

World Report

Part two

8 SEPTEMBER 2007

Turkey

& Northern Cyprus

Closer than you think



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What a difference a day made

The message sent by Turkish voters is loud and clear: reforms and European integration are key

Last July, it took only a day for markets to respond to the AK Party victory. On the Monday after the general elections, the Istanbul stock-market index gained 2,689 points, or 4.8 per cent. In currency markets, the Turkish lira continued its two-year appreciation against the US dollar. Voter turnout, despite the blazing summer heat, was 85 per cent. Industry leaders quickly lauded Prime Minister Recep Tayyip Erdogan for his pro-business outlook and four-and-a-half years of uninterrupted GDP growth. Praise also came from Brussels, where Turkey was congratulated for its vibrant democratic system and its westward-looking structural reforms.

Meanwhile, in the sober halls of the IMF in Washington, a May 2007 report concluded that Turkey's 7.5 per cent average annual GDP growth since 2002 has been nothing short of an economic revival. Granted, external conditions have favoured a Turkish take-off and the IMF's own recommendations have helped bring down interest rates – making credit to SMEs a realistic option for the first time. In addition, market confidence is high because of staunch adherence to the primary surplus target of 6.5 per cent of GNP. The IMF has also credited the AK Party for strengthening bank supervision and passing landmark tax reforms. It is no surprise that FDI will surpass last year's record of \$20 billion.

More important than financial credentials, however, will be Turkey's EU membership bid. No other cabinet has brought Ankara closer to Brussels than Prime Minister Erdogan's AK Party. Driven by a wave of reforms, the number of female MPs has doubled to almost 10 per cent of Parliament. Broadband internet now reaches more than 90 per cent of the school population, from Edirne to Hakkari. There has been a marked improvement of legal rights in the south-east, where most Kurds live. Some detect irony in the fact that a supposedly Muslim conservative government has resolved the country's traditional imbalances. In the words of Ali Babacan, the Minister of Economic Affairs and Turkey's chief EU negotiator, it all boils down to continuity.

"Political stability is the beginning of everything for a developing nation. To make sure that our political situation improves



PHOTO: REUTERS/UMIT BEKTAS/CORDON PRESS

Ankara, 22 July 2007: AK Party supporters celebrate the results of the national elections

overall, we have chosen a very important framework, which is EU accession," Mr Babacan told an audience last year at Chatham House in New York. Policy continuity will help cement the party's reputation in Europe and ensure ample popular backing. It will also ensure capital inflows into infrastructure, banking, real estate, energy, tourism and manufacturing. With increased prosperity and access to higher education, demographic trends will gradually adjust to European levels.

In two decades time, Turkey might actually face a labour shrinkage. An estimated 1.3 million farmers have moved into cities since 2005. According to Today's Zaman, the population active in agriculture has dropped 2.2 per cent in the last year alone. Productivity, meanwhile, has shot up 80-85 per cent due to efficiency upgrades, thus increasing agricultural exports to European markets from \$4 billion in 2002 to \$10 billion in 2007. "The share of the agricultural sector in employment has decreased to 26 per cent. All these developments show that we have gone through a transformation process in Turkey," says Mehmet Eker, Minister of Agriculture.

"Turkey has a young and growing popu-

lation. Until recently, this was perceived as a problem, a burden that Turkey would bring to the EU. But it is in fact an asset that can help the population deficit in the EU and spur economic growth at home," comments Mr Babacan. This does not mean that Turkish birth rates will outpace those of Western Europe, a question that has long troubled EU constituents over Turkish membership. According to Akin Alptuna, the Turkish Ambassador to London, the problem is manageable in the long-run. Besides, Turkey is not joining the EU tomorrow—it will take time. "Migration will not be an issue any more in the next two decades, but Europeans are not aware of that yet," states Mr Alptuna.

Thousands of pages of annexes and three years of talks based on a UN plan have not yet resolved the issue of Cyprus. The Ambassador believes a final settlement will require political will on both sides. EU membership of the island's Greek south has complicated the outcome. Lifting economic sanctions against the island's Turkish north can be enough to unlock the new standoff. "I don't think there is going to be a new plan. The elements of a settlement are already there," explains Mr Alptuna. ●

A good time to enter the game

Huge growth in the banking sector has been buoyed by investment and reform, but opportunities still abound for newcomers

In financial circles, 2001 is considered a watershed for modern Turkey. Grippled by a currency crisis, the Turkish lira lost nearly 50 per cent of its value that year and GNP contracted by a whopping 7.4 per cent. The gains posted in earlier business cycles were essentially negated within a few months. Suddenly, SMEs could not repay their loans and people were unable to pay for their cell phones. It was more than a recession.

Since 2001, the basic macroeconomic model has been altered. The post-crisis medicine rests on several pillars: structural reforms and banking consolidation, as well as prudent fiscal and monetary policies. Following the crisis, the central bank was given a new mandate to target price stability and, by extension, inflation. However, it was the ironclad rule of targeting 6.5 per cent of GDP surplus in the public sector that really brought Turkey out of the doldrums. For Durmus Yilmaz, Governor of the Central Bank, this primary surplus target is behind the new period of sustained growth.

"These and other macroeconomic factors have enabled the Turkish economy to move to a somewhat higher plateau," says Mr Yilmaz. By granting independence to the central bank, Turks got a preview of government accountability. As of 2006, the bank's policy committee had become a decision-making body able to manage external shocks. Integrating Turkey's financial system into the international context has also brought down risk premiums. But the current account deficit, now narrowing, has been one unwelcome result.

In the aftermath of 2001, the gov-

ernment's restructuring programme triggered a drastic consolidation of banks. By 2005, the number of financial institutions had dropped to 48, down from 81 at the end of 1999. Two years ago, total banking sector assets amounted to \$252.9 billion. The market is now relatively healthy and investors have begun to notice its momentum. Judging by price-to-earnings ratios, it is a good time to enter the game. "Growth in the banking sector is huge. Now, the market is seriously under-banked given the very young demographics," says the CEO of IsBank, Ersin Özince.

A market veteran and the leader in Turkey's banking sector, IsBank turned the financial meltdown of 2001 into an opportunity. "A crisis is just a detail for short-sighted people. The Venetian sailors

lost many vessels, but they never stopped trading. Able players and able beings always sail the high winds," asserts Mr Özince. As of 2006, profits at IsBank had grown to \$1.96 billion, or 2.54 billion new Turkish liras. By the end of 2007, the banking sector as a whole will be implementing Basel II standards, thanks in no small measure to players such as IsBank. And as neighbouring economies mature financially, regional expansion is a chance for Mr Özince to create more money multipliers.

"The interesting thing here is that we have more than a country—we have an entire region," he says. With fresh cap-



KEMAL UNAKITAN,
Minister of Finance



ERSIN ÖZINCE,
CEO of IsBank

ital in the system, Turkish banks have been among the first to speak about corporate governance in the eastern Mediterranean. Lebanon and Jordan quickly took notice. Now, the Turkish financial world is seen as a sophisticated player that can reinvent the business of real estate and industry in the region. Mr Özince cites new markets in Iran and Egypt, but also includes Russia and the nations of the CIS. "Are we going to watch globalisation or manage it?" he asks.

Despite myriad readjustments, the economic ground is solid. Food processing, automotive, electronics, electrical machinery, chemicals, textiles and



TANIL KÜÇÜK,
President of the ICI

leather goods are where Turkey excels. Tanil Küçük, President of the Istanbul Chamber of Commerce, gives the cabinet of Prime Minister Erdogan another two years to shield the economy from factors such as the high cost of energy input. It could

entail lower electricity prices for SMEs and a slightly devalued currency to make exports more competitive. "Within the OECD countries, Turkey is third in terms of the highest prices for electricity," Mr Küçük cites as an example.

"We've achieved a mentality change and a belief in economic growth," says Minister of Finance Kemal Unakitan. He too stresses the role of the primary surplus target in reducing the budget deficit and lowering interest rates. But on his to-do list is easing tax rates on employment, investing in research and development and stepping up privatisation. "Small and medium-sized enterprises are the driving force of our economy and they should be promoted. We're trying to eliminate the obstacles to a liberal, competitive market. The privatisation of Halkbank, Petkim and Tekel will be part of that effort." ●



Fast-tracked recovery: Turkey's emergence from the currency crisis of 2001 has seen the country post five years of solid GDP growth and SMEs as the driving force of the economy



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'A comprehensive solution is still possible'

Turkish Cypriots are confident that UN-sponsored efforts will at long last bring a win-win agreement

Any negotiation, by definition, is a positive-sum argument. Both sides will sign an agreement if their stakes are improved and the benefit is mutual. For the island of Cyprus, resolution of the more than four decade old conflict will require both sides to win. There is a great deal to gain from normalcy, including a common EU legal framework and higher GDP growth. Policymakers here will not let last-minute tactics ruin the outcome, despite the fact that 76 per cent of Greek Cypriots turned down a comprehensive UN settlement plan in 2004. In contrast, 65 per cent of Turkish Cypriots voted in favour of the agreement. For the Prime Minister of the Turkish Republic of Northern Cyprus (TRNC), a comprehensive solution is still possible. "True, there are different nationalities and ethnic origins, but European principles give us hope that we can live together on the basis of common democratic principles," says Ferdi Sabit Soyer, the TRNC's Prime Minister. Fully conscious of Cyprus's strategic value in the eastern Mediterranean, the Prime Minister is keen to point out that any non-solution will impact negatively on Brussels. For now, ever since the southern half of the island officially entered the EU in May 2004, the citizens of the TRNC feel left out in a Cold War-type isolation. The European Commission is determined to ease Turkish Cypriot isolation by facilitating direct trade. But this policy, TRNC officials claim, is continually blocked by the Greek Cypriot administration. In the end, any basis for conflict resolution will have to be bi-communal and bi-zonal on the basis of the political equality of the two sides. "This will send a strong message to all nationalists and fundamentalists in the world, to all those who oppose free trade and globalisation," says Mr Soyer. The impact of isolation is undeniable. There is little international banking here, few of the luxury showrooms and glitzy hotels one finds in the south.



TURGAY AVCI, Minister of Foreign Affairs



MAP PROVIDED BY THE TRNC PUBLIC INFORMATION OFFICE

Prime Minister Soyer also cites the business loss at ports like Famagusta on the eastern coast. A container shipment from Manchester to Famagusta costs \$700. But the same shipment to Larnaca, in the south, is billed at only \$300. "Shipping prices are 30-40 per cent more expensive, putting further strain on the economy. Direct trade would allow Famagusta to develop its own Free Trade Zone," he says. Famagusta is a historic trade port that dates to Venetian times. Tourism in Northern Cyprus was late to take off because direct flights to and from North Cyprus are not allowed. In property markets, TRNC officials see the UK as a major partner. Mr Soyer cites the development of a North Cyprus Marina by a group of British investors as the beginning of a



FERDI SOYER, Prime Minister of the Turkish Republic of Northern Cyprus

new trend. GDP figures are up as a result of construction, quarrying and services. "Our economy has experienced an average year growth of 10.9 per cent since 2002. Last year, GNP was \$2.32 billion and per capita income stood at \$11,802," says Minister of Foreign Affairs Turgay Avci. "The TRNC implements a liberal economic system under which the private sector, with limited government intervention, is given priority. Trade, tourism, education, transport and industry are our primary objectives," says Mr Avci. ●



The Near East University, founded ten years ago, is one of the largest in Northern Cyprus

Education without borders

Six established universities in a country that has undergone 30 years of diplomatic isolation is no small achievement. Words such as ban, boycott or embargo are part of the local vocabulary. But they are anathema to academic curricula. That is why centres of learning in the TRNC (pop. 264,000) are often seen as normalisation tools. Their mission is to dislodge prejudices and free the mind. The government is a stakeholder in only one of these institutions, the Eastern Mediterranean University. The other five include Cyprus International University, European University of Lefke, Girne American University, the Middle East

Technical University and the Near East University (NEU). "Education should be free from all bans. That is why we have eased our way out of embargoes and organized congresses to overcome them. Normally, a university designs one big international symposium per year. We held five of them last year with 2,000 scientists from 108 countries. That gives you much-needed recognition," says Suat Günsel, the NEU's founding director. NEU, which is celebrating its tenth anniversary this year, is a full member of the European Universities Association (EUA), lending a dose of structural power to all sorts of negotiation. For Mr

Günsel, education is the key of intellectual independence. In economics, for example, outsiders might think that tourism is the catch-all formula for development in Northern Cyprus. Not so, he says. Graduates from NEU are currently behind a stable of SMEs that produce added-value goods. They are opening markets whose existence they ignored. It is all about instilling hope within the student body. "When we created the university, I had two major targets. The first one was to raise the hopes of the Turkish Cypriots. The second one was to instil in society the idea that Northern Cyprus can develop beyond tourism," he says.

Verbatim

"We will try to do our best to reach a compromise, but we can't sacrifice the rights of Turkish Cypriots"

MEHMET ALI TALAT, Turkish Cypriot leader, on the stalled negotiations to reunite Cyprus following the 2004 referendum in which Turkish Cypriots voted for reunification, but Greek Cypriots did not

"I applaud the Turkish Cypriots, who approved the plan notwithstanding the significant sacrifices that it entailed for many of them"

STATEMENT ISSUED by the spokesperson for then UN Secretary General Kofi Annan on 24th April, 2004

"Sustainable economic progress is a must for any permanent solution in Northern Cyprus"

FERDI SOYER, Prime Minister of the TRNC, during a joint Turkish-Cypriot business conference in June, 2007

Everybody wants broadband

Privatised in 2005, Turk Telekom, ranked 13th in the world, has successfully renewed its image

For a communications company that was still under the General Directorate of Postal Telegraph and Telephone in 1995, Turk Telekom has lost little time. When 55 per cent went up for sale in 2005, it garnered the largest sum of FDI the country had ever seen – \$6.5 billion. Now ranked 13th globally, Turk Telekom boasts 19 million fixed lines, of which 83 per cent are digital. It is also a leading provider of ADSL services, one of Turkey's most promising growth markets. Finally, its 81 per cent stake in the mobile company, Avea, is paying off handsomely: 7.1 million customers generated revenues of \$757 million in 2006.

And Turk Telekom is still hungry. Although CEO Paul Doany oversees operations in 81 regions of Turkey where the company boasts 3,000 franchises, he is also focused on expanding internationally. He says that the company is interested in creating win-win partnerships across the Middle East region. Now that Oger Telecom, the Dubai-based operator, is Turk Telekom's majority owner, it can serve as a bridgehead for Middle Eastern expansion.

"We want to increase our core competencies on the service delivery side because that's where we will attract the right quality people at competitive prices. It will also enable us to export our services to a number of potential expansion operations," asserts Mr Doany. "Our strength lies in the combination of certain products that are competitive in quality and price. This applies directly to markets in the Middle East, southeastern Europe and central Asia."

Amid the din of new data service acronyms (ADSL, XDSL, G.SHDSL) is the fact that Turk Telekom has successfully remade its image. Its drive to provide efficient internet access through value-added packets has proven a commercial breakthrough. Oger Telecom plans to sink \$3.5 billion in investments over the next five to six years, much of it into broadband. Turk Telekom, meanwhile, has been rolling out



Women are the main customers for ADSL lines, which could soon reach 8.5 million

its ADSL network since 2003 by capitalising on its chief asset: landlines running into millions of Turkish homes and businesses. Broadband penetration, according to Mr Doany, will be up to EU levels by 2012.

"I believe the market can hold up to 5.5 million ADSL lines. If taxes drop, the figure could grow to 8.5 million," he says. Part of Oger Telecom's smart investment plan is to provide working tools for Turkey's youth. "We release PC support programmes along with our ADSL sales. The PC can be bought via a number of banks, with a 24-month payment plan. With this, we hit about three million ADSL lines early in 2007. By the end of the year, we'll be well over 4.5 million," remarks Mr Doany. Turk Telekom donated \$69.3 million in 2006 toward school construction. Together with Intel Corporation, it also runs a countrywide teacher PC literacy drive. As drivers of ADSL growth, women and children are the target demographics. At a recent internal meeting of Turk Telekom's provincial directors, a woman delegate said that all her main customers were women. ●

Avea: the GSM challenge

Launched in 2004, technology-focused mobile service provider Avea is the result of a merger between Turk Telecom-owned Aycell and the TIM-IsBank joint venture Aria. Today, Avea is the nation's third largest operator with more than 8.5 million subscribers, around 1,900 employees, roaming agreements with 376 operators in 165 countries and coverage exceeding 93 per cent of the country, including the Marmara Sea. Infrastructure investments of \$300 million last year have resulted in a high-performing network, according to voice benchmarking measurements conducted over a total of more than 1,800 miles in Istanbul, Ankara and Izmir. "Avea has been first to market Blackberry services, including GPRS and EDGE," says Paul Doany, CEO of Turk Telekom. Earlier this year the company signed an agreement with Nokia and Alcatel-Lucent to build the country's first next generation network. In August, it announced the introduction of ROK Entertainment's mobile TV service. The deployment, in cooperation with ROK-powered Mobiltürk, uses EDGE technology and offers live and on-demand mobile TV, including news, sports, music videos, comedy and factual channels.

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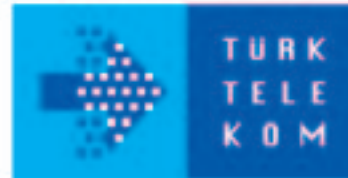
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BETWEEN

TURKEY AND THE WORLD

TÜRK TELEKOM, THE TELECOMMUNICATION GIANT IN TURKEY, REACHES 50 MILLION USERS IN ADDITION TO 3.5 MILLION ADSL CUSTOMERS WITH ITS FIXED LINE CAPACITY OF 22 MILLION. TÜRK TELEKOM PROVIDES A WHOLE RANGE OF DOMESTIC AND INTERNATIONAL TELECOMMUNICATION SERVICES INCLUDING TELEPHONE CONNECTION TO 228 COUNTRIES, TELEX TO 225, ISDN TO 49 AND ALSO VARYING FROM CENTREX, LEASED LINES TO VIDEO CONFERENCING. INVESTING HEAVILY



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'Our team is committed to competition'

Paul Doany explains how Turk Telekom can reach the strong growth targets it has fixed for the near future

Taking the ICT sector as an indicator of the level of a country's sophistication, how sophisticated is Turkey today?

Turkey is well developed in the ICT sector with modern networks in both fixed and mobile technologies, particularly in advanced digital communications and data networks. From a service provider's perspective, it is a very large country with a mix of market segments. At the very top segment, GDP per capita is equivalent to Western Europe. The region of Istanbul generates the largest share of revenue. It also has the largest number of financial institutions and service sector businesses. Ankara is a much quieter city, but has its own special charm. It is our 'operational base' while Istanbul is home to our 'management base'.

What accounts for the 12 per cent growth of the ICT sector in Turkey in the last few years?

One of the major factors contributing to overall growth is the low level of PC penetration. At end-2005, there were five million PCs in Turkey, which is very low. The national target is ten million PCs within 18 months. People in Turkey spend a lot of time outdoors. Many middle-income households don't have PCs when they could obviously afford one. Also, there is very high TV viewership. As a result, owning a PC is seen as a low priority. And yet, mobile penetration is now over 70 per cent. Children are driving ADSL growth as the new generation need computers and internet access for their education. This is the area we're focusing on.



PAUL DOANY,
Executive Chairman of Turk Telekom

What role has Turk Telekom played in increasing competition in the sector since 2005?

Our team is committed to competition. We've signed all sorts of agreements with alternative operators. Since we came to Turk Telekom we've lost about 25-30 per cent of our long-distance traffic, which was in line with our target for that period. Competitors were undercutting us by 40-50 per cent. I told the team to back off and let them pick up customers. The reason was that we needed to rebalance our full tariff plans and avoid a piecemeal approach. The difficulty was that we were losing money on access. Now we've taken steps to rebalance our tariffs on voice plans and we launched the regulatory-approved prices on March 1, 2007.

How will your source of income develop over the next few years?

We have very aggressive growth targets. This year will be an important turnaround year for Avea, for example. We're investing heavily in infrastructure, increasing coverage and capacity in addition to new value-added services with an internet portal. Avea has around 14 per cent of the market share, but improved its coverage in 2006. Although TurkCell has the broadest coverage, we're now a good match in terms of quality. This is a good result after one year of operation and \$300 million worth of investments. On the fixed-line side, traditional voice revenue is coming down. On the ADSL side we expect huge growth. In terms of new products we're working on IPTV offerings and on fixed-mobile convergence products using Wi-Fi and GSM.

Youth rocks the ICT market

Foreign visitors in Istanbul often raise an eyebrow when they first sit down in front of a Turkish keyboard. The qwerty layout is interspersed with undotted i's, soft g's and sibilant s's. By clicking on control and shift, it becomes navigable to the layperson. Likewise, understanding the market mechanics underlying the country's dynamic ICT sector requires a knowing eye. Penetration rates, taxation, privatisation, mergers and value-added services have had a different evolution here. Welcome to the world's 13th-largest telecom market. In the last five years, Turkey's ICT sector has grown a whopping 75.9 per cent, an average of 15 per cent per year. In telecoms, the annual growth rate is 19 per cent and mobile penetration is at 73 per cent, although the habit of switching SIM cards probably means a more realistic figure is about 50 per cent. Turkey's leading telecom company, Turkcell, generates more than 87 per cent of revenue from Eurasian operations.

According to Cüneyt Türktan, CEO of Avea, the country's fastest-growing mobile operator, there is still significant market potential. Compared to Greece or Hungary, penetration rates are low here. The privatisation of Turk Telekom and the takeover of Telsim by Vodafone have raised the stakes for competition and given a genuine choice to consumers. By offering innovative services, especially in data networks, operators like Avea will spur further competition in the GSM market. Avea's customer base has now passed the 8.5 million mark and its market share should reach 25 per cent by 2009. Additionally, demand for broadband internet access in schools has exploded.

In its bid for EU membership, Turkey has introduced important regulatory changes. Intellectual property laws, an electronic signature law and service quality assurance have helped liberalise the telecom landscape. The new Telecom Electronic Communication Law will ensure, among other things, that players compete on a non-exclusive basis. It severs the traditional insider link between suppliers and partner networks. Meanwhile, the e-Transformation project is trying to link technology to government transparency. Turkish citizens can now file taxes online or obtain social security benefits via the internet. Mobilera, an Istanbul-based software house, is producing some of the sharpest marketing and merchandising tools for mobile handsets in the world. Major clients such as Avon and Hewlett Packard use its integrated solutions that combine IT and GSM technologies. Mobile ticketing, quizzes and polls are all bundled into a single turnkey solution and applications include inventory management and real-time sales statistics. After growing 6,764 per cent in the past five years, Mobilera was ranked the fastest growing technology company in Turkey and the 15th fastest in Europe, the Middle East and Africa (EMEA) in last year's Deloitte Technology Fast 500 Research programme.



KOTON

Koton was founded in 1988 and has rapidly become one of the leading "fast fashion" brands in Turkey - and in the world. It now has 40 stores in the most important cities of the world, including Athens, Dubai, Berlin, and Bucharest, as well as 110 stores in Turkey. It is swiftly becoming a truly global brand.



Koton has over one hundred people in design team and motivated by the need for total customer satisfaction, closely follows trends in the category of "Fast Fashion". These stores attract attention with high quality merchandise and a wide product range - sending thirty new range of models to each store every day and producing ten thousand new models every year. Bora Aksu, the famous fashion designer who now lives in London, creates collections for the "Designer Line" collection. Koton has now also welcome a young up and coming designer to its Designer Line Spring Collection for 2008 - Jean Pierre Braganza, who has also worked with Karl Lagerfeld.

Koton offers hundreds of selections for city dwellers who wish to be well dressed and well groomed throughout the day. The collections reflect all colours, designs and lines that meet this need. Koton enables customers who are innovative, to create their own fashion and style.



Smile is targeting Turkey's young, tech-savvy population

Smile! It's a hotspot for e-media

A growing desire for technology has a new champion

Hunting for a mobile phone can be daunting. There are the myriad GSM bundles, the colour-coded operator logos and a glut of one-year contracts. Customers are often overwhelmed by choices. Listed prices for handsets, meanwhile, are usually a poor indicator. In the end, people just want to send a simple text message or have a word after work. Given the choice, they would be more than happy to spend their money efficiently. That is why Smile has erupted into the Turkish market. "The main problem is that people are spending too much money for things they don't need. With Smile, the customer may spend the same amount of money, but they will spend it more efficiently and for things they actually need," says Emre Alkin, CEO of Smile Holding. "We're in a race to bring the latest products and technologies to our customers."

The telecommunications market in Turkey will grow 12 per cent this year to \$14 billion, according to the Turkish Investment Advisory Council. Mobile phone subscribers edged up to 52.6 million in 2006, representing a 70 per cent penetration rate. Meanwhile, the number of broadband internet subscriptions is set to grow to 3.5 million by the end of the year, up from 2.4 million in 2006.

At Smile, the business model is a one-stop shop for all things involving digital networks. Launched in April 2007, Smile essentially serves as a media and entertainment distribution point for the Dogan Group, a large Turkish conglomerate. The Dogan Yayin Holding (DYH) is Turkey's leading media conglomerate. Its newspapers, magazines and books have an estimated 42 per cent of the advertising market in Turkey. For a true dimension of future market clout add the DYH-owned

television channels, radio stations and internet portals.

"Smile was established to make people's lives easier. We provide products in telecommunications, internet, media, entertainment and financial services," says Mr Alkin. As a subsidiary of DYH, Smile relies on the distribution strategies that turned the Dogan Group into such an influential player. By the end of this year, Mr Alkin hopes to have 5,200 points of sales all over Turkey. Smile kiosks have already appeared at Petrol Ofisi stations, which belong to the Dogan Group, as well as at supermarkets like Carrefour and Migros. Mr Alkin's goal is to open ten shops per day and thus create 100,000 new jobs in Turkey. Each shop will work like a franchise.

In Turkey's technological catch-up race, time is a commodity. Ordinary Turks are more inclined to pay for their bills online if it will save them a trip to a utility company, for example. At Smile, an electronic card gives users access to their accounts at in-store hotspots or at regular terminals. Mr Alkin is working with banks to adopt a common payment platform. "These days, it's more important to pay all your bills in a matter of seconds and to get an electronic receipt than to obtain a hard copy of your payment. We've seized the gap in the market and are working hard to change it," says Mr Alkin. "We expect \$2.5 billion in revenue by 2010." Like any other business, Smile has to generate profits for the Dogan Group. But it is also helping to build the country's IT backbone by fast-tracking the adoption of technology. For all its payments, Smile runs a large back office accounting operation. This means that all the data on a customer ends up at DYH for easy retrieval, whether they are in Germany or the UK.

After he builds a powerful brand name, Mr Alkin wants to take the business formula to the Balkans and countries of the former Soviet Union. "After all," says Mr Alkin, "Smile is a very international word. People are nice here. It is actually our company culture to smile!" ●

INTERVIEW WITH EMRE ALKIN

'Simplicity is the key to our corporate culture'

How would you describe your position in the Turkish market?

We prefer to have competition. The business model of Smile is one-of-a-kind. In emerging countries it is normal to have a competitive environment. We will have 5,200 points-of-sale by the end of this year and we expect to reach up to 70,000 by 2010. In the next three years we shall be adding 1,500 shops on Dogan Group's established point-of-sales network. The remaining Smile points are petrol stations, kiosks, malls etc. We would like to position Smile as a market leader. We are targeting revenue of \$2.5 million by 2010 if we have some competition in the coming years. Having competition means that our system works and there is no time for complacency.

Where is Smile placed within the ICT sector in Turkey?

The real competition started in Smile shops. If the customer does not know the product, they cannot compare it with an equivalent – then only the producers are happy because the product is being sold. First of all, our aim is to raise the quality of ICT providers. When somebody steps into the shop, they might not know what they want. They see the top 100 telephones and assume that if it is expensive, it is good. But this is not fair on consumers. A customer who steps into a Smile shop will understand the offers, the products and the promotions very clearly.



EMRE ALKIN, CEO of Smile Holding

How is Smile preparing to present itself to the British market?

After building a powerful brand name, we believe our partners would like to keep the business model. Because of cost competitiveness we are not so interested in doing anything without partnerships, even in Turkey. In terms of the British market, we will definitely be operating with a British partner. The vision of smile is quite ambitious. We all worked hard together to set a vision that reflects us in every sense. Our vision is to become the preferred brand by making people's lives easier with effective and innovative solutions. Everything we do, internal and external, is simple, understandable and uncomplicated. We work with our partners in a transparent way. Simplicity is the key to our corporate culture.

Success guaranteed

After nearly four decades, here at Eren Holding we have branched out into a wide range of fields, from paper and packaging to energy, tourism and retail. Basing our business on a winning combination of acumen, prowess and acute expertise, we're looking to keep expanding, growing, and continuing our success in every sector.

www.erenholding.com.tr

When Turkish wares go global

Exports rocketed by 25 per cent in the first quarter, an indication of Turkish appeal for fashionistas

When Jennifer Lopez showed up at a catwalk in Istanbul earlier this year, it was not to promote her line of JLO ready-to-wear. Instead, she came to back the careers of young Turkish fashion designers. Lopez also happens to be a personal friend of Kürsad Tüzmen, the State Minister of Foreign Trade and Customs, who first spearheaded the Turquality programme—a label that is helping to brand Turkish textiles abroad. Fashion here, and particularly techno-fashion, is seen

as a way of rebranding the country.

Turkish exports have had a stellar career since the financial crash of 2001. Total volume of trade in 2002 was \$87 billion, largely a result of a devalued currency that made Turkish goods highly competitive in Europe. In the first quarter of 2007, exports were up 25 per cent. Mr Tüzmen now thinks total trade will expand to \$100 billion, despite the steady appreciation of the lira in the past two years. By the time the country celebrates its 100th anniversary in 2023, he thinks the figure is likely to reach \$500 billion.

“Our basic stars are textiles, clothing, machinery, automotive, electric & electronics, sanitary equipment, tiles and minerals,” says Mr Tüzmen. Jewelry and marble alone generated more than \$1 billion in exports last



KÜRSAD TÜZMEN, State Minister for Foreign Trade and Customs

year. Then there is a strong chemical industry, which chalked up another \$9 billion in foreign sales. Olive oil, hazelnuts, cotton and corn lead in the agricultural sector. Given the low cost of labour and the surge in capital inflows, Turkey can boast of healthy factor conditions. Also, the growth in domestic demand has cre-



ZEYNEL ERDEM, Chairman of Erdem Holding

ated economies of scale for SMEs. According to the CEO of IsBank, Ersin Özince, almost 90 per cent of Turkish companies are considered SMEs. As an open economy and a trade associate of the EU, Turkey has a natural competitive edge. The country exports more than 7,000 products to 170 nations in the world. According to industrialists like Zeynel Erdem, Chairman of Erdem Holding, the growth in exports has altered the country's own economic structure. “Turkey has not only increased its trade volume. It has also ensured a structural transformation of its own internal economy and placed a new emphasis on industrial products of high-added value requiring advanced technology,” says Mr Erdem.

With oil prices sky-high, however, energy inputs for Turkish SMEs put many companies in a tenuous position. At the Eren Holding, another large Turkish conglomerate, energy assets have become a priority. “Turkey will need \$130 billion worth of investments in the sector over the next ten years, mainly in electricity production. We are already the largest private investor and have just opened a 1,350MW power plant,” says Ahmet Eren, President, Board of Directors, of the group.

Turnover at Eren Holding grew 170 per cent to \$655 million in 2006. The Group has banked on internal synergies, from textile production to paper, packaging, cement, energy, retail and tourist resorts in Bodrum. Established in 1969 as a textile mill, Eren now has dozens of subsidiaries and controls \$1.12 billion in assets – using operational profits to reinvest in its growing network of energy interests. The company, incidentally, is on the lookout for equity partners for new ventures.

“First of all, we divested from certain sectors like textiles because we could not face the increased competition from south-east Asia. Profit margins simply became too small,” explains Mr Eren. Turkish manufacturers have the proximity ad-

vantage vis-à-vis Europe. But exports of clothing to giant retailers like Walmart in the US could not compete with Chinese products and dried up. That is why adding value to domestic production is key for survival. Only by moving up the value scale and diversifying will conglomerates like Eren weather out the competition of lesser quality goods from China.



AHMET EREN, President, Board of Directors, of Eren Holding

Fine glassware is no exception in the surge in Turkish manufactured goods. In the glass industry, the name of Pasabahçe has a near mythical ring. Founded in 1935 on the orders of Mustafa Kemal Atatürk, it only began to export its glassware in the 1960s. Today, the export market is crucial for profit margins, accord-

ing to the Executive Vice-President of Glassware at Sisecam, Gülsüm Azeri. The size of its glassmaking operations is directly proportionate to its worldwide sales. Each week, Mrs Azeri holds meetings at the Istanbul Chamber of Commerce to discuss competitive strategy. In her line of business, foreign exchange markets and prices for intermediate goods are determinants. Quality is also important. At Pasabahçe, Mrs Azeri invests in new technology and even builds its own glass-blowing furnaces.

“The big brands in Turkey already support quality initiatives. They know what they are doing,” Mrs Azeri says. But quality involves more than just building retail outlets and organising business trips to emerging markets. For Mrs Azeri, marketing savvy and good customer service are essential.



Bridging the trade divide: Turkish exports have enjoyed a significant upturn since 2001 and now extend worldwide



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National fashion: out of the closet

Turquality is the byword for the explosion of Turkey's premier products on the global stage



"I believe what really counts is whether you've sold, whether the customer is happy and if he/she sees you as the best authority in the field. If you make this happen, then your quality is proven," she says. Despite the high value of the lira and war in neighbouring Iraq, the Sisecam Group, of which Pasabahce is a division, has fared well. It is currently the fifth-largest producer in Europe, including the divisions for flat glass, container glass and glass fibre. Export sales for the Sisecam Group in 2006 grew to \$963.7 million, or 1.24 billion new Turkish liras. "Imagine if things went well," speculates Mrs Azeri.

The manufacturing landscape, meanwhile, is expanding beyond the Marmara Sea region to include the whole country. Today, free trade zones and IT parks

can be found in Kayseri, Konya and Gaziantep. All of them are served by clusters of ancillary industries that have revived provincial economies threatened by the rural exodus. Thanks to the investments by foundations like METU-Teknokent, SMEs in branches like software, biotech and advanced engineering will generate 2 per cent of GDP in Turkey by 2010. Investing in knowledge, and specifically in R&D, is the next step up the value scale.



GÜLSÜM AZERI,
Executive Vice-President of Glassware, Sisecam

investing in knowledge, and specifically in R&D, is the next step up the value scale.

"Today, Turkish Free Zones generate \$24 billion in volume of trade. They are becoming more like logistical centres and technological parks," says Mr Tüzmen. His dream is to turn the whole Mediterranean Sea into a large free trade zone, with Turkish start-ups among the most competitive. ●

Today, Turkish retail chains like Koton are out with a vengeance. Their designs are often wild—but also wildly competitive. Turnover at Koton is projected to reach \$250 million by 2008. The explosion in creativity is largely the result of Turquality.

A government-backed programme, Turquality enables domestic producers in a variety of sectors to create global brands. In order to identify market opportunities, consultants from Deloitte & Touche have been hired who not only offer insights into cost management and internal audits, but also help with corporate ID. Turquality's involvement in the fashion industry for the past three years has been in the ready-to-wear segment. In this label-driven industry, consolidating a name is crucial. Turquality has coaxed garment makers into emerging markets like Russia and the Arab Gulf. The example of Koton is eloquent: the Turkish ready-to-wear firm has so far opened doors in 44 different countries.

"Turquality is basically a support programme for accredited Turkish brands. It provides assistance in sourcing, designing, manufacturing and marketing. It's the first brand-building programme in the world designed to function as an image-maker," says Ziya Altunyaldiz, Deputy General Director at the Undersecretariat for Foreign Trade in Ankara. As

a catalyst for Turkish brands, Turquality has few rivals. It carries out quality audits and only slaps its logo on a product after it has passed a strict battery of tests. The firms then develop their own marketing strategies, but Turquality jumps in later to add a prestige factor. The effect is a competitive edge in fresh markets.

Bossa owes its competitiveness largely to the quality of its fabrics. The ISO 9001-certified company is one of Turkey's largest vertically integrated groups. It picked up its modern flair for innovation along the way. A customer-centric manufacturer of denim clothes and casual wear, Bossa now faces the challenge of a world free of tariffs. "After the removal of [WTO] quotas in 2005, the textile and apparel sector's dynamic changed dramatically. Both production and sales suddenly had no more

Continued on page 12



Desa Deri has launched its own labels domestically and produces lines for Marks & Spencer, Nicole Farhi and Debenhams

MARTI HOTELS

'One tourist is a marketing person for four more'

Established in 1967, Marti Hotels and Marinas has grown to become one of the most distinguished trademarks in the Turkish hospitality sector. From the creation in 1969 of Turkey's first resort hotel, Marti Resort, to the recent completion of the first phase of Ayin Koyu Project at Mugala (also called Marti Ayin Bay), every development that Marti Group undertakes is principally focused on the hospitality and resort industry, with particular emphasis on resort hotels and marinas. A recent surge in demand for housing in Turkey, spurred by a marked increase in per capita GDP, has led the group to enter the growing market. The

company plans to extend into the holiday home and second home sub-sector, which is being supported by recently introduced legislation that allows foreign nationals to fully own land and property on Turkish soil.

"The Marti Group has two main companies," explains Oya Narin, member of the board. "One is dedicated to real estate investment, the other is the Marmaris Marti Management Company. Our job is to make sure that these institutions are run based on principles and internationally accepted corporate governance rules. We have set up a vision knowing that the leisure sector is the fastest growing industry in the world. We

are therefore increasing the number of beds and facilities. We are also making investments in residential property for second home owners."

The first real estate investment company (REIC) to focus principally on the Turkish hospitality and tourism industry, the group's overall strategy is to continue to invest in unique real estate projects in Turkey. It also aims to increase its number of beds to 5,000 over the next five years to accommodate the expected increase in tourists. Marti Hotels and Resorts currently accommodate some 45,000 guests annually.

"One tourist is a marketing person for four

more," states Emre Narin, Marti Group's Vice-President. "Try to come to Istanbul and see all the historic sights. You can't fit it into a week. We have so many things but the packaging needs improvement. Turkey needs to do destination marketing. Istanbul is a brand, Antalya is a brand. Next year the promotion will be by destination. We have \$100 million to spend on promotion, so the future is bright, especially in tourism." Indeed, for both the group and the sector in general, the future holds much promise. Tourist numbers have increased by 20 per cent in 2007 compared to last year and estimates for 2008 are higher still.

Continued from page 11

boundaries whatsoever," says Yakup Güngör, the Chairman of Bossa. To cope with globalisation in the sector it has instituted business excellence programmes of its own.

"Our core marketing strategies force us to have well-differentiated, innovative products alongside exclusive services and fast-response mechanisms," says Mr Güngör. With names like 'Fast Track' and 'Order-to-Fabric', Bossa has weathered the latest onslaught of Chinese imports. For its denim line, it created sub-brands like DeniMined, D4D and Black&White. Each of them has drawn inspiration from a variety of aesthetics, including vintage jeans and a restricted palette of colours. For the Russian market, it has developed special polyester products. Europeans prefer cotton, wool and linen blends, as do US consumers. Total sales in 2006 amounted to \$204 million, of which \$94.7 million represented export sales.

Retailers like Altinyildiz have maximized the time factor to sidle up to its busy young consumers. In the last three years, its brands and sub-brands have targeted young urban professionals. "You have to create a story with your customers. Being a professional doesn't necessarily imply going home after work. Professionals tend to go out in the evening. Therefore, you need to maximize every moment of your day, while remembering



Boutique chic: global brands mix with national labels in Turkey's many shopping districts



ZIYA ALTUNYALDIZ, Deputy GM of the Undersecretariat of Foreign Trade

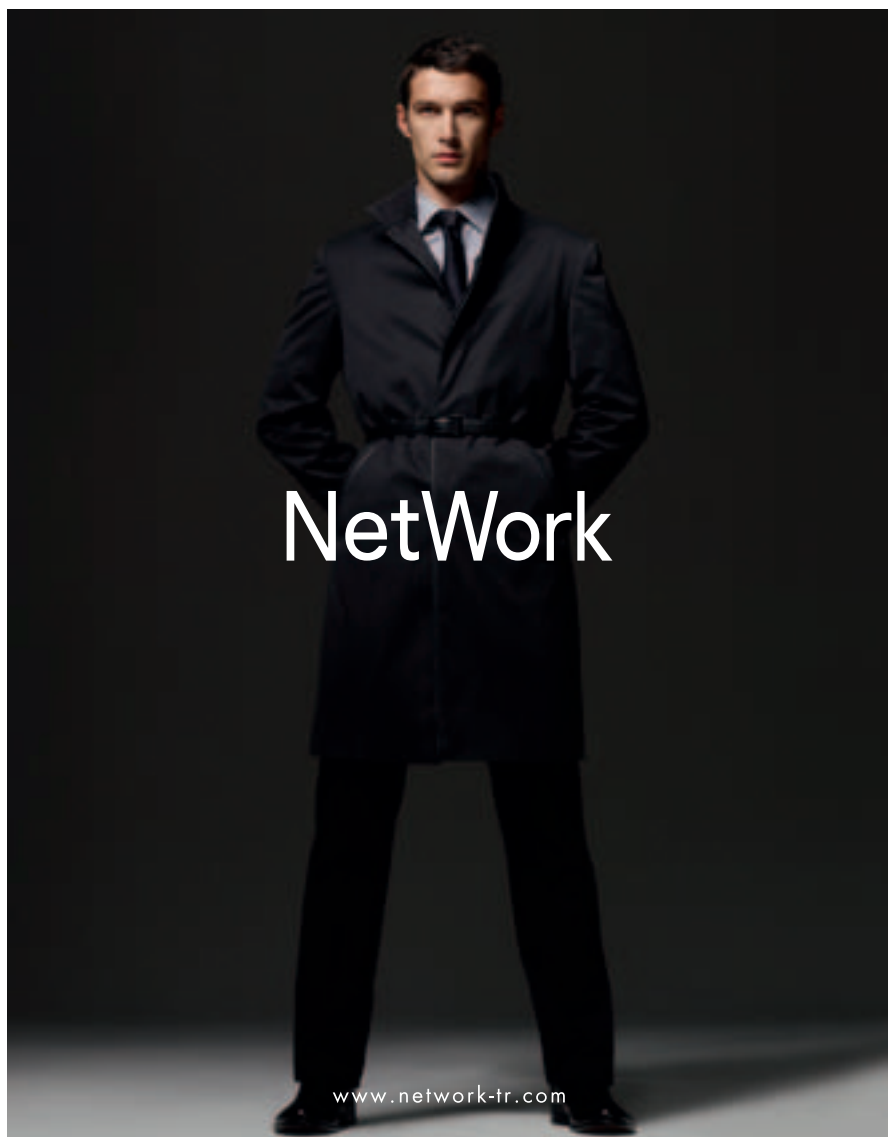
to always look good!" says Retail Operations Director Eren Camurdan. Woollen fabrics marked the starting point for Altinyildiz in 1952. It still has an established clientele for its wool and cashmere products, but Altinyildiz owes today's core business to its experience as an early supplier for Ralph Lauren, Ann Taylor, Hugo Boss and Marc Jacobs. In the 1980s, it gleaned experience as a franchisee for Italian fashion houses like Benetton. Finally, Altinyildiz launched its own NetWork brand in 1999. By 2006, its net operating margins were

growing 9.97 per cent.

"We have to create our own models. Our team is ready and there should not be any problem. But it's important to have good partners, as well as backing from a solid organisation. You need to push and train every single employee for each season, which means changing your display window every 15 days. It's all about being dynamic!" says Mr Camurdan. Altinyildiz has worked closely with the Turquality programme in the past two years. As a conduit into the difficult European market, it is using its retail operations in Dubai, where it plans to open 4 NetWork stores by 2008. "South-east Asian competition has hurt Turkish manufacturers. But the people who were badly hit were doing

the basic items—not technology-driven, not diversified and mostly labour-intensive products. They were competing on price and not on differentiation," says Burak Celet, the President of Desa Deri. Now, Turkey's textile sector has learnt its lesson and the economy is much stronger.

For Desa Deri, the real news is in the sector's turnaround. Only those firms that have proven flexibility and cater to niche segments have been able to work globalisation to their advantage. Desa Deri has launched its own labels in the domestic markets while continuing to produce lines for Marks & Spencer, Nicole Farhi and Debenhams. Mr Celet says Desa Deri can turn raw skin into any type of leather, largely with the help of its R&D laboratories. Given the right lead time, he can place products from the tannery all the way to the department store in the UK within days. And if the end-user asks for hypoallergenic dyes, that too can be done. "If you can manage this and put it all together with strong design, then you can really make a difference," says Mr Celet. ●



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