relationships with more than 1,350 suppliers in 50 countries.[17] Its long-term contracts helped suppliers upgrade their production processes and invest in new technology. IKEA also suggested cost-saving methods and sometimes even purchased a supplier's entire production capacity, all with the aim of lowering production costs.[18] IKEA followed an integrated global planning process. It developed long-term marketing, logistics, and purchasing strategies on a global scale and oversaw a distribution supply chain that included transportation, warehousing, and store planning. IKEA's high-volume orders and warehousing capacity, enhanced by its flat boxes, helped it make use of economies of scale, keep unit costs low, and maintain steady prices in its catalog for a year at a time. The space-conserving design of its packaging enabled easy and cost-efficient transportation to and from IKEA's 28 warehouses and distribution centers, which were spread among 16 countries.[19]

Stores IKEA stores averaged around 30,000 m^2 and followed a standardized store plan with minimum local variation. The typical store was two stories tall, built on a steel frame, and contained an extensive parking area. A children's playground was located at the entrance. The second floor, where customers started their shopping journey, displayed furniture for the kitchen, bedroom, living room, and office.[20] It also contained a subsidized, cafeteria-style restaurant that served modern takes on traditional Swedish foods.[21] A one-way path led the customer through the various showrooms. The ground floor housed the marketplace, which sold smaller items such as kitchen tools, bedroom decorations, and lighting. It also contained the warehouse, a self-service area occupying more than half of the floor, where customers picked up their chosen items. Customers could also buy packaged Swedish food near the store exit.[22] (See **Exhibit 5** for a typical IKEA store layout.)

Inventory management and logistics Each IKEA store housed its own self-service warehouse. Customers would write down the code of an item they wanted in the display area and then either collect it from the warehouse themselves or ask for delivery and/or assembly service at an additional cost. IKEA informed its customers of the exact delivery time by phone 48 hours in advance.

Marketing IKEA's main marketing tool was its yearly catalog, of which more than 200 million copies were printed in 38 different editions and 17 languages.[23] Each edition featured mostly the same product range, but gave prices in the local currency. Some products, however, were adapted according to geographic or cultural variances. For example, since Italians preferred to hang most of their apparel, while Americans preferred to fold it, IKEA added more drawer space to its dressers sold in the U.S.[24]

Culture IKEA's culture was based on simplicity and cost consciousness at all levels. Kamprad described it as "the art of managing on small means" and "cost-consciousness to the point of being stingy."[25] The company preferred to hire inexperienced recruits and train them, which helped to keep wages down. At the same time, frequent rotations and rapid promotions for high performers created a dynamic work environment where employees felt management's appreciation. The company's mission was to "create a better everyday life for many people."[26]

International presence In 2010, 79% of IKEA's revenues came from Europe, 15% from North America, and 6% from Asia and Australia.[27] The IKEA Group operated some of its stores under franchise agreements. The franchises were managed by the Inter IKEA Group, the owner of the brand and the trademark. They were granted access to the IKEA system, including its supply chain and management practices, as well as its product range and the opportunity to take part in IKEA concept development in their own stores.[28] IKEA franchisees managed, developed, and ran their local market businesses while following the strict guidelines set by Inter IKEA, which received a fee of 3% gross sales.[29] If a franchisee wanted to deviate from the standard IKEA model, for example by changing the store layout or having a smaller restaurant, Inter IKEA had to approve the proposed change.[30]

In 2010, there were more than 30 IKEA stores owned and run by franchisees.[31] IKEA's presence in the Middle East, for example, began with Saudi Arabia, whose first IKEA store opened in 1983 under a franchise agreement long before the brand had any recognition in the local community. In 1984, the Al Homaizi Group opened an IKEA store in Kuwait.[32] In 2013, IKEA opened its first African store, located in Egypt. At the same time, it increased its manufacturing capacity in China and got the green light to enter retail in India.[33]

KITEA's Response

IKEA's size, bargaining power, and expertise in the field were indisputable. (See **Exhibit 6** for a comparison of business model choices between KITEA and IKEA.) Although KITEA had been the market leader in Morocco for almost two decades, it lacked the global reach and power of IKEA. It serviced only Morocco, and its current volumes were tiny compared to IKEA's vast unit orders. In addition, without any formidable competitor in the Moroccan market, KITEA had been operating in a comfort zone for a number of years. Benkirane needed to change things, fast.

Diagnosing the Issues

Benkirane called a meeting for the core Management team to discuss operational effectiveness and areas of potential improvement in the face of IKEA's arrival. Stress and a fear of uncertainty pervaded the room as the team brainstormed ideas and noted the challenges they faced.

Customer and supply chain Having been the market leader for so long, KITEA had gotten used to creating demand and starting trends and had stopped listening to the customer. Similarly, relationships with core suppliers had become routine. For several years, the Procurement team had not been on the lookout for new suppliers who could enrich the portfolio or bring down costs.

Product range In order to prepare for IKEA's entry to the market, the team needed to understand IKEA better. Naim Diouri, who was in charge of sales, pored over the IKEA catalog to analyze its range of products and saw that "IKEA had a rich variety of accessories that accounted for almost 70% of its products." KITEA, on the other hand, was stronger in furniture and lacked variety in accessories.

Stores KITEA's layout' and shopping experience was not streamlined across stores. Each store was different, with no distinct look and feel tying them together. Likewise, the presentation of products varied greatly and was not always optimal. The stores were not laid out with a specific and uniform customer journey in mind.

Inventory management and logistics KITEA did not have systems to track inventory in real time, so returns did not always show up in the physical inventory. The company's Director of Internal Audit noted:

> Neither our internal logistics (between the warehouse and the stores) nor our outbound logistics (between the warehouse and the end customer) were optimized. Our trucks were making an average of five deliveries per day. The route was not mapped out to maximize efficiency, and because our service was free, customers were not careful about being at home at the designated delivery times. This meant that our trucks had to reroute and come back to the same house in a couple of hours. As a result, our fleets were not operating efficiently, and the number of deliveries per day was not consistent.

People In 2010, KITEA did not have a human resources director. (See **Exhibit 7** for KITEA's organizational chart in 2013.) This created a number of problems as KITEA hired employees for its new stores. There were no consistent processes for onboarding, promotion, and integration, and salaries in some departments were too low. Employee morale was low and people worried about their job security. The manager of the classical KITEA stores, which employed 60% of the Sales team, commented, "We need to improve our in-store service to make the customers feel welcome, to help them figure out exactly what they are looking for, and to cross-sell and upsell." Personnel had not received training recently and service was not uniform across stores.

Consequences

Benkirane's first reaction was to increase KITEA's footprint in Morocco. He decided to speed up the KITEA Géant store openings. Together with his executive team, Benkirane chose three new Géant locations: Morocco's capital Rabat, and two major cities, Tangier and Fez. In a hurry to open the stores as quickly as possible, the company spent $45 million on land acquisition and construction costs. The capital expenditure was financed mostly through loans from local banks. At the same time, Benkirane wanted to solidify KITEA's current position in the market. He increased inventory to minimize stock-outs at the stores and focused on having everything the customer wanted readily available. Moreover, at the request of investors, KITEA agreed on a franchising model. In 2012, it opened its first franchise outside Morocco in Kinshasa, the capital of the Democratic Republic of Congo.

While the growth efforts looked good on paper, KITEA's new store openings and sales in Morocco did not go according to plan. The Management team was spread too thin, the company's performance suffered, and customer satisfaction dropped. To complicate matters, construction of the Géant stores was delayed. Not only was interest piling up on outstanding debt, but KITEA had already hired the new employees for the Géants, which increased overhead when the stores failed to open on time. Managers tried to boost motivation among the Sales team, noting that local incumbents in France and Spain had been able to maintain strong market shares even after IKEA entered their markets. Meanwhile, the Procurement team worked to diversify its supplier base, and Benkirane looked to hire an HR director.

It was during this time that Morocco began to feel the effects of the global financial crisis. Tourism, which accounted for 19.2% of the country's (real) GDP,[34] had dropped considerably; the economy was slowing down; and unemployment was on the rise. KITEA sales suffered. The Management team, which had to juggle the management of the existing stores and the construction of new ones while feeling the pressure from the economic downturn, felt overwhelmed. Despite making little progress on preparations for the entry of IKEA, the team now had to adjust its plans to meet economic challenges.

Banks that had worked with KITEA for two decades were now unwilling to extend new credit lines. Benkirane said, "Banks only gave us an umbrella when there was sunshine." Fearful of the uncertainty created by IKEA's impending entry, the banks were, for the first time, demanding personal guarantees from shareholders. Access to alternative credit sources was limited. Similarly, fearing turbulent times ahead, credit insurance companies that had fronted KITEA's purchases from global suppliers now downgraded its rating. Benkirane recalled, "Overnight, our suppliers called us to say that the credit agencies had reduced their coverage to one-fifth of their usual amount. After 20 years! I couldn't believe it!" For the first time in its history, KITEA had to delay paying its suppliers. The company had been in investment mode in preparation for IKEA's market entrance, but this sudden change in attitude from its longtime stakeholders left it in severe financial distress. (See **Exhibit 8** for a comparison of KITEA and IKEA's economics as of 2013.)

KITEA in Survival Mode

Over the last two decades, Benkirane had managed to steer his company to a robust position in the market. Now it seemed that just the mention of IKEA had been enough to push his company over the edge. KITEA had a strong brand name and local know-how in Morocco, but it had never before dealt with a giant like IKEA in its backyard. Would its new store investments and drive toward increased efficiency suffice to maintain its market position? Or should Benkirane consider other major changes—in brand positioning, pricing, customer segments, or new geographies? Was he simply fighting against a foregone conclusion?

Exhibit 1 KITEA Store Locations, 2013

STORE			
GÉANT	Size (m^2)	CITY	OPENING DATE
KITEA GÉANT MARRAKECH	3155	MARRAKESH	2008
KITEA GÉANT CASABLANCA	7500	CASABLANCA	2008
KITEA GÉANT OUJDA	3443	OUJDA	2009
CLASSIC			
KITEA MOHAMMEDIA	389	MOHAMMEDIA	2000
KITEA RABAT AGDAL	750	RABAT	2000
KITEA KENITRA	560	KENITRA	2002
KITEA MARHABA	619	ELJADIDA	2002
KITEA MARJANE HAY RIAD	1400	RABAT AGDAL	2003
KITEA KHOURIBGA	1480	KHOURIBGA	2003
KITEA BERRECHID	406	BERRECHID	2003
KITEA AIN SEBAA	1785	CASABLANCA	2003
KITEA BENIMELLAL	1489	BENI MELLAL	2004
KITEA SAFI	1589	SAFI	2004
KITEA ROUTE AL JADIDA	901	CASABLANCA	1994
KITEA RABAT VILLE	454	RABAT	1994
KITEA TANGER	800	TANGIER	1997
KITEA MARJANE CALIFORNIE	266.81	CASABLANCA	1997
KITEA FES	750	FES	1999
KITEA MARRAKECH	949	MARRAKESH	1999

Source: Compiled by casewriters from case interviews.

Exhibit 2a KITEA Balance Sheet (USD), 2008–2013

Fiscal year	2008[a]	2009[b]	2010[c]	2011[d]	2012[e]	2013[f]
Assets						
Current assets	25,783,786	29,298,563	37,008,262	38,428,541	41,133,698	36,068,112
Inventories	12,346,453	13,451,024	14,781,627	14,235,500	20,286,828	16,083,330
Trade and other receivables	12,050,745	14,860,098	17,166,184	18,551,828	19,902,832	19,522,674
Cash and cash equivalents	1,377,158	978,651	5,051,588	5,589,601	913,727	442,833
Unrealized exchange loss (current items)	9,430	8,790	8,862	51,612	30,312	19,274
Non-current assets	17,326,444	17,424,555	17,741,536	17,589,329	27,653,411	25,461,662
Intangible assets	4,413,951	4,242,917	4,612,947	4,534,831	8,121,372	7,930,398
Tangible assets	11,928,418	12,216,466	12,065,998	11,555,765	17,398,193	15,631,364
Financial and other non-current assets	951,635	910,364	1,029,269	1,479,324	2,127,816	1,879,454
Capitalized expenses	32,440	54,808	33,323	19,409	6,030	20,447
Total assets	43,110,230	46,723,118	54,749,798	56,017,870	68,787,109	61,529,774
Liabilities and equity						
Current liabilities	22,356,065	24,721,237	30,853,821	30,588,391	46,084,698	36,330,839
Trade and other payables	15,062,652	16,665,073	15,511,143	15,739,276	32,233,322	23,959,215
Bank overdrafts and loans	7,056,159	7,886,017	15,170,436	14,549,290	13,800,344	12,342,855
Other provisions for contingencies	173,347	160,826	164,956	263,152	30,312	19,274
Unrealized exchange gains (current items)	63,907	9,320	7,287	36,673	20,720	9,495
Non-current liabilities	5,922,347	5,268,681	4,137,404	7,869,316	9,132,423	15,064,724
Long-term debt	5,922,347	5,268,681	4,137,404	5,372,440	9,132,423	15,064,724
Provisions for contingencies and losses				2,496,875		
Equity	14,831,818	16,733,200	19,758,573	17,560,164	13,569,989	10,134,211
Total liabilities and equity	43,110,230	46,723,118	54,749,798	56,017,870	68,787,109	61,529,774

Source: Company documents.

Notes: Figures were prepared according to Moroccan GAAP standards.
a, b, c, d, e, f: Figures were converted from Moroccan Dirham to USD for their respective years.
Rates retrieved from oanda.com, accessed July 2018. Rates: 2008, 8 | 2009, 8 | 2010, 8.4 | 2011, 8.4 | 2012, 8.5 | 2013, 8.3.

Exhibit 2b KITEA P&L Statement (USD), 2008–2013

Fiscal year (year-end USD values)	2008[a]	2009[b]	2010[c]	2011[d]	2012[e]	2013[f]
Revenue	41,891,780	49,481,772	51,143,232	62,053,230	54,449,913	58,127,060
(COGS)	27,451,683	29,860,810	30,824,637	35,352,660	32,440,176	37,359,675
Gross profit	14,440,096	19,620,962	20,318,596	26,700,570	22,009,737	20,767,385
Total operating expenses	10,021,402	13,569,887	14,144,260	18,152,877	21,223,826	21,115,280
Operating profit	4,418,694	6,051,075	6,174,336	8,547,693	785,911	(347,895)
Financial income/ (expenses)	(707,233)	(793,941)	(785,135)	(639,588)	(717,448)	(3,084,071)
Non-current income/ (expenses)	3,914,927	(65,335)	124,711	(2,828,349)	504,487	653,061
PBT	7,626,389	5,191,799	5,513,912	5,079,756	572,950	(2,778,906)
Taxes	1,341,433	1,578,756	1,655,206	2,188,163	268,040	290,575
Net income	6,284,956	3,613,043	3,858,706	2,891,593	304,910	(3,069,481)

Source: Company documents.

Notes: a, b, c, d, e, f: Figures were converted from Moroccan Dirham to USD for their respective years.

Rates retrieved from Oanda.com, accessed July 2018. Rates: 2008, 8 | 2009, 8 | 2010, 8.4 | 2011, 8.4 | 2012, 8.5 | 2013, 8.3.

KITEA paid taxes even in loss-making years due to legislation in Morocco that stipulated a minimum tax of 0.5%.

Exhibit 3 Economic Indicators of Morocco, 2003–2013

	Unit	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Real GDP*	US$ bn	67.5	70.7	73.0	78.5	81.3	86.1	89.8	93.2	98.1	101.1	105.6
Real GDP per head (PPP)**	International $	5,072	5,252	5,362	5,701	5,834	6,107	6,288	6,443	6,688	6,791	6,996
Private Consumption/GDP	%	56.9	56.5	57.2	57.2	57.9	58.3	58.6	58.8	59.5	60.4	59.9
Inflation (consumer prices)	annual %	1.2	1.5	1.0	3.3	2.0	3.7	1.0	1.0	0.9	1.3	1.9
Unemployment rate	% of total labor force	11.9	10.8	11.0	9.7	9.6	9.6	9.1	9.1	8.9	9.0	9.2

Source: World DataBank, "Morocco – World Development Indicators," The World Bank Group, accessed March 2019.

Notes: * For the Real GDP of Morocco, base year is 2010.
** For the Real GDP per head (PPP), base year is 2011.

Exhibit 4 Demographic Indicators of Morocco, 2003–2013

	Unit	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Population, total	m	29.8	30.2	30.5	30.9	31.2	31.6	32.0	32.4	32.9	33.3	33.8
Population Growth	annual %	1.1	1.1	1.1	1.1	1.1	1.2	1.2	1.3	1.4	1.4	1.5
Population Ages 0–14	% of total	32	31	31	30	30	29	29	28	28	28	28
Population Ages 15–64	% of total	63	63	63	64	64	65	65	65	66	66	66
Population Ages 65 and above	% of total	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0
International tourism (# of arrivals)	mn	4.8	5.5	5.8	6.6	7.4	7.9	8.3	9.3	9.3	9.4	10.0
International tourism receipts	current USD, bn	3.8	4.5	5.4	6.9	8.3	8.9	8.0	8.2	9.1	8.5	8.2
International tourism expenditures	current USD, bn	0.85	0.91	1.00	1.11	1.42	1.91	1.71	1.88	2.26	2.10	2.00

Source: Adapted by casewriters from World DataBank, "Morocco – World Development Indicators," The World Bank Group, accessed April 2019.

Exhibit 5 Typical IKEA Store Layout

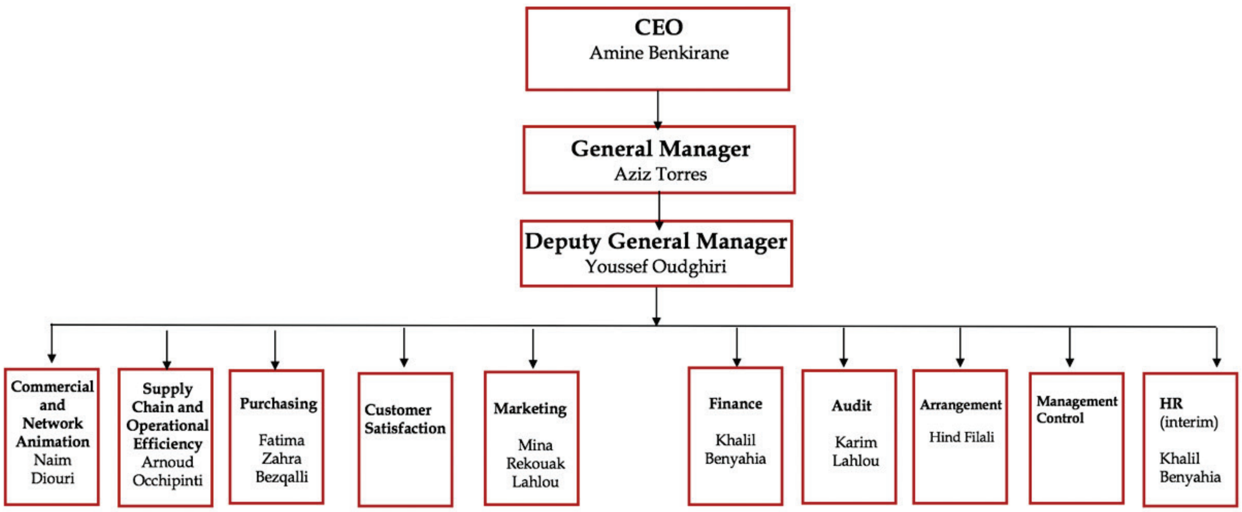
Source: Ikea, "Stores," https://m.ikea.com/us/en/stores/canton/storemap/, accessed September 2018.

Exhibit 6 Comparison of Business Model Choices between KITEA and IKEA, 2013

	KITEA	IKEA
Design	Outsourced (suppliers)	In-house
Product Range (by distribution of SKUs)	80% furniture, 20% accessories	30% furniture, 70% accessories
Packaging	Flatpacks	Flatpacks
Store Format	Classic stores, KITEA Géants	Single store format
Size of Stores	250m^2–7,500m^2	30,000m^2
Warehouses	Separate, regional	Within the stores
Service & Logistics	Free delivery and assembly	Delivery and assembly each at additional cost
Marketing	Outdoor marketing; seasonal brochure	Catalog
Procurement	Selected from a range of global suppliers	IKEA designs manufactured by contracted global manufacturers
Number of SKUs	16,000	12,000
Geographic Footprint	18 stores in 14 cities across Morocco	Ikea Group has a total of 303 stores in 26 countries.
Revenues (2013)	USD 57 million	€28,506 million
# of Employees	1,000	135,000
Ownership	KITEA Group (Benkirane Family)	The IKEA Group of companies (Ingka Holding B.B. and its controlled entities) had an ownership structure that ensured independence and a long-term approach. Stichting Ingka Foundation in the Netherlands had ownership over IKEA.
Target Segment	All income levels	Young, middle class, and upwardly mobile customers who prefer low-priced but trendy furniture and household products

Source: Compiled by casewriters from company documents and the following sources: IKEA, "Newsroom," https://www.ikea.cn/ms/en_CN/about_ikea/facts_and_figures/ikea_group_stores/index.html; IKEA, "Ownership & Structure," https://www.ikea.com/gb/en/this-is-ikea/about-the-ikea-group/ownership-structure/; Clayton Harapiak, "IKEA's International Expansion," *International Journal of Business Knowledge and Innovation in Practice*, December 2013; IKEA, "2013 Annual Report," https://www.ikea.com/ms/pl_PL/pdf/yearly_summary/ikea-group-yearly-summary-fy13.pdf, accessed September 2018.

Exhibit 7 KITEA Organizational Chart, 2013



Source: Company documents.

Exhibit 8 Comparison of KITEA and IKEA Economics for a Typical Store, 2013

	KITEA Géant	IKEA Store	KITEA's Advantage
Sales Price	100.0%	100.0%	-
Purchase Prices	59.9%	52.0%	(7.9%)
Inbound Logistics	3.8%	2.0%	(1.8%)
Outbound Logistics	2.9%	0.0%	(2.9%)
Advertising	1.7%	3.6%	1.9%
Rental	9.9%	4.8%	(5.1%)
Info Systems	0.2%	1.4%	1.2%
Payroll	11.8%	13.2%	1.4%
Depreciation & Amortization	3.8%	2.5%	(1.3%)
Other SG&A	6.4%	4.0%	(2.4%)
Operating Profit*	(0.4%)	16.5%	(16.9%)

Source: Compiled by casewriters from KITEA company documents; casewriter estimates for IKEA based on *2017 Almanac of Business and Industrial Financial Ratios* by Philip Wilson and INGKA B.V. financial statements.

Notes: IKEA estimates based on U.S. advertising and sales figures. Likely to be biased upwards.
* This figure does not consider the allocation of headquarter charges to the store.

Endnotes

[1] ECA Watch, http://www.eca-watch.org/ecas/export-credit-agencies, accessed July 2018.

[2] "Home and Garden Specialist Retailers in Morocco December 2016," Euromonitor International, accessed July 2018.

[3] "The Carrefour Group and Label'Vie Sign a Franchise Agreement in Morocco," FlexNews, February 9, 2009, http://www.flex-news-food.com/console/PageViewer.aspx?page=21942, accessed July 2018.

[4] Imane El Ghazali, "Morocco's new consumer society" DoingBusinessIn (blog), http://www.doingbusinessin.fr/moroccos-new-consumer-society/, accessed July 10, 2018.

[5] "Morocco 10 Largest Cities," Geonames, http://www.geonames.org/MA/largest-cities-in-morocco.html, accessed September 2018.

[6] "Growing number of malls and supermarkets support Morocco's retail plans," Oxford Business Group, https://oxfordbusinessgroup.com/overview/shopping-style-growing-number-malls-and-supermarkets-support-government-moves-boost-formal-sector, accessed July 2018.

[7] Mobilia Company, "Company Overview," https://translate.google.com/translate?hl=en&sl=es&u=http://www.mobiliasa.com.ar/&prev=search, accessed July 2018.

[8] "Economist Intelligence Unit," Morocco Country Data, accessed July 2018.

[9] World DataBank, "Morocco – World Development Indicators," The World Bank Group, accessed July 2018.

[10] Khalid Baddou, "Morocco, the New Gateway to Africa," *Morocco World News*, January 9, 2017, https://www.moroccoworldnews.com/2017/01/205567/morocco-new-gateway-africa/, accessed July 10, 2018.

[11] U.S. Commercial Service, "Doing Business in Morocco: 2010 Country," https://www.slideshare.net/brokerinter/doing-business-in-morocco, accessed July 11, 2018.

[12] "Ikea to Open Five Stores Across Morocco," *Morocco World News*, July 30, 2015, https://www.moroccoworldnews.com/2015/07/164350/ikea-to-open-five-stores-across-morocco/.

[13] "List of countries with IKEA stores," Wikipedia, November 30, 2016, https://ipfs.io/ipfs/QmXoypizjW3WknFiJnKLwHCnL72vedxjQkDDP1mXWo6uco/wiki/List_of_countries_with_IKEA_stores.html, accessed July 2018.

[14] "IKEA's revenue worldwide 2010-107," Statista, https://www.statista.com/statistics/264433/annual-sales-of-ikea-worldwide/, accessed July 2018.

[15] Interbrand, "Best Global Brands 2010," RankingTheBrands website, https://www.rankingthebrands.com/The-Brand-Rankings.aspx?rankingID=37&year=214, accessed July 11, 2018.

[16] Marianne Baxter and Anthony Landry, "IKEA: Product, Pricing, and Pass-Through," November 2012, https://www.frbsf.org/economic-research/files/BaxterLandry.pdf, accessed September 2018.

[17] IKEA, "About IKEA store," https://www.ikea.com/ms/en_JP/customer_service/faq/help/about_store/about_stores.html#9, accessed July 2018.

[18] IKEA, "2015 Annual Report," p. 6, https://www.ikea.com/ms/en_AU/pdf/yearly_summary/IKEA_Group_Yearly_Summary_2015.pdf, accessed July 2018.

[19] Yuhui Röhstö Hou and Ji Liu, "Time–based strategy in distribution logistics: Gaining competitive advantages in IKEA" (Bachelor's thesis, University of Gavle, 2011), p. 29.

[20] Pam Meecham, ed., *A Companion to Modern Art* (NJ: John Wiley & Sons, Inc., 2018), p.277, https://books.google.com.tr/books?id=OYU9DwAAQBAJ&pg=PA277&lpg=PA277&dq=ikea+architecture+design+stores&source=bl&ots=a97WiEesFT&sig=LxuTo0Mm_8Sg-yJHiqdBb01JMPc&hl=tr&sa=X&ved=2ahUKEwjfyOGN4bLdAhWrhaYKHfAnDeI4HhDoATAIegQIABAB#v=onepage&q=ikea%20architecture%20design%20stores&f=false, accessed September 2018.

[21] Meecham, A Companion to Modern Art.

[22] Meecham, A Companion to Modern Art.

[23] Artur Kornienko, "Power of Print. Why catalogue is IKEA's #1 Marketing Tool," Gfluence.com, January 27, 2017, https://gfluence.com/power-print-ikeas-catalogue-1-marketing-tool/, accessed July 2018.

[24] Eric Van Den Steen and Alon Galor, "IKEA," HBS No. N9-716-458 (Boston: Harvard Business School Publishing, 2017), https://hbsp.harvard.edu/product/716458-PDF-ENG?itemFindingMethod=Search, accessed July 2018.

[25] Van Den Steen and Galor, "IKEA."

[26] IKEA, "The Testament of a Furniture Dealer," https://www.ikea.com/ms/fr_FR/media/This_is_IKEA/the-testament-of-a-furniture-dealer-small.pdf, accessed July 11, 2018.

[27] IKEA, "2010 Annual Report," p. 25, https://www.ikea.com/ms/en_CA/pdf/yearly_summary/ys_welcome_inside_2010.pdf, accessed July 2018.

[28] Robert LaFranco, "Secret IKEA Fortune Put in the Spotlight With Rights Sale," August 15, 2012, Bloomberg, https://www.bloomberg.com/news/articles/2012-08-13/secret-ikea-fortune-put-in-the-spotlight-with-rights-sale, accessed September 2018.

[29] LaFranco, "Secret IKEA Fortune Put in the Spotlight With Rights Sale."

[30] Anders Dahlvig, *The IKEA Edge: Building Global Growth and Social Good at the World's Most Iconic Home Store* (New York: McGraw-Hill, 2012), cited in Eric Van Den Steen and Alon Galor, "IKEA," HBS No. 716-458 (Boston: Harvard Business School Publishing, 2017), p. 5.

[31] IKEA, "This is IKEA," https://www.ikea.com/ms/media/pdf/This_is_IKEA_Oct_2017.pdf, accessed July 11, 2018.

[32] Dina Naser, "IKEA to make shopping experience better with technology," *Arab Times*, April 16, 2014, https://www.pressreader.com/kuwait/arab-times/20140416/282703340081843 , accessed July 2018.

[33] IKEA, "2013 Annual Report," https://www.ikea.com/ms/en_AU/pdf/yearly_summary/IKEA_Group_Yearly_Summary_2013.pdf, accessed July 2018.

[34] Knoema, "Morocco - Contribution of travel and tourism to GDP as a share of GDP," https://knoema.com/atlas/Morocco/topics/Tourism/Travel-and-Tourism-Total-Contribution-to-GDP/Contribution-of-travel-and-tourism-to-GDP-percent-of-GDP, accessed July 2018.