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## KITEA (B): Getting Ready to Face IKEA

By 2014, additional details had come out about IKEA's plans for its first Moroccan store, which was set to open on September 29, 2015. The 26,600 m<sup>2</sup> store would be located in the new city of Zenata, just a 30-minute drive from both Casablanca and Rabat. A new direct route from the highway to the IKEA store would soon ease access even further. IKEA had invested €40 million in the store, which would offer a range of global products not previously available in Morocco.<sup>1</sup>

KITEA CEO Amine Benkirane—along with his son, Othman, who had joined KITEA in 2014—worked hard to restructure KITEA in the face of IKEA's entry. They did so against a bleak economic backdrop. Purchasing power and the real estate market were declining in Morocco,<sup>2</sup> while unemployment was on the rise.<sup>3</sup> (See **Exhibit 1** for Morocco's economic and demographic indicators.) Retail sales had slowed considerably. People prioritized essentials over new furniture, and a decrease in home sales further dampened demand.<sup>4</sup> Facing these challenges, KITEA made a number of changes to increase value creation. It improved its supply chain and product range, and strengthened relationships with stakeholders. After intensive, focused efforts, KITEA broke even in 2014. KITEA Géants had been the main driver for sales, but KITEA's Casa stores (introduced in 2014 when KITEA became a franchisee of the Belgian company Casa, which sold a range of interior decorations and small furniture) were also performing well. By the fall of 2015, KITEA was on track to record double-digit sales growth for the year. (See **Exhibit 2** for KITEA's balance sheet and P&L for 2015.) In September, as IKEA's opening date approached, the real countdown began. Was KITEA ready to compete with IKEA in the Moroccan market?

### Restructuring KITEA (2014–2015)

With so much happening on so many fronts, Amine Benkirane needed more hands on deck. He recruited Hicham Ben Brahim, an experienced finance manager who had worked at Group Winxo, a prominent petroleum company in Morocco. Building on the efforts that had already been made, Amine Benkirane, Othman Benkirane, and Ben Brahim mapped out a restructuring plan for all departments. Change was imperative. Amine Benkirane said, "I saw the fear in the eyes of my employees. I used this fear to motivate people, telling them 'Either you put the customer at the center of your attention, or IKEA will take your bread.'" The restructuring would be tightly supervised as the company sped up work on the three Géants currently under construction.

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### *Relationship Management*

Ben Brahim first initiated talks with the local banks. He argued that the banks' demands for personal guarantees were not rational, and that KITEA needed cash. The shareholders agreed to sell their 'war chest,' several pieces of key real estate worth around \$3 million, to create the liquidity. At the same time, Othman spoke to the credit insurance companies. He wanted to understand the reasoning behind their decision to substantially reduce KITEA's coverage overnight. As the talks progressed, it became clear that while KITEA was trying to keep afloat in 2013, the insurers had been left in the dark about the goings-on of the company. They only realized something was off when, for the first time in its history, KITEA was a week late making a payment. To open communication channels, Othman met with each insurer personally, informing them of KITEA's restructuring plan and candidly explaining how the banks had left the company in a vulnerable position. Next, Othman reached out to KITEA's long-term suppliers, who had a strong relationship with the company. He asked for their help in reassuring the credit agencies of KITEA's strength in the Moroccan market. Several months after Othman's talks with the credit insurance agencies, they restored their coverage to its previous levels.

### *Revamping the Business Model*

**Product Range** To increase cash generation, KITEA adjusted its product range and focused on high turnover items. It identified the bestsellers across all its stores and eliminated the items with the lowest turnover, decreasing the total number of SKUs by 25%, to 12,000. Sofas and bedroom furniture made up 60% of sales, so KITEA worked to improve these offerings. Likewise, since it was stronger in office furniture and had a wider outdoor furniture selection than IKEA, it worked to capitalize on those strengths.

Meanwhile, KITEA adjusted the technical specifications and quality of its furniture. Othman explained, "We had been too rigidly focused on cost, buying on the cheap end to be competitive on prices. Our market research showed that, for some goods, people didn't mind paying more to get a better quality product." Othman went to Europe to source sofas, which until then had been obtained locally under the assumption that Moroccan customers would not pay European prices. As soon as KITEA introduced the European sofas, the category grew by 450%. Similarly, the research showed that Moroccan consumers tended to favor solid wood<sup>a</sup> for tables and bedroom furniture. Accordingly, KITEA introduced solid wood products in these categories and used eye-catching labels to highlight the solid wood feature. As a result, KITEA managed both to expand its product range and to increase its price point for a number of items.

Because KITEA lacked variety in accessories, Ben Brahim suggested joining forces with Casa, a Belgian company that specialized in decorations, interiors, gifts, small furniture, and seasonal and trendy products. (See **Exhibit 3** for Casa product photos.) In 2014, KITEA became Casa's master franchisee in Morocco for five years. KITEA was relatively free to determine its own price strategy, but decided to apply the same prices that Casa had in Europe. KITEA's management saw Casa as a learning opportunity with regard to procurement, store layout, and sales team training. Moreover, Othman explained, "Accessories are small, and it takes a lot of each product to fill a container, which means keeping a large inventory of each item and lots of cash tied up in the process. With Casa, we could rely on their economies of scale and have split containers with a variety of items." KITEA eliminated most of its own SKUs in accessories, keeping only localized bestsellers. It converted some of its small classical stores into Casa stores and created Casa shop-in-shops in larger stores, including Géants.

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<sup>a</sup> Solid wood is a term used to distinguish between ordinary lumber and engineered wood products.

**Supply Chain** For many years, KITEA had been supplied mainly by relatively small Asian manufacturers. Othman made a trip to China to try to attract larger manufacturers; having lived in Hong Kong, he had a wide network there. Ultimately, he convinced some of the biggest Chinese manufacturers—the ones that supplied Walmart, for instance—to sell to KITEA. He recalled, “I told them that we were big and getting bigger and that they should give us a chance.” In the meantime, the procurement department worked to identify the best suppliers in Europe. Even if the European suppliers’ quoted prices were slightly higher those of Asian manufacturers, they were offset by lower transportation costs and the fact that there was no customs duty between the E.U. and Morocco. Moreover, increasing the range of products from European suppliers helped with marketing, as customers placed a high value on “made in Europe” products. Finally, Othman travelled to Eastern Europe, where he convinced reputable suppliers in Poland and Serbia—who had never before sold to any company in Africa—to give KITEA a one-year trial period, even offering to buy with a letter of credit.<sup>b</sup> After a year, KITEA was their biggest client in the region, which included the Middle East.

**Stores** After a year’s delay, KITEA opened its new Géant stores in Rabat, Tangier, and Fez. It also began tracking the performance of its classical stores in these cities and closed down the weakest performers. A few small stores became specialized: for instance, one carried only outdoor furniture, and another was reserved for KITEA Pro, the company’s line of office furniture. Next, the team focused on improving sales. The in-store presentation of furniture varied greatly, so KITEA hired an Italian architect to centralize design, establish guidelines for displays, and focus on visual merchandising. To aid the sales team, the stores began to showcase products in ways that encouraged cross-selling.

**Inventory Management and Logistics** KITEA aimed to shorten its delivery time from six days to four. It installed systems to track inventory in real time and sync physical and virtual inventories, allowing the logistics fleet to see the warehouse in which each item was stored. It also changed the return process so that items were only added to the system when they were physically received. In order to fix the problem of customers not being at home at the agreed-upon delivery time, representatives began calling customers the day before to reconfirm. KITEA then zoned delivery routes for each truck based only on confirmed customers. The team set a 4 p.m. cut-off time for orders from the stores, after which the orders were loaded onto the trucks for the next day’s deliveries. KITEA also purchased additional trucks and began to incentivize its assembly technicians by linking their compensation to their number of assemblies. Ultimately, delivery time was cut to only three days.

**Marketing** KITEA adopted an aggressive marketing strategy, increasing the number of brochures it distributed, handing out flyers at supermarkets, and initiating digital marketing, including geomarketing, which used location intelligence to improve customer reach.

## Was KITEA Ready?

Following this period of intensive effort, KITEA broke even in 2014. Keeping up the momentum from its 2014 performance, it had a strong start in 2015. The economy also seemed to be improving. In the meantime, the countdown had begun to the long-anticipated opening of IKEA’s store in September. Globally, IKEA had opened 12 stores in 2014 and 13 in 2015. It was now just a few weeks away from becoming a part of Morocco’s furniture market.<sup>5</sup> Was KITEA finally ready to face IKEA?

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<sup>b</sup> A letter of credit was a letter from a bank guaranteeing a buyer’s payment on seller on the agreed terms.

**Exhibit 1** Morocco Economic and Demographic Indicators (2013-2015)

	Unit	2013	2014	2015
Real GDP*	US\$ bn	106	108	113
Real GDP per head (PPP)*	International \$	6,996	7,079	7,297
Private Consumption/GDP	%	59.9	60.1	57.5
Inflation (consumer prices)	annual %	1.9	0.4	1.6
Unemployment rate	% of total labor force	9.2	9.7	9.7

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

**Exhibit 2a** KITEA Balance Sheet (USD) (2014-2015)

KITEA Balance Sheet (2008 - 2017)	2014*	2015**
<b>Assets</b>		
<b>Current assets</b>	31,813,608	24,961,477
Inventories	11,802,680	11,682,466
Trade and other receivables	18,123,596	12,444,544
Cash and cash equivalents	1,854,742	802,620
Unrealized exchange loss (current items)	32,591	31,847
<b>Non-current assets</b>	23,707,131	19,247,055
Intangible assets	7,993,666	6,756,061
Tangible assets	13,829,081	10,588,793
Financial and other non-current assets	1,869,049	1,627,924
Capitalized expenses	15,335	274,278
<b>Total assets</b>	55,520,739	44,208,532
<b>Liabilities and equity</b>		
<b>Current liabilities</b>	32,522,014	25,733,497
Trade and other payables	19,778,718	15,114,449
Bank overdrafts and loans	12,219,118	10,089,397
Other provisions for contingencies	491,414	453,944
Unrealized exchange gains (current items)	32,763	75,707
<b>Non-current liabilities</b>	12,368,054	7,848,350
Long-term debt	12,368,054	7,848,350
<b>Equity</b>	10,630,672	10,626,685
<b>Total liabilities and equity</b>	55,520,739	44,208,532

Source: Company documents.

Notes: \*Converted from Moroccan Dirham to USD at rate 8.6 for 2014, via oanda.com, accessed July 2018.

\*\*Converted from Moroccan Dirham to USD at rate 9.8 for 2015, via oanda.com, accessed July 2018.

**Exhibit 2b** KITEA P&L (USD) (2014-2015)

	2014 <sup>a</sup>	2015 <sup>b</sup>
<b>Revenue</b>	50,934,929	52,840,552
(COGS)	29,922,519	30,694,001
<b>Gross profit</b>	21,012,410	22,146,551
Total operating expenses	19,408,050	18,521,246
<b>Operating profit</b>	1,604,360	3,625,305
Financial income/ (expenses)	(1,113,723)	(1,181,830)
Non-current income/ (expenses)	261,849	(727,528)
PBT	752,486	1,715,947
Taxes	256,024	418,219
<b>Net income</b>	496,462	1,297,728

Source: Company documents.

<sup>a</sup> Converted from Moroccan Dirham to USD at rate 8.6 for 2014, via oanda.com, accessed July 2018.

<sup>b</sup> Converted from Moroccan Dirham to USD at rate 9.8 for 2015, via oanda.com, accessed July 2018.

Exhibit 3 CASA Product Photos



### Tableaux

PLUS DE CHOIX EN MAGASINS

Dim.: 55x75 cm Dim.: 65x92 cm à partir de 225 Dh

à partir de 169 Dh

### Montres murales

**99 Dh HT**  
Horloge murale MDF  
3 assortiments  
Diam.: 30,5 cm  
Réf.: KO103/N61/N62

**163 Dh HT**  
Pendule de table  
Réf.: KO9B/N18

**158 Dh HT**  
Horloge murale MDF  
4 assortiments Diam.: 60 cm  
Réf.: KO92/N36

### Décoration

PLUS DE CHOIX EN MAGASINS

à partir de 35 Dh

### Paniers

PLUS DE CHOIX EN MAGASINS

**Paniers HOME** Couleur: taupe

Réf.: 10036744287	Dim.: 45x34x56 cm	<b>365 Dh</b>
Réf.: 10036745287	Dim.: 38x28x48 cm	<b>295 Dh</b>
Réf.: 10036746287	Dim.: 42x30x17 cm	<b>195 Dh</b>
Réf.: 10036747287	Dim.: 36x25x15 cm	<b>149 Dh</b>
Réf.: 10036748287	Dim.: 30x20x13 cm	<b>95 Dh</b>

**Paniers SWEET HOME** Couleur: gris

Réf.: 10036749313	Dim.: 51x37x56 cm	<b>365 Dh</b>
Réf.: 10036750313	Dim.: 44x30x48 cm	<b>295 Dh</b>
Réf.: 10036751313	Dim.: 40x31x16 cm	<b>195 Dh</b>
Réf.: 10036752313	Dim.: 34x26x14 cm	<b>149 Dh</b>
Réf.: 10036753313	Dim.: 29x21x12 cm	<b>95 Dh</b>

### Lampes

PLUS DE CHOIX EN MAGASINS

**129 Dh**

Lampe de table en céramique  
Dim.: 20x36 cm  
Réf.: 10031033285

**345 Dh**

Lampe de table en métal

**369 Dh**

Lampe de table en métal

### Coussins

PLUS DE CHOIX EN MAGASINS

à partir de 125 Dh

Source: Compiled by casewriters from KITEA and Casa websites.

## Endnotes

<sup>1</sup> Zainab Calcuttawala, "IKEA's First Store in Morocco to Open on March 16 in Casablanca," *Morocco World News*, March 1, 2016, <https://www.morocoworldnews.com/2014/12/145715/ikea-to-open-first-store-in-morocco/>, accessed July 2018.

<sup>2</sup> "Home and Garden Specialist Retailers in Morocco December 2016," Euromonitor International, accessed July 2018.

<sup>3</sup> "Morocco: Unemployment rate from 2007 to 2017," Statista, <https://www.statista.com/statistics/502794/unemployment-rate-in-morocco/>, accessed July 2018.

<sup>4</sup> "Home and Garden Specialist Retailers in Morocco December 2016," Euromonitor International, accessed July 2018.

<sup>5</sup> IKEA, "Press Room," [https://www.ikea.com/ms/en\\_US/this-is-ikea/reports-downloads/index.html](https://www.ikea.com/ms/en_US/this-is-ikea/reports-downloads/index.html), accessed July 2018.