Lessons from Turkish Hidden Champions

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- Turkey
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Goal

To understand the dynamics of Turkish hidden champions

- Hidden champions are firms with revenues less than 4 billion dollars and are one of the top three firms with respect to their market share (sales figure) in a specific market (Eastern Europe, Russia, Europe, Middle East, …..)
### Context: Turkey

**Turkey has the world's 15th largest GDP-PPP and 17th largest Nominal GDP**

<table>
<thead>
<tr>
<th></th>
<th>1999</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP per capita (current US$)</td>
<td>3,816</td>
<td>8,215</td>
</tr>
<tr>
<td>Foreign direct investment, net inflows (% of GDP)</td>
<td>0.4</td>
<td>1.4</td>
</tr>
<tr>
<td>Exports of goods and services (% of GDP)</td>
<td>19.4</td>
<td>23.2</td>
</tr>
<tr>
<td>Merchandise exports to high-income economies (% of total merchandise exports)</td>
<td>74.9</td>
<td>59.1</td>
</tr>
<tr>
<td>Merchandise exports to developing economies in Europe &amp; Central Asia (% of total merchandise exports)</td>
<td>8.7</td>
<td>13.3</td>
</tr>
<tr>
<td>Manufactures exports (% of merchandise exports)</td>
<td>79.1</td>
<td>80.2</td>
</tr>
<tr>
<td>High-technology exports (% of manufactured exports)</td>
<td>4.3</td>
<td>1.9</td>
</tr>
</tbody>
</table>
2010 rankings

- Global Competitiveness Index:
  - Turkey ranks as the 63rd out of 135 countries

- Human Development Index:
  - Turkey ranks 83rd
Global Competitiveness Index

GCI 2010–2011 ........................................... 61 ...... 4.2
GCI 2009–2010 (out of 133) ......................... 61 ...... 4.2
GCI 2008–2009 (out of 134) ......................... 63 ...... 4.1

Basic requirements ..................................... 68 ...... 4.5
1st pillar: Institutions .................................... 88 ...... 3.6
2nd pillar: Infrastructure ......................... 56 ...... 4.2
3rd pillar: Macroeconomic environment .... 83 ...... 4.5
4th pillar: Health and primary education ..... 72 ...... 5.6

Efficiency enhancers ................................. 55 ...... 4.2
5th pillar: Higher education and training ...... 71 ...... 4.0
6th pillar: Goods market efficiency .............. 59 ...... 4.2
7th pillar: Labor market efficiency .............. 127 ...... 3.6
8th pillar: Financial market development .... 61 ...... 4.2
9th pillar: Technological readiness .......... 56 ...... 3.9
10th pillar: Market size ......................... 16 ...... 5.2

Innovation and sophistication factors ............. 57 ...... 3.6
11th pillar: Business sophistication .......... 52 ...... 4.2
12th pillar: Innovation ......................... 67 ...... 3.1

Stage of development

1: Factor driven
   Transition 1–2

2: Efficiency driven
   Transition 2–3

3: Innovation driven

Circle graph showing various factors and their rankings.
Methodology

- Top 500 Companies list provided by the Istanbul Chamber of Industry
- Firms with export activities
<table>
<thead>
<tr>
<th>Name</th>
<th>Market leadership description</th>
<th>Revenue 2009 (Mio €)</th>
<th>Employees 2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aksa</td>
<td>#1 in USA in acrylic fiber for outdoor products</td>
<td>503</td>
<td>900</td>
</tr>
<tr>
<td>Alvimedica</td>
<td>Technological innovation leader in interventional cardiology products</td>
<td></td>
<td>200</td>
</tr>
<tr>
<td>Arbel</td>
<td>#1 in the world in red lentil</td>
<td>200</td>
<td>750</td>
</tr>
<tr>
<td>Ege Cooling Systems (Safkar)</td>
<td>#1 in Eastern Europe and Middle East</td>
<td>N/A</td>
<td></td>
</tr>
<tr>
<td>Eko Textile (Suwen, Gossard)</td>
<td>#3 in Europe in lingerie and underwear (biggest producer in CEE, Europe, and M. East)</td>
<td>22</td>
<td>1,590</td>
</tr>
<tr>
<td>Kanca Hand Tools</td>
<td>#1 in Europe in vice</td>
<td>52</td>
<td>420</td>
</tr>
<tr>
<td>Kordsa</td>
<td>#1 in the world in cord fabric for tire reinforcement and mechanical rubber</td>
<td>650</td>
<td>6,000</td>
</tr>
<tr>
<td>Mutlu Batteries</td>
<td>#1 in Russia and CIS in transportation &amp; industrial batteries (biggest manufacturer in M.East &amp; E.Europe)</td>
<td>112</td>
<td>695</td>
</tr>
<tr>
<td>Şişecam Group (Paşabahçe)</td>
<td>#1 in CEE, Middle East and Middle Central Asia, #2 in Europe, #3 in the world in glassware.</td>
<td>1,700</td>
<td>12,753</td>
</tr>
<tr>
<td>Yünsa</td>
<td>#1 in Europe in worsted yarn fabric</td>
<td>64</td>
<td>1,516</td>
</tr>
<tr>
<td>Company</td>
<td>Sector (main product)</td>
<td>% of sales exported # countries</td>
<td>Plants abroad</td>
</tr>
<tr>
<td>-----------</td>
<td>---------------------------------------</td>
<td>---------------------------------</td>
<td>---------------------------------------------------</td>
</tr>
<tr>
<td>Aksa</td>
<td>Fibers (synthetic fiber)</td>
<td>%40, more than 50 countries</td>
<td>1 (Egypt)</td>
</tr>
<tr>
<td>Alvimedica</td>
<td>Medical (polymer coated stent)</td>
<td>%44, more than 30 countries</td>
<td>-</td>
</tr>
<tr>
<td>Arbel</td>
<td>Red Lentils</td>
<td>%70, 85 countries</td>
<td>19 plants in 2 countries (Canada, Australia)</td>
</tr>
<tr>
<td>Eko tekstil</td>
<td>Lingerie (women underwear)</td>
<td>%95, 15 countries</td>
<td>3 countries (Egypt, Morocco, Ukraine)</td>
</tr>
<tr>
<td>Kanca</td>
<td>Hand tools</td>
<td>%50, 20 countries</td>
<td>-</td>
</tr>
<tr>
<td>Kordsa</td>
<td>Yards and cord fabric (nylon and polyester yards)</td>
<td>97%, many countries</td>
<td>11 plants in 9 countries (US, Germany, Brazil, Argentina, China, Indonesia, Egypt, Thailand, Turkey)</td>
</tr>
<tr>
<td>Mutlu</td>
<td>Battery</td>
<td>25%, more than 25 countries</td>
<td>-</td>
</tr>
<tr>
<td>Safkar</td>
<td>Refrigeration</td>
<td>30%, 33 countries</td>
<td>1 (Algeria)</td>
</tr>
<tr>
<td>Şişecam</td>
<td>Glassware</td>
<td>%55, 140 county</td>
<td>many facilities in 8 countries</td>
</tr>
<tr>
<td>Yünsa</td>
<td>Yarn and worsted fabrics</td>
<td>%70, more than 60 countries</td>
<td>-</td>
</tr>
</tbody>
</table>
Innovative products

- Carbon fiber (aircrafts, wind turbine blade).
- Diagnostic catheters, guiding catheters, PTCA balloon catheters (solvable polymer coated stent)
- Lingerie and outwear made of combed cotton
- Nylon and polyester cord fabric
- Forged parts
- Batteries for transportation vehicles to industrial batteries
- Air conditioners/cooling systems
- Float glass, glass household articles, glass packaging and glass fiber
- Worsted yarn and fabric
Innovative processes

- 6 out of 10 produce abroad; 4 in developing countries
- Platform technologies
- Dealership networks
- Utility models rather than patents
- R&D
- Design
Competition

Competitive matrix of Turkish Hidden Champions

- Cooperation with suppliers
- Efficiency of supply
- Product quality
- Design quality
- Delivery
- Price
- Distance from client
- Production location
- Patents
- Pre-sales advice
- After-sales service
- Information systems
- Advertisement
- Competitive performance
- Importance
Strategy

- Customer relations: after-sales service
- Use the domestic demand to build initial tangible and intangible assets for internationalization
- Export to Western Europe & East European and Russian markets
- Network with multinationals (use their relations to reach other markets)
- Member of international associations
- Acquisitions
Governance

- 6 out of 10 are in stock market
- Family-owned but professionally run
Comparisons

- Turkish hidden champions face on average 20 competitors while Simon’s HCs faced only 6 to 7 competitors (not oligopolistic)
- Sell higher quality goods for cheaper prices
- Innovativeness of our companies does not necessarily show up in the number of patents the firms have
- Related diversifications in which they can benefit the common core technologies not soft diversification
Some challenges

- Rely on the leading export industries of Turkey, auto, textiles, and food
  - Technical base: Medical, glass, fiber
- Quality-price
- Emphasis on process innovation
- Champions need to establish stronger brand images
High growth: their growth in the last decade ranges between %38 and %275 in the number of employees, and between %4 and %550 in revenues.

BUT not stable growth
Theoretical questions

- Country of origin effect
  - establish stronger brand images
  - target smaller niches where will face less competition
Final products to be used by the end customers vis-à-vis intermediary products
- Customer relationships

Technology-non technology products

Focused versus not focused products/economies of scale and scope
- Focused: Alvimedica, Yunsa, Kordsa
- Non focused: Şişecam
- the core technology same for all
Thank You.