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THE ESTABLISHMENT OF A JOINT VENTURE IN LIQUID GOLD INDUSTRY: GOLDIE

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Executive Summary

Liquid gold sector was a global industry in which a few number of suppliers played a significant role. They offered various types of liquid gold to the tableware producers, tile producers, and wholesalers worldwide. However, changes in the industry as well as cultural changes required leading companies in this sector to establish joint ventures with companies from developing countries where there was cheaper labor and larger market. This case explains the formation of a joint venture process in a developing country in liquid gold industry and also mentions the problems between two sides at the beginning of the joint venture.

Liquid Gold Industry

Liquid gold was a global industry, in which a few number of producers had been playing significant roles. The existence of liquid gold industry started in early 1920's in the world. The founder of one of the German companies dissolved the gold in acid mixtures and created the first liquid gold. Since then, liquid gold had been used widely in the decoration of ceramics, glass, porcelain and tiles. In 2008, liquid gold producers offered various types of liquid gold to the tableware producers, tile producers, and wholesalers worldwide.

Liquid gold usage started in the Middle Europe and improved in especially Germany, France and Italy. Hence the major producers in this industry were mainly European companies. The leader of the industry was a German Company; Hem.

Liquid gold industry was mainly spread all over the world. However, around 2000, developed countries started to lose the market due to high production costs. Wages and environmental regulations increased the cost of production when compared to the developing countries. For instance, in Germany the disposal of the chemical wastes cost serious amounts. In France, all chemical factories and production plants had to build water filters and air cleaning systems. It was not allowed to only throw out the polluted air. The polluted air had to be cleaned up before throwing to the atmosphere. All employees in European countries were subject to medical controls in every six months. All these precautions affected the production costs and sales prices. Also the changing life style, and consumption habits of people, shifted the market to mainly Asia and Middle East. In the past European women used to use a lot of gold decorated tableware. However, in 2000s people in Europe were working very hard and long times in a day. Women in Europe were searching for solutions to ease their lives. Gold decorated tableware could not be washed in dishwasher machines. As the women were looking for simple solutions in Europe, they used white porcelain or porcelain, which were decorated in glaze. In glaze decoration there was no gold but there were only specific color designs, which had long-lasting lives in dishwasher machines. Additionally although the women in Middle East preferred more imposing tableware, European women preferred the simpler types. According to the factors emphasized above, production volume of liquid gold had been decreasing in the world. According to the information received

from Goldie, Table-1 shows the total amount of liquid gold production and gold content.

TABLE-1: Global Liquid Gold Production and Gold Content

YEARS	PRODUCED AMOUNT OF LIQUID GOLD (TONS)	GOLD CONTENT (TONS)
2000	102	12
2001	86	9
2002	93	10
2003	91	10
2004	84	9
2005	81	9

The liquid gold production process did not require high amount of investments nor labor force. Instead, production depended on strict formulations and chemical reactions. Hence, liquid gold producers were strictly protecting their formulations and recipes. However, know-how was not considered enough to achieve sustainable success in this industry. Expectations of the customers were changing very fast. In 2000s, as the metal prices increased due to the economical and political reasons, and customers were more concerned about prices in tableware products, liquid gold producers focused on R&D projects to reach the same quality with lower precious metal content. Competition in this industry depended on the ability of launching new products with high quality or acceptable quality with lower prices.

Turkish Liquid Gold Market

Turkey was an attractive market for the liquid gold industry. According to the information received from Goldie, Table-2 shows the total market size of Turkey between the years of 2000 and 2005.

TABLE-2: Turkish Liquid Gold Market

YEARS	MARKET SIZE OF TURKEY (KG)
2000	3000
2001	2800
2002	2200
2003	2600
2004	2700
2005	2500

The main customer of liquid gold industry was tableware industry, which consisted of glass and porcelain industries. The aim of liquid gold usage in these industries was to increase the attractiveness of the products through decoration. Especially in oriental style gold and gold decoration took important place. Customers of liquid gold industry could be classified in three groups; large companies, small workshops, and wholesalers.

There were many wholesalers, foreign and domestic, taking place in the Turkish market. They bought large amount of gold at once from the producer, and sold them in Turkish and foreign markets. As the number of wholesalers was high

and amount they bought was huge, they were considered as important players in the market. Although, wholesalers increased the sales price, working with them offered a significant cost advantage to the producers. Liquid gold producers could reach hundreds of clients with lower transaction and distribution costs through working with wholesalers.

There were more than 250 glass and porcelain decorators and almost five large scaled companies, which had been using liquid gold as an important input, in Turkey. That made the Turkish market very attractive for liquid gold producers. Also, reducing number of tableware producers in the European industry, and the increasing trend in the Turkish tableware industry increased the attractiveness of the Turkish market. Moreover, Turkish culture tended to be traditional, and most of the Turkish people preferred tableware with liquid gold decoration. Due to the cultural and regional similarity to Middle East, Turkish market appeared as a gate to the Middle East market.

In business, Turkish and Middle East people gave great importance to relations. Building strong relationships with the customers was the key factor to be successful in these markets. Therefore, frequent customer visits, offering tailored solutions to customers were important factors that brought sustainable success.

Establishing the Joint Venture

Sem Company

Sem Company was the first and only liquid gold producer in Turkey. It was founded in 1970. Sem grew especially in early 1980s. Company was operated by an

owner and very few people worked in. Owner selected employees from his relatives and friends, since according to him, the most important characteristics of an employee was being reliable. The company supplied high volume of gold to Turkey and Middle East. But in the meantime, company faced with some difficulties to meet the changing needs of the market. Sem had not made any investments for R&D activities because no employee was capable of developing new formulas for the products. As a result, at the end of 1990's, the company could not offer new products to the market. The owner of the company started to search the possibilities to solve this problem and to survive the company.

The Leading German Company: Hem

The leading German company was a global holding acting on precious metal industry with different companies. Its mission was:

“Based on precious metals and specialty materials, we are the competent partner for our customers for high performance products, systems solutions and precious metal management. By helping our customers to achieve success by providing them with innovative products, we are able to ensure a sustainable profitability. Our growth as a globally operating company is driven by our efforts to be the technological leader and the first address for our customers. Due to the widespread use of precious metals, our product portfolio is very broad. We concentrate on technological progress in the important key markets of environment, mobility, communication, information technology and energy, as well as the high growth markets of health and lifestyle. Through partnerships for product development with globally successful companies, we place

ourselves at the leading edge of technology. Speed, reliability and outstanding quality through Business Excellence form the pillars for these partnerships. In addition to internal growth we ensure our worldwide expansion through selective acquisitions. All of our activities are conducted with respect towards the environment and society.”

The vision of the company was defined as to achieve above-average growth both organically and through acquisitions, to strengthen the international market positions and customer partnerships, to expand the innovation leadership on the basis of a broad product range, to manage risks and opportunities with a sense of balance and proportion and to continuously foster management and employee development.

Core values were:

- Self-initiative and responsibility
- We contribute ideas, express our views and execute them properly.
- Honesty, reliability and predictability
- We respect and trust each other.
- Creativity and enthusiasm for innovation
- We are proud of progressive and customer-oriented solutions.
- Conscientious treatment of employees
- We esteem the dignity of the individual at all times.
- Responsible handling of financial and natural resources
- We are cost conscious, but also prepared to take entrepreneurial risks.

Industries, in which the company operates, developing new products was the key factor to achieve success. Hence, innovation capabilities of the company were seen as the most valuable assets of the Company. Thus, each year top management spent high amounts to develop new products. Also, innovation was at the heart of the Company's culture. As a result, holding was known as the technology leader in all areas that they operated.

The company aimed to develop its five core business segment with the strategic partnerships especially in developing countries to benefit from the cost advantage. With the technology transfer, partnerships were expected to produce highly-specialized products with high quality but reasonable prices.

Although the leading German Company was very strong in the competition and showed great performance, it also had been facing problems about the production costs in Germany because of the labor and environmental regulations costs mentioned above. Due to the high costs, its sales to Middle East countries were lower than their expectations. Besides the sales price, they believed that they could not build good business relationships with their customers in the Middle East due to the cultural differences.

The Joint Venture

Factors stated above from both sides helped making the two competitors, Hem and Sem, meet and in 1999 the joint venture was established. The company started its activities with 11 employees and got 3,5 million USD revenue at the end of 1999. After the establishment of this joint venture, parent company supported the joint

venture with its technology and produced some key products in Turkey, which were necessary to succeed in the Middle East. Also, Goldie built modern research and development laboratories to present the new application methods to the customers. Combining the cost advantage of Sem and technology of Hem, the market share in Turkey and Middle East increased significantly. Table-3 shows the sales volume of Goldie in the Turkish market, and Table-4 compares the market shares of Sem and Goldie in domestic and international markets. In 2005, company was active with 17 employees, and realized revenue of 7.23 million USD.

TABLE-3: Sales Volume of Goldie

YEARS	SALES OF GOLDIE IN TURKEY (KG)
2000	1800
2001	2000
2002	1850
2003	2200
2004	2350
2005	2250

TABLE-4: Market Shares of Sem and Goldie

Country	Market Share (%) of Sem In 1998	Market Share (%) of Goldie In 2005	Changes (%)
IRAN	12	36	24
SYRIA	80	86	6
EGYPT	42	55	13
S.ARABIA	5	22	17
TUNUSIA	----	7	7
ALGERIA	----	6	6
MOROCCO	----	6	6
UZBEKISTAN	50	65	15
ARMENIA	22	25	3
AZEBAIJAN	10	16	6
JORDAN	25	65	40
U.A.E (DUBAI)	20	55	35
RUSSIA	----	18	18
TURKEY	55	68	13

Challenges of Creating and Sustaining a Successful Joint Venture

The current performance of the joint venture company showed that the decision of establishing the joint venture was correct for both sides. However, to achieve this performance, the managers of both sides overcame many difficulties. First of all, management styles of two companies were extremely different. In Sem, human relations were very important, employees were not selected according to the job characteristics and most of the rules were unwritten. However, in the parent company, there were many written rules and procedures, employees were expected to follow them strictly and they were selected according to the job characteristics. Also, all the financial transactions were recorded and rules of German government about tax payments were strictly followed. On the other hand, Sem did not record all the financial transactions and only the owner knew how much should be paid to suppliers and be received from the customers. Finally, the reporting system was very tight in the parent company and they expected frequent and very detailed reports from the managers at all levels. As a small company, Sem did not use the formal reporting system within the company.

At the beginning, both sides recognized these differences and managers of the parent company decided to wait for 2 years for the new joint venture to adapt to the management styles of German standards. The owner of Sem assigned his nephew as a top manager of the new joint venture with the approval of the parent company and then retired. His nephew was young, well-educated and fluent in English. He believed that the expectations of the parent company were appropriate but it took time to change the company.

He started by recording all the commercial transactions including the past and built a formal reporting system in the company. He was not willing to fire low performing employees because of their relations. Thus, he organized many training sessions to improve the performance and productivity as well as stimulate the culture change in the company. Also, more qualified people were hired to contact the customers and the representatives of the parent company as well as to use the new technology which was transferred from the parent company.

At the end of the 2 years, he created a formal reporting system, all the transactions were transparent and the employees were more productive and qualified. Both sides were happy about the adaptation process. However, some communication and trust problems happened in this period. For example, in the meetings some of the managers of the parent company were skeptic about the reliability of the financial records and they tried to question all the details. They liked to meet in longer hours and they expected written and well detailed documents at the end of each meeting. Turkish side perceived it as a trust problem and they felt very nervous. They also thought that it was a waste of the time. However, in time, Turkish side recognized and accepted that this was the “German style” and they changed their own style accordingly when they were working together.

Nowadays, most of the communication problems were over. The parent company assigned additional responsibilities to the manager of the joint venture company including the management of the other regions in the world such as Africa.

Questions for Analysis:

1. What factors did stimulate the establishment of the joint venture company?
2. Evaluate the factors that contribute to the success of the joint venture?
3. Discuss the effect of national culture of the two companies on the joint venture.