

Convergence & Differentiation

What is
success in
a connected
world?*

Interview transcripts of Osman Boyner,
Chief Executive Officer, Boyner Sanayi A.S.,
Turkey



Osman Boyner is Chief Executive Officer of Boyner Sanayi A.S.,

PwC: How confident are you about growth?

Osman Boyner: We operate in a consolidating industry. You either act as a consolidator or you become consolidated. We have the confidence to allow us to be the consolidator.

PwC: The second point is about business networks. What is meant by a business network is somewhat different in this survey. The survey deals with this matter in two different ways. On one hand is mergers and acquisitions. The idea is that you can make a purchase as you wish, hence you perform the merger. On the other hand, business networks also refer to strategic partnerships or joint ventures.

Osman Boyner: Both of these concepts require the existence of financial strength. You cannot be a consolidator unless you have a certain level of financial strength.

PwC: Another requirement of this issue could be good access to capital markets. What about the question of brand?

Osman Boyner: Brand is not a significant factor in our business as we operate on a business-to-business basis.

PwC: Customers are not actually faced with your product, are they? It is like an intermediate product, perhaps more like an industrial product, but not a consumer product certainly.

Osman Boyner: Of course, we do not sell directly to the customers but we do affect the sales conditions. That is, we affect customers via retailers so that they put our products on their shelves. The brand is very significant in direct consumer products, although it is not a determinant in industrial products.

PwC: In emerging markets cost structures are generally expected to be an advantage. However, as the emerging markets grow relatively faster, the average cost advantage disappears in these cost structures over time. The question here is how this can be maintained?

Osman Boyner: We are no longer a typical emerging market. Turkey is probably the most expensive country among those in which this survey is conducted. Particularly in terms of labour cost and local costs, such as energy and electricity. If you see the matter from a manufacturer perspective, then these points gain significance. The high value of the local currency also increases the cost.

PwC: What about R&D and innovation?

Osman Boyner: It is generally thought that emerging markets do not innovate, but mostly imitate. We are struggling to move out of this category.

PwC: What is unique about your supply chain? What is your experience with global sourcing, what are your perspectives on scalability? What is meant with this question is that small- and medium-sized enterprises suffer more in emerging economies as they cannot catch up with the economies of scale. The ones making purchases in great volumes may have the chance to lower their costs by benefiting from the advantages of economies of scale. The notion is that global sourcing may initially be a problem for emerging markets. What kind of experience do you have with respect to global supply? How much of your time do you spend working with overseas product and service suppliers?

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Osman Boyner: There are two or three unique segments in our supply chain. First of all, it is unique, as it is textile industry. We call it the Zara business model. Let me explain it this way. We know that a sweater is considered a non-perishable. However, it is a bit different in this case, because it actually “rots” in the department. If it isn’t sold, you have to remove it. You can’t keep it there for too long, you have to replace it with something new. The “fast response manufacturing” method is used effectively here and this approach pushes you to create a unique supply chain in terms of leading the industry and adapting to it. With the same idea in mind, Zara believes that it should operate its main plants close to the locations where its customers and shops reside. That is why, as its main shops are in Europe, it still has to keep most of its manufacturing in Spain and it has to get it into the shop as soon as it is sent from the relevant plant. The intention is to save on transportation time. Sometimes they build their own airports next to the plants, as they have introduced the approach of a grocery store to the textile business. They make deliveries to the shops three times per week. Goods are sometimes delivered each day to the busy places. So, companies such as Zara do not force us to keep the product ready, but they demand the readymade product within eight weeks. The colour, mix and all the other features are determined and shared by them within these eight weeks. We are trying to adapt ourselves to this pace. If you lag behind, you disappear. Those, aligning themselves with this pace, also become unique. The industry is exceptional in this sense and we also want to be exceptional in it. Despite competition from Europe, we sometimes decrease the delivery period from eight to twelve weeks to three to four weeks, to stress our competitive strength. As the delivery period is three to four weeks, this feature is also unique.

PwC: How do you organise and co-ordinate this with your own suppliers? What kind of method do you adopt within your business to be able to respond rapidly?

Osman Boyner: You either seek to benefit from the stock side or request that your supplier keeps such stock ready for you, ensuring that you can purchase it. Therefore, you are attempting to create competition among your suppliers. However, the response time involved is such that if there is something you have to wait for from the supplier, that order fails. That is why you have to keep stock in order to meet the requirements of response time. The upside of this is that stock cost is not a huge financial burden for the time being.

PwC: I think the conditions of the market and industry in which you operate drift you into such a competition. Within this context do you possess a relative advantage over your competitors in western economies?

Osman Boyner: Most of our competitors are already active in western economies. That is, this response time is stipulated by them. You have to keep your stock at a certain phase of this supply chain. This should be either your raw materials or your products. The Europeans keep product stock. They take the relevant risk involved, as the financial cost is lower for them. They provide an immediate service, as they keep the product. Without taking the risk related to the product, we aim to keep stock via a fast supply chain. The model seems to be shifting to this approach today. Of course, this is also related to governance. Implementing a flexible type of governance instead of a bureaucratic process enables us to make swift decisions so we can keep up with the fast pace of the business.

PwC: What is the role of global sourcing in your business?

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Osman Boyner: Our markets are mostly external, global. Another significant point here is that we operate within the woollen textile sub-category within textile industry. Woollen textiles are relatively more expensive than other textile products. This makes it stronger, though. As the product is more expensive, you want to be situated closer to people, not physically but in terms of reaction time. The shop might think that it should take less risk – maybe no risk at all, as this product is more expensive. The closer you keep the commodity to the customer, the more your system has the features of the fast response method. Wool can be found in the southern hemisphere, particularly in South America, Australia and South Africa. Hence, the requirements of such a fast response supply chain are more than those for the other materials and we could not survive, if we did not source globally. 80% of the products manufactured by us are bought by European customers. When they search for a place to process them, they find us and when they come from the southern hemisphere to Europe, again they find us. We have a sort of logistic advantage en route. In the past, we used to receive the wool in bulk and we had to deal with all of its processing starting from its very rough form. Today, we receive it as an intermediate product, because we outsource the service.

PwC: Can geographical location be seen as a unique feature creating a difference? If you had to supply these products not from Turkey but from a more southern country, would you encounter more logistic problems in relation to supply?

Osman Boyner: All in all, you act as a converter in the textile industry. The raw material used is definite. You collect the relevant raw materials you possess and provide certain logistics. The business might be treated as a business of logistics, too. You create a certain design, then send it to the shop. Therefore, had Turkey been situated in South Africa, such a business could not have been carried out. The closer you are to the ultimate markets, the better it is for your business. I think we have an appropriate hinterland.

PwC: Let's talk a little bit more about your customer process. Such retailers as Zara are your customers. The advantages you have in the supply chain also emerge as advantages in the customer processes.

Osman Boyner: Of course, the advantages regarding the supply chain are reflected to the customer. You enable the customer to act in a more competitive manner. As we are in the middle of the chain, in a way we ensure that balance exists on both sides of the chain. There are certain firms incorporating all these three parts of the chain and creating the attributes of a global differentiator. However, this kind of a process may be subject to various uncertainties.

PwC: What is your opinion on the confidence in growth potential? As far as I am concerned you foresee very significant growth potential. Can you detail the reasons for this expectation? At this point, perhaps we can focus more on your relative advantage in the business networks as well as on the advantage of your financial strength. Your financial strength is more related to the fact that you have access to capital markets rather than being a fairly liquid company with lots of sources.

Osman Boyner: We do not need to talk about our financial strength (because we do not have such a thing). We have no intention to enter into an IPO and accept financial shareholders. The activity there is zero.

PwC: The capital cost you will incur when you perform an IPO may be higher than the average. There are certain risks involved. What should be done then? Should it be somewhat downgraded?

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Osman Boyner: Yes, that can be downgraded. If I were to define our business, I can say that we are in the textile industry; however, we operate more like a logistics company. As I have already stated, our business has a logistics side due to its supply chain process. You convert something and you act like a financial intermediary in the meantime. Perhaps we can be likened to a bank in terms of our operation style. You extend a loan and provide financing for something unfamiliar to you, just as a bank does. Of course, we do not have such a structure, but we have the status of a regular creditor, extending credits to our customers.

PwC: Actually what is meant here is the other aspect, what is meant is your relative comfort in obtaining loans, although you are in a position to provide loans.

Osman Boyner: Yes, but we actually do not collect deposits like a bank. Nobody comes to our door to give us money. Either we finance ourselves by our own means, namely by equity or we obtain bank borrowings by pledging our shareholders' personal collateral. Textile is generally an unstable industry. As it is not deemed as collateral and not considered of great value, you cannot find a shareholder easily. No one wants to take significant risks. This is a perspective prevalent particularly in emerging markets. This is our competitive disadvantage in the emerging markets in comparison with the developed markets. For example, I may have to pledge extra non-business collateral for a loan; however, in a developed market my competitor can directly get a loan without any collateral. Even if you demonstrate your business plans, budgets and projects, bankers may not grant the loan on the grounds of uncertainty attached to your business.

PwC: So, this financial strength at this point is a unique advantage for you?

Osman Boyner: Well, it also results from the fact that we are an established firm which has been doing this business for 50 years and has a reputable brand name. It is not a firm which popped up five or 10 years ago.

PwC: So if you were a recently established firm in an emerging market, would this be a serious disadvantage while seeking finance, ?

Osman Boyner: Certainly. Financial strength is what keeps us competitive because we compete with producers such as India and China; but what really haunts us is the competition from Italy, Portugal and Eastern Europe.

PwC: You also carry the country risk on your shoulders. So even if you are a brilliant firm, because the banks and capital markets are operating internationally, they also take into account the country risks as well.

Osman Boyner: Our business is not restricted to Turkish market. We are an internationally diversified business. We finance the operations abroad, since exports constitute 50%-60% of our operations. It has a certain risk, too, but when they require the collateral from you but not from the competitor, our competitors have access to loans for relatively longer terms. As the banks have a credit crunch, they provide financing for six months. Nowadays some banks will not grant loans to us over six months as they say they do not know what will happen to us due to syndications. As the available financiers for my competitors are in Italy and Germany, this is a serious disadvantage.

PwC: What this survey aims to do is to actually set forth both the relative advantages and disadvantages of the emerging markets. It is useful in this respect to mention this.

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Osman Boyner: In order to finance your business in terms of financial institutions, you have to give the shirt off your back to the bank. In this case, you have to be a shareholder, but even so that is only up to a certain point. You cannot get finance in developed countries. Even though you have comparative advantages in other places towards your competitors, you are ruled out. For example, when you can provide 120 days of financing, you are asked for 270 days of financing by a developed country firm. Even if you are an innovator bearing the same qualifications as your competitors, they are preferred. You have to make more effort in other areas to compensate this difference.

PwC: While you expect growth here, do you also expect a high level of growth in your industry internationally?

Osman Boyner: I do not consider this situation in terms of industry. We grow for ourselves rather than the industry. Since the number of those who get out of this business is increasing due to the severe challenges, we plan to grow as a firm. We see this as a potential opportunity. I mean our industry is on the downside of the cycle currently. But where will it rise to? We believe it will go up. Using this as an advantage, we intend to increase our share in the market, even though the industry is receding.

PwC: I also would like to focus on human capital and organisational issues. You rated culture and change relatively high. That is to say, we are highly open to change. We are very flexible. This creates an advantage for us. Moreover, your shareholders represent the management at the same time, meaning that supervision, management and execution are all performed by the shareholders. Therefore you are different from family enterprises, where professionals manage the business and the controlling family has only the supervision function. You stated that this is a relative advantage in the industry. Can we discuss that?

Osman Boyner: The decision mechanism operates very quickly here.

PwC: It is understood that this is of greater advantage in your industry. There are some industries in which the correct decision is more important than a quick decision, for example, the finance industry. Decisions through a certain checks and balances mechanism are more essential than quick decisions in banking. You can go bankrupt with a wrong decision in the banking industry, but I see that it is more important to make decisions quickly rather than correctly in your industry.

Osman Boyner: It is more important to respond quickly. As we said it is necessary to respond quickly regarding the products. Likewise, you have to respond very quickly in terms of decisions. Last May, an investment project was presented to us. There was no time to think or thoroughly research it. Investment has now finished and we have started to deliver the product. Such a quick cycle is necessary. Why? It goes hand in hand with the principle of survival of the fittest.

PwC: I think your purpose is to grow by increasing your market share in the industry rather than growing together with the industry. This can be attained by means of acquisitions and various partnerships but these kinds of governance structures may have some disadvantages in the future. Let me tell you the point deemed as a disadvantage conventionally. Sustainability. It becomes a governance structure dependant on specific people and the family. The issue of sustainability is underlined in such structures. Do you see any disadvantages with this issue? Or are there any measures you have taken regarding these disadvantages?

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Osman Boyner: When we are talking about sustainability, God knows what will happen in the forthcoming 10-20 years. No business can predict this. Even if they tried, no one can actually predict six months from now. Who could predict this year would be like this at the beginning of last year? No one, I suppose. Flexibility is such an advantage, you can decide according to abrupt changes and act accordingly. Decision mechanisms are not system-based. As they are human-based you can decide much more quickly. What kind of vulnerability does this bring about? If a manager has a traffic accident, that has a downside in terms of the business. It will take time to compensate this. This is a great vulnerability. How do we manage this risk? We do not manage it. In order to manage it, we have to establish the necessary bureaucracy, which would undermine our business. You take the risk, because you have to.

PwC: Apart from this, the risk of being dependant on a person's will, rather than being controlled and system-based, might be related to the safeguarding of the resources you have created. I mean, if no systems have been formed against fraud, corruption or the removing of company resources from the company, disadvantages may arise regarding sustainability.

Osman Boyner: But you can tackle it using the owner-manager structure. I mean, you yourself perform the control mechanism, too.

PwC: Actually, most of the problems we are aware of in the US stem from the fact that management and shareholders are different. This is not relevant for you of course. Shareholders entrust the management with their money. And management swindle them. You avoid such a risk as shareholders and management are the same in your business.

Osman Boyner: Let me add something about this specific industry. We were trying to acquire a textile firm from a holding in 2002 or 2003. We spoke with the owner. We arrived at the opinion that textile is not a business for a holding. As the decision of the creditor was required, an owner had to lead the business. As the management structure would thus get awkwardly complicated, we could have incurred losses, since we could no longer display the required agility. When we looked closely, that firm was incurring losses in 2002; therefore it was not the right company to go ahead with two or three owners. It is also like the way you go ahead, when an owner dies. There are concerns, for example, whether Armani will remain Armani after Armani dies. It is of course very personal.

PwC: Well, it is of course not right to say for a particular firm that it has an infinite life. Every firm has a life cycle. Of the companies on the New York Stock Exchange at the beginning of the twentieth century, only one survived. But the main point for the markets is to estimate that life. I mean, when people wake up in a morning, they should not hear that the firm went bankrupt. They should be able to anticipate it.

Lastly, let's look at the effect of the government.

Osman Boyner: Regulation does not matter for us. I mean regulations are not particularly relevant for us. If I put this product into market in Zimbabwe or Egypt, it does not make a difference in terms of regulation. All the regulations have been repealed already anyway in textiles – it is a free market. Everyone competes with one another. Maybe we should have regulations to some extent. I will approach this from the opposite angle. I do not mean over-regulation but maybe we need some regulation in the sense of protection. While Turkey has the capacity to produce sufficiently for itself, we do not because of the cost. I do not mean I want protection for myself personally, but for the industry overall, the government should apply some protectionism for a certain period. It does not, but, in the end, every country seeks its own interests. Perhaps, it should. Everything is free regarding our trade with the EU in terms of exports and imports. There is no protection.

PwC: Speaking generally, does the economic policy of the Turkish government affect your business positively?

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Osman Boyner: We are trying to focus on this. Take a certain productivity level – you put in some labour. Labour has a cost. That cost is within the productivity. Your product is divided by cost. There is labour and energy cost, and my financing for doing it here.

PwC: There is also the exchange rates issue here, possibly.

Osman Boyner: The exchange rate issue is the result of these factors. It is not a determining factor. I do not like talking about exchange rates for this reason. What actually matters is that when the government cannot collect taxes properly, it applies excessive taxation on energy. Energy prices are high. This stems from tax as far as we understand – it is not due to anything else. As the system has not settled yet, there is a high level of unregistered transactions. Through excessive taxation of compulsory inputs, the government is trying to compensate the tax losses resulting from the unregistered economy.

PwC: Soon, energy privatisation will be realised. Distribution has already been privatised, now electricity production will also be privatised. Can this produce positive results?

Osman Boyner: No, it will not. Take oil, for example: it is privately operated. Today, Tüpraş brings the oil and companies distribute it. You have to consume this oil, you have no alternatives. The problem is the high taxation of this by the government.

PwC: There is an approach to selling the electricity to industry at a higher price to reduce the price of household electricity in Turkey.

Osman Boyner: This was also the case for the telephone infrastructure. Extending a phone line to a village in Diyarbakır, for example, does not have any additional cost for the user there. He pays the same amount as me in Istanbul. However, I should be able to use it at a much cheaper price. I am in the centre of the city – 10 people use the same line here, whereas one person uses a line of the same length there in a scarcely populated region – but we pay the same price. Secondly, productivity is a serious problem for us. What is it? The cost you pay is high and output from labour is low.

PwC: What kind of role can the government play here?

Osman Boyner: There must be labour competition. The wages you pay and costs incurred are very high relative to output from labour which is not satisfactory. What can the state do here? Education – vocational training in the short-term, and general education in the long-term. When I compare my labour qualifications with my competitor in Eastern Europe, it is seen that his factory floor employee has an engineering background. Therefore, the output he gets is of a much higher quality. Whereas in Turkey, given the cost structure we intend to recruit primary school graduates who turn out not to have even graduated and when you look at the cost, still my competitor's cost is lower. This is another point.

PwC: This is actually a disadvantage.

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Osman Boyner: The output we get is very poor. How can the state improve this? It can raise the educational standards. How can it decrease the cost? State should be much smaller. How does it affect the overall situation? We have a person here whom we trained for four years and then assigned as a manager of a factory in Çankırı. No one wants to go there. We trained him and he settled there. He called us three months ago – he took the public institutions' entrance exam and won: the government recruited fifty thousand people. The state is growing when it should be getting smaller. An employee prefers to work for the state, although he gets paid lower. He prefers it due to convenience factor. The state is initiating labour and financial crowd-outs. The state has to offer an interest rate on deposits of 15%-18%. In such a case no one wants to take investment risks, when they can get guaranteed 18% profit. So there is a financial crowd-out. These labour and financial crowd-outs raise the general cost in the country. Exchange rates are also part of this general system. However, the main issue is that the state has to shrink. It is omnipresent.

The third issue is the weakness of the infrastructure. Maybe it is better than that of Eastern European countries. I am sure it is better than India, but it is weak in comparison to China. It is also weak when compared to European countries. There is a railway in front of the factory but you cannot use it. It is more expensive to use it. However, we regard ourselves as a logistics business at the same time. Being able to use it would create an advantage, but we cannot use it. These problems all arise from the organisational disorder inside the state.

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