

TURKEY: seize the challenge

A country that's a mix of modernism and Islam with a population of over seventy million and estimated annual income per capita of US\$ 4,500.

A middleclass with Western-style habits and consumption: this is the real target.

This article is for businesses who dare...

by **Giovanni Carlini**,
foreign correspondent



Globalisation has forced Western businesses dealing only on the domestic market to be on the defensive. The current situation now means we need to revise the concept of the free market, turning it into a regulated system, and start doing business abroad. The foreign market(s) must, therefore, be part of a new market positioning strategy. Hence this insight into the Turkish market.

Distribution

According the latest ICE report (Italian Foreign Trade Institute), dedicated to Turkey, it emerges that Turkey has yet to benefit from the social/economic results of organised distribution (as we know it in Europe): this is important if we want to understand how to gender business on the Turkish market.

Supermarkets and hypermarkets in the West now dominate the market (80% of the value of all goods sold); in Turkey, on the other hand, this form of distribution has only a 30% share of the market. The other 70% is held by local shops and markets, the latter still very common, though the numbers are gradually falling (115,000 in 2006). Small "corner" shops with restricted local clientele (serving a district or



even just a city block), selling everything from food to detergents, newspapers to stationery. It must, of course, be remembered that no business can hope to enter an Islamic country (even if only a moderately fundamentalist one like Turkey) without the support of local economic forces and specialised agents and ad hoc plans for Turkey's distribution model. Since the "corner shop" is the main form of distribution in Turkey, we need to dust down those old marketing techniques and customer loyalty/awareness methods used in the 1960s, when the shopkeepers would educate and advice customers about what to purchase. Quality for money, freebies and offers, packaging and a personal feeling are all part of this approach.

Retailing is, however, moving towards more modern forms, mainly in the major cities like Istanbul, Ankara, Izmir, Bursa and Antalya. Investments in recent years have also involved smaller cities. Buying habits are slowly changing. Having said this, however, only roughly 25% of all goods were sold in supermarkets in 2006 while retail sales were worth some 30 - 40 billion US dollars. Wholesalers and small shopkeepers have now started to form centralized unions and organisations for purchasing with the aim of competing with the supermarkets and hypermarkets (unwelcome and barely tolerated).

As a result, organised distribution in Turkey should not be ignored.

Western-style sales outlets are on the up in the major cities, where consumers are more aware of international trends, have more disposable income and better transport, letting them reach the large stores and shopping malls. The latter are mainly on the outskirts of town (Istanbul, Ankara and Izmir), meaning there is a knock-on effect in other smaller cities nearby. The main international hypermarket chains in Turkey are Metro (Germany), followed by Carrefour (CarrefourSA/Gima of France) and Tesco

Kipa (GB).

The major Turkish names are: Sabanci, Koc (Migros/Tansas), Transturk Holding and Fiba Holding. These Turkish groups have recently started to form associated companies with foreign groups, such as the Sabanci Group and Carrefour/Gima (France). Local businesses are also starting to look abroad, moving onto the former USSR markets (the Koc Group via its Ramstore chain has a huge presence in Russia and all Central Asia countries).

Social/economic conditions

This delay in adopting new trends (compared to the West) is due to the deep-rooted Islamic religion that affects everyday life in Turkey (as in the Middle Ages in Europe). It therefore also leads to rigid distribution of income: Turkey is a mix of modernism and Islam, with a population of over seventy million and an estimated annual income per capita of US\$ 4,500, still with marked unequal distribution of income, plus a tiny middleclass with poor bargaining power. Only 5% of the population fall within the highest income bracket (ruling classes), while 15-20% belong to the middle classes, with Western habits and consumption: this is the true target.

In terms of consumption models, Turkish families spend 45% of their money on food, drink and tobacco, 15% on clothing, 22% on transport, household items and services, health,

COUNTRY	INCOME PRO CAPITA
Italy	17,000 US dollars
USA	42,000 US dollars
China	2,000 US dollars
Turkey	4,500 US dollars

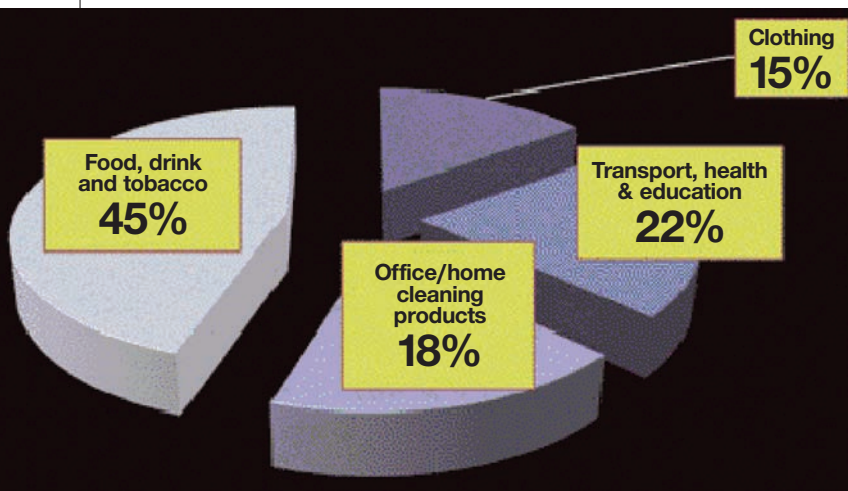
education and housing and the remaining 18% on cleaning products.

The new globalisation

September 11th, 2001, as we all know, was the day that the Western world saw the terrorist



Turkish expenditure (goods sectors)



attack in the USA perpetrated by Islamic fundamentalists. There was another such attack a few years later in Madrid and another (failed) attempt in London. On the 11th of December that same year, China joined the WTO and since then globalisation (cheap goods entering the West and millions of Asians and Indians rising above the poverty line, now able to

enjoy a certain wealth) has led to an impressive series of speculative bubbles (oil, food, raw materials). There is now political and economic agreement at all levels for a new trend to regulate and give some order to globalisation, until now seemingly direction-less. The key to this re-organisation is to stop thinking in merely economic terms, but to re-introduce certain cultural aspects. Hence the EU should not be seen as a "hotchpotch" of different peoples, still bearing old grudges. Confirmation of this was Ireland's recent rejection of the Lisbon treaties, just as the French and Dutch had previously rejected the idea of a European constitution that forgot the cultural roots of the Continent. Every time there are European elections or referenda, the EU is seen as a soulless entity, without a common cultural base, a union only in market and currency terms, but without any real economic, social, cultural and military policy. This is important in view of any "Turkey dossier", since any expansion of the EU to include Turkey (a modern country, yet strongly Islamic) becomes less crucial and im-

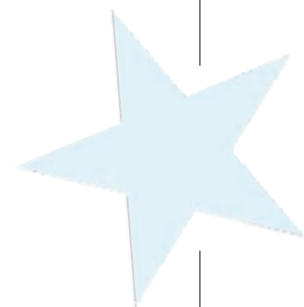
portant in the light of the new vision of Europe, where people are already debating about the sense of having united some 27 countries. Just imagine if a 28th were to be added, the only reason for its inclusion being to snatch it away from Islam.

Distribution by regional areas

The distribution and sale of imported consumer goods in Turkey can be either via direct sales or via importers/wholesalers, who then look after the distribution of the goods using their own network. In any case, all forms of distribution and sales are possible thanks to the fact that direct sales to major retail chains are on the increase.

With regard to franchising, this is mainly a phenomenon of the clothing and catering sectors in Turkey. The organisation of sales of local capital investment goods uses the traditional system of a network of local agents or, to a lesser degree, regional distributors and depots in major cities (but only in the case of small auxiliary goods).

Capital investment and imported goods are sold according to the nature of the product concerned, via importers/distributors or importers/wholesalers, who become the owners of these goods and so are free to sell them via their own networks at the prices they decide. The grocery sector (food, cleaning and household goods) is huge in Turkey, worth an estimated 40 billion US dollars a year. Regional distribution of consumer goods is generally effected by the producer via his own network of local depots or local wholesalers/distributors, responsible for a certain area (sometimes, but not always, on an exclusive basis). However, some consumer goods (especially in the case of small producers) are distributed directly from the factory and main offices. Auxiliary goods, on the other hand, may be sold through branches in the main cities (depending on the type of product concerned, of course): these branches are responsible for both distribution and customer service. Turkish is currently the official language, though English is the main language for foreign busi-





dozen or so firms dealing in machine tools that offer an efficient sales network and customer service on a national level, capable of satisfying the needs of the purchaser and user on the local

ness (sometimes French). Italian and German are rarely used.

Non-food retailing

Major DIY stores and office supply stores have appeared over the past five years. Tekzen (Tekfen), Kocotas (Koc Group), Bauhaus and Praktiker are stores specialising in metal equipment, furniture and construction materials. Metro&Real is now present in Turkey in this sector, as is Praktiker with its stores in Gaziantep and various other Turkish cities. Kocotas (construction materials) of the Koc Group is spreading its operations in Turkey (DIY) following the footsteps of The Home Depot (USA). Franchising is mainly adopted in the clothing industry, though chains offering affordable prices have yet to appear (Stefanel, Benetton, LCW-Waikiki, Zara, Tommy Hilfiger, Lacoste and Cacharel are currently active in Turkey). Turkish producers, such as Ozdilek and others, are forming their own direct sales outlets (factory outlets). There is, at the present, no chain dealing in personal hygiene, over-the-counter medicines and cosmetics, though such goods can now be found in specific "corners" inside hypermarkets. The most important Turkish distributors are: Ya?ar Birle?ik Pazarlama, Kovan Gida, Merkez Gida Pazarlama, Istanbul Gida Dis Ticaret, Atlantik Gida Pazarlama, Girisim Pazarlama and P&G Pazarlama. There are also 60-70 other smaller nation-wide distributors. Distributors with foreign partners are: Unilever, Coca-Cola, Pepsi-Cola, Kar Gida, Uzay Gida, Ulker, Philip Morris and Toprak Gida.

Doing business with Turkey

Every year tens of thousands of Turkish business visit the main foreign trade fairs, especially those in Germany, Italy, the USA, France and, more recently, Taiwan. The usual distribution channel is that of an importer/agent. There are hundreds of such firms in Turkey, mainly in Istanbul, with sales networks covering the entire country. Much depends on the type of goods involved. For instance, there are only a

market. The most important foreign companies, and all those doing business on a regular basis with Turkey, prefer to have their own local Sales Office, that work either alongside an importer or in direct contact with the end users. This approach best suits the market and lets foreign companies keep a close eye on market trends. Indeed, the market can change substantially from one geographical area to the next (Turkey is twice the size of Italy) and many sales of capital investment goods are made using joint-venture companies, buyback agreements or other forms of productive collaboration. It is therefore crucial for a business to find reliable partners, though these will always need to be monitored.

Advertising and price fixing

Consumer goods are advertised in Turkey using the same traditional channels as in the West: TV shots (many private TV companies have appeared in recent years), magazines and newspapers, billboards, direct mailing, etc. The cost of an advert in trade journals varies from sector to sector and the circulation of the journal, though this normally costs less than placing an advert in the newspapers. Except for a few basic commodities, where the State fixes the price and subsidises the producers, the seller is free to fix the price he wants for all other goods. There are no limits or restrictions when it comes to commissions and so the rate can be fixed at will.

A WORD FROM THE EXPERTS

Serhat Ozer is a young Turkish businessman dealing in cleaning machines (various brands) on the Turkish market.

Ozer has a rare and fine sense of Eastern hospitality, due to which he always takes pleasure in inviting the foreigners he meets during trade fairs around the world to come and visit his factory. Such a socially outgoing and intellectually fascinating character just has to be presented to the international press as the reference point for doing business in Turkey.



**Serhat Ozer, owner
of Dama.**

What does *temizlik makinesi* mean (on your website)?

"The correct translation is 'machines for cleaning'. This industry has been active in my country for the last twenty odd years. The vacuum cleaner was the first machine to be imported. The sector has enjoyed rapid growth ever since, despite certain structural problems, yet to be solved. This means that the average Turkish firm buys such machines abroad, but forgets about the spare-parts and customer service. This "distraction" is due to the fact that capital is needed to run a warehouse and companies in this sector normally run on a tight budget. However, this has been to my advantage, as I founded my own company in 1996 on the ashes of other Turkish companies who had failed for this very reason.

The strength of my company is its after-sales service. I'm not just an importer/distributor, I'm also a sociologist, studying consumer trends and thus placing me in the envious position where I can listen and understand the market, and act appropriately. My company is called

Dama Da?ıtım, Pazarlama ve Ticaret A.?. Distribution, Marketing & Trading Co. Inc. The website is www.marinaku.com. Twelve years on the market. The company philosophy can be summed up with the slogan "satisfied or refunded".

We really mean this. Dama deals in many brands. It produces nothing, but sells: vacuum cleaners, carpet sweepers, window cleaning equipment, cloths, electrical dispensers for public baths, floor polishing disks and other products."

What countries do you import from?

"Reading between the lines, I can assure you I do not import from China. I represent top quality, good value brands in Turkey. Thanks to this, Dama is posed to become the most important Turkish importer in such a vast market."

How do you reach your target market?

"We have two sales channels. The first: customers contact us directly. The second: we

have a sales network called the Dama system. The core of this Dama system is continual training of the sales staff (courses and work experience, on site or at our HQ). All members of the sales team are expected to do the homework set after each seminar, as this helps them understand the sales messages and the methods we teach them.”

How is your company structured?

“We have sixteen area agents, reporting to eleven supervisors, and five mechanics offering after-sales service. Then there are eight administrative workers and three managers. In other words, more than forty people, plus twenty vehicles (trucks and vans)”.

Earlier you expressed a rare (though healthy) hostility to Chinese products. Why?

“To allow Chinese products to flood the Turkish market means not only returning to the previous situation of imported foreign goods without spare-parts and after-sales service, but

also and most seriously allowing mediocre goods to enter our homes. Why should we sell a bad copy of an Italian or German product when the original also expresses its culture? China copies and reproduces, exploiting the poverty of its workforce, thus exposing this country to extreme social weaknesses that are simply explosive.

The speed at which China’s economy is growing, in the presence of exceptional economic inequality, means that there will be an equally rapid fall when conditions change, as has already happened (the unresolved question of Tibet: merely suffocated). If we were to accept Chinese goods, there would be no certainty about continued supplies of machinery and spare-parts and no guarantee about their quality.”

What sectors are the most profitable for Dama?

“Our main sectors are: textiles, food, logistic hubs, hotels and restaurants, cleaning contractors, shopping malls and the car industry.”

