

Convergence & Differentiation

What is
success in
a connected
world?*

Interview transcripts of Emin Hitay,
Chairman, Teknoloji Holding,
Turkey



Emin Hitay is Chairman of Teknoloji Holding

PwC: Can we first discuss your financial position? Is your financial structure strong enough to support growth in the coming periods and to finance your current investments? Are you able to find debt or equity instruments when necessary?

Hitay: We are among the fortunate few companies in Turkey which do not encounter problems in this respect. We managed to sell our shares in two investments in the last three years. Therefore we do not have or need any external borrowings for the time being. We make our investments entirely through internal sources. The sale of our 20% interest in Inteltek to the Greek company Intralot, one of the existing shareholders of Inteltek; and the restructuring and separation in the shareholding structure of Teknoloji Holding allowed us to redeem all the debts. These achievements have enabled us to allocate the proceeds of the sale of our subsidiary Planet to French group Ingenico to our new projects. Through these proceeds, we are now able to make our investments more comfortably.

PwC: Do you have a comparative advantage in the market through the use of your brand?

Hitay: Of course, we have a certain advantage in the market. Teknoloji Holding has been in the Turkish technology business for 20 years. For example, even when we establish a new company and launch it as a corporation of Teknoloji Holding, a significant contribution is made to that company's name and to its future business prospects.

PwC: Are you confident about your future growth potential?

Hitay: Of course, potential for revenue growth exists in developing countries. Market penetrations are relatively low both in terms of services rendered and products sold. I am not talking about the GSM users. I'm talking about low levels of penetration in a broad sense in different industries: a low number of automotive users, technology users and even proprietors, due to the recent late entry of mortgage loans to Turkey. GSM usage, on the other hand, is pretty high compared to other technology products. These rates are closer to those in European countries.

PwC: From Teknoloji Holding's perspective, which areas do you think will develop and grow in the future?

Hitay: The answer to this question can be derived from what we are doing. For example, we established Embrio in 2006 in order to develop projects on internet and mobile platforms. We now have four projects. Each of them is run through separate companies. Our sole investment in this project was €6m in 2007. No one else is currently investing such an amount in internet projects in Turkey. This market is not developed in Turkey at the moment. Increasing bandwidth has resulted in increasing the number of internet users. As is the case with GSM, the number of internet users has multiplied at an incredible pace. As a result of such increases, these projects will be relatively profitable. However, had we not started to invest today, in the future we may not have been able to find an appropriate marketplace for ourselves.

PwC: During the initial internet boom in Turkey, numerous companies entered into this market with similar purposes?

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Hitay: Actually, the investments were not so high then. There were a few remarkable investments but even projects like İxir and Turkcell's Shubuo have failed. This failure is understandable: better understanding of investment areas was required and the number of internet users and insufficient bandwidth should have been taken into account. The bosses of these investing companies must have been convinced by certain professionals that these areas would grow considerably, although the tools and necessary infrastructure had been overlooked. However, conditions are different now. Today, we have an access speed of 4 megabytes. Download speed is also faster. This is a vital improvement. In the past we used to connect at a speed of 56kb. Failure was inevitable under such circumstances.

Large conglomerates believe in tangible outcomes but for this business such an approach is not enough. Furthermore, the investments made in the past can partly be viewed as a result of entrepreneurs' concern that they would miss the boat. Sabancı Group's investment in Turk.net is an example of this. Sabancı was not able to achieve anything and sold it off in the end. Doğuş Group invested in İxir and also failed. Today, whatever internet service provider Superonline creates cannot succeed as TNet (ISP of Turkish Telecom) dominates the market.

It is obviously unfair competition. Unfortunately, that's the case. It is almost impossible to compete against TNet. For example, its new project concerning free music download has resulted in the collapse of all the other websites operating in the arena. No one can earn money from this business any longer. TNet is too powerful and can control the market.

On the other hand, I am moving into another field and focusing on investments solely related to the internet. We have some projects in the pipeline. For instance, belgeturk.com has been established to provide e-document management services. This business is really an unknown one in Turkey. At the moment the company has 16-17 workers but by the end of the year I think the staff will number 45-50 high-level employees. I see a niche in this business although, of course, certain barriers are involved. The same thing is also true for our internet projects – certain barriers need to be taken into account. So, things are different now. Two friends cannot sit in a garage and work together to produce an internet project anymore. Significant effort must be made before such a project is developed. Marketing must be involved; investments must be made; and, finally, certain key employees must be recruited. Such operations cannot be carried out through businesses established by just two people – size is one of the barriers in question. Consequently, many such companies disappear suddenly. However, we are a permanent player in the market.

PwC: Do you regard this as a risk, too? When your achievements since 1988 are analysed, it is clear that you have attained a level of success in each area you operate. Therefore, it is also possible that after all these barriers are removed and a certain level of success is ensured, competitors may feature in the market or business area in which you operate.

Hitay: The principle of "first mover advantage" is valid to internet business. That is, the first company starting the business has an incredible advantage over its competitors. What kind of advantage is it? If you take accurate steps and focus on the right things, it is really easy to utilise the position of being the "first" in a field. That is what we benefit from. Particularly for the internet projects this is an enormous advantage, as it is as if you are creating a brand for your website's address. When a person uses the website once and is happy with the services he receives, he resists using another website and adds that website to his favourites. This is why we are aiming to create such internet projects over the next two years. I believe that these projects will realise returns by 2010. We started our investments in 2006, recruiting staff and making preparations. Significant investment – over €3m – took place in 2007. This year we will double that amount. So, in total, I will have spent €9m over two years. No other company invests so much money in the internet business nowadays but I believe that I will achieve a high level of return on these investments – they will be quite significant assets by 2010 or 2011.

PwC: Will you concentrate only on ongoing projects or do you have any plans to invest in different fields?

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Hitay: Yes, we do. For instance, we had intended to enter the leasing/factoring business. However, the Ministry of Finance has just reduced the incentives in the leasing business. Although we had taken the licence from the Savings Deposit and Insurance Fund and submitted the files to the Banking Regulation and Supervision Agency, we have decided to pull out before making any significant investment in the field.

We have an appetite to enter into new business areas but what we learned from this process was that such businesses are not appropriate for us. We know how to create values from nil.

We also know how to sell our assets after creating that value. Thus, there is no point in seeking new adventures in other fields. We are always open to new investments in our technology business. I can see the future is in mobile communication. Therefore, I am making investments in that field. My expectation is not to achieve results today, but to gain a market share and hold a suitable position for the future. It can take a long time to gain a return on investment. Many have pulled out because of that. I know one businessman who started his business in 2000 and has been investing continuously since then but cannot earn enough money out of it. There was nothing tangible in 2000. We even had to wait a really long time just to open a web page; but, conditions are different now. Internet speed is crucial. There is no point in initiating a project related to the internet unless the adequate connection speed is available. Well, what is still missing are the usage habits. The number of users is not sufficient. Nonetheless, it should be easy to increase the number of users, provided that speedy access is provided. The most popular product in Turkey nowadays is the laptop. They are sold in incredible numbers. The more computers that are sold, the more people will use the internet.

PwC: I would like to return to your financial strength. Your greatest value at the moment is the fact that your financial structure is strong. Do you have the capacity to finance all your investments through your equity?

Hitay: We have assets such as Bilyoner as our insurance. We keep our investments until a good buyer comes along. Where the potential buyer offers a fair value for my investment, I do not hesitate to sell. My expectation is not getting a dividend. What is important is to invest in a niche market to create a value, and to sell that value in bulk. By doing so, it is possible to generate resources for another investment and create value again. This is the business I know. I do not like settled and stable businesses. As I stated previously, I know how to create value from nil. It is not possible to make a fortune from the money gained from the operations of a company. There is no fortune through profits. Fortune is generated from company sales, share sales or, in broad sense, the sale of a created value. Some big players or groups have idle cash to invest either for the entire value or for some portion and I like to sell. I think it will continue like this.

PwC: So, is your strategy funding with your own resources, using external debt or going for public offerings?

Hitay: Of course, I consider all these alternatives, but the internet projects started from nil are a case apart. I find loans for them when I, myself, underwrite them. However, the projects/company should be able to find loans itself, rather than relying on a shareholder's personal creditworthiness. For this to be attained, something tangible should be accomplished. In my opinion, all these projects should be in a position to find external funds next year since they will begin generating revenue this year and their values will continue to increase.

Some requests also come to us to establish strategic partnerships. They offer to buy 15%–20% shares of some of our projects. They are willing to buy, but as an insignificant value is being created for the time being, the investment is undervalued. In 2009 or 2010, there may be partial sales and, accordingly, value creation can be accelerated. I can say that I will not invest more than €10m in such projects. We finance the remaining capital needs by share sales and loans. A certain amount of money should be invested and the risk should be shared.

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PwC: What are your thoughts about the importance of the strategic partnerships in this value creation process? For instance, we can mention Bilyoner or former Inteltek, where Intralot, which appears to be competent in the betting business, Turkcell, with its infrastructure experience, and you as Teknoloji Holding worked together. How was that process realised? Who undertook what?

Hitay: Well let me clarify. At the beginning Intralot was not in the picture. We, together with Turkcell, participated in the tender arranged by State Sports Betting Organisation. However, neither Turkcell nor we knew about the necessary infrastructure for such an investment. We also did not have a clue about its management. So there had to be a strategic partnership. We inquired, and found five to six companies – no more – that could handle this. The most favoured one was Intralot which was willing and very eager to enter the Turkish market. This partnership provided us with an advantage: they brought the current concept of sports betting with them after that tender. Sports betting has been legal in Greece for 12 years. If the current form of sports betting had not been introduced, we would never have been able to achieve this turnover. We could not have achieved one tenth of the present turnover. The original game generated a turnover of \$17m; we thought we could raise it to \$117m but not to \$2bn. The figure this year is almost \$1.9bn.

We undertook the establishment and structuring of the company in Turkey. Intralot undertook entirely the technical infrastructure. Turkcell's connections with the government and regulators were fairly influential and contributed significantly as we were inexperienced in those issues.

PwC: I would like to focus on the human resources and organisation issue. In the PwC Global CEO Survey, the need for well-trained, talented and qualified staff, and the retention of the current staff were important focal points. Furthermore, difficulties encountered in finding a talented labour force were determined to be the second biggest threat. How do you view this issue?

Hitay: It is very important for us. We do not have factories or machinery, so human resources are everything for us. There are serious problems on this subject in Turkey though. You post a classified job advert with a minimum wage and 10,000 people apply. However, it is very difficult when you look for people with a specific level of qualification. I mean the person says he knows the job, but when you test him, you realise he knows nothing or very little. The number of qualified people is scarce in Turkey. There is a limited source and everyone shares it. There are transfers constantly. You can't find a person with particular qualifications easily.

PwC: In which fields do applicants' skills tend to be inadequate?

Hitay: As the supply-demand balance is disrupted – the number of qualified people is low and the number of demanding firms is very high – people are placed in a position one level higher than they should be. People graduate from university and plan to become a manager in two years and general manager five years later. This is not an appropriate attitude. The worst thing that can be done to a person is to give him a title which he does not deserve. In the end he won't manage it. Sometimes people acquire the titles but as they don't have the background and talent to meet the requirements of the tasks, they stumble. Eventually they are dismissed. When someone resigns or is dismissed, the biggest disadvantage he incurs is this: he does not want to go down a level. So he cannot find an appropriate position and consequently falls into depression. In fact he has shot himself in the foot.

People who are hard workers, responsible and co-operative, who give importance to their development, will eventually reach the desired position and title. But they should be patient. There is an overrating of titles. People are too fond of them. That is not the case abroad. For instance, a man can be a sales representative for 10 years. If he performs his job very well he may earn more than his manager, which would not be the case in Turkey.

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PwC: When you take into account your present human resources and organisational structure as a whole, does this provide you with a competitive advantage?

Hitay: We work with 600 people. It would be impossible to attain what we have done up to now without the contribution of our people. We have very talented friends. Accordingly, they bring about a competitive advantage for the company.

PwC: How do you view the openness of your staff to change and how would you characterise your corporate culture?

Hitay: Management's style and its decisions affect the whole organisation from top to bottom. Top management attitudes have repercussions through the entire entity. Since I am a person very open to change, this culture is reflected in the lower levels as well. Therefore there is no problem in this issue. No one likes change but development, entrepreneurship and innovation are not possible without it. Risks have to be taken to some extent. One cannot be an entrepreneur or innovative without taking risks. People like us are those who take high levels of risks

PwC: You have been an entrepreneur for more than 25 years. By utilising your experience and knowledge as an entrepreneur in the Turkish technology market, you are acting as the CEO of Teknoloji Holding while you are also the owner of the group. How does this affect corporate governance in Teknoloji Holding.

Hitay: Teknoloji Holding is more institutionalised than many firms. I mean everything runs well as set. It might appear that the ownership and governance concentrate on single shareholders but when we take a closer look, we perform many things that institutionalisation necessitates. What is institutionalisation? Is it not working in a professional manner? Believe me, sometimes professionals behave more like a boss than a boss. – they can be very despotic. I don't get very authoritative as I have to think of my own company's interests. If, for example, someone comes in and treats everyone harshly, then goes away, he may well leave the company in a mess. I would not do this: if I turned the company into a mess, it would harm me. Therefore, I have to manage this organisation in a balanced manner. Places which are not institutionalised are those where there are professionals with inadequate management skills. That is my observation. Businesses which are called institutionalised can be managed by professionals in a way which contradicts the needs of the institution. A general manager there acts more like a boss than the boss. So he out-Herods Herod. He treats those in an inferior position cruelly. No one can react at all. He is called a professional and the attitude is deemed as corporate. That is not the way I do business. We have two general managers; one for the e-business group and one for other technology companies, who assist me in the management of the company. The CFO, HR manager and legal department directly report to me.

PwC: You actually act as a balancer in the firm in a sense?

Hitay: Of course, if a professional loses his temper and starts to manage unreasonably, you fix and balance him. Therefore acting as a balancer is crucial.

But the business runs smoothly here without my involvement in daily operations. Policies and procedures were all set down to achieve this. This firm has a more corporate identity than many others.

PwC: Can we talk about your customer and supply chain processes, cost structures and innovation status – your 'core competencies'? In view of your customer profile, how would you assess your company in terms of the features distinguishing you from your competitors?

Hitay: We are not perfect in this respect. Firstly, we have gone through a separation process within our shareholding structure. Following the departure of the other partner, I had to terminate some of our employees' contracts; hence, we recruited many new people. Of course, we lost a certain degree of our strength with respect to our customer base then. But, now, we have again reached a point where customer satisfaction is mostly ensured.

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PwC: Do you have any projects in the pipeline regarding foreign markets?

Hitay: For the time being we do not have such projects in mind; however, we intend to expand to foreign markets in e-business. We are seriously working on alternatives, either the US or China.

PwC: How would you evaluate your supply chain process?

Hitay: Our oldest company, Exim, should be taken into account here. We encounter certain problems there. Vendors have earned significant amounts of money in Exim's business field. One distributor used to operate in that field in the past. Exim was carrying out the distributorship of a certain product and we competed against one another. Now, exclusive distributorship doesn't exist any more. A firm is able to sell its products to five to six companies. The situation has actually become a little bit comical, as even the distributors and vendors compete against each other and the products are even sold at margins of 4%-5%. The market possesses qualities enabling the vendor to earn money independently.

PwC: Has there been an increase in the number of vendors? Is China an alternative for you?

Hitay: China is not; however, we do import a product from Taiwan and sell it here. We got the PTT (Post, Bank and Logistics) tender through the sale of goods that we brought from Taiwan. We have managed to attain certain exclusive distributorships. Otherwise it is really difficult to do business, as here it has become a heaven for vendors. The rest earn a profit margin of 2%-3%. Few companies earn huge amounts of money, although significant efforts are made. The customer also acts indifferently and conceitedly, as he encounters numerous firms visiting him to sell the same products. That is the natural result. I would do the same in their shoes.

PwC: What do you think about existing legislation and regulations in Turkey? What kind of support do you receive from government? I think certain practices were implemented in the past in a manner that would support both the infrastructure and entrepreneurs like you. Are such practices effective enough today?

Hitay: There are certain problems. For instance, techno-cities ("Teknokent") are being established within universities. However, they demand rent of €15/m² a month and a general maintenance fee of €5/m² a month. Since the rent for an office plaza opposite to Teknokent is around €8/m² a month, such amounts are really unreasonable. I have spoken to the director general of Teknokent and asked why the rent is so high, if this facility was established with the aim of supporting the industry. He claims that the techno-cities provide certain tax advantages. This is partly true but the Government certainly has not granted this tax exemption so that I can pay Teknokent the amount I save in tax as rent.

I also think that as there is no kind of cost as to the land, the space could be leased at even €3-4/m² a month. The only cost is related to the building per se.

Of course, the Scientific and Technological Research Council of Turkey (TÜBİTAK) provides support to us, particularly in relation to the R&D projects. Although this process functions relatively slowly and needs to be accelerated, it is still helpful. TÜBİTAK sometimes covers 20%-60% of the project cost.

I believe that techno-cities should not be imposed as an obligation. In my opinion, all the companies investing in this field and focusing on R&D for such projects should be exempt from tax. They should be exempt from corporate tax. But, such exemptions may be open to misuse. That's why they must have decided to create these techno-cities within universities. However, the two techno-cities in Istanbul are rather inadequate – they should be at least 20 times larger. And the lease payment per m² should be reduced by half.

PwC: Do you have any other expectations regarding legal arrangements?

Hitay: No, I don't.

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