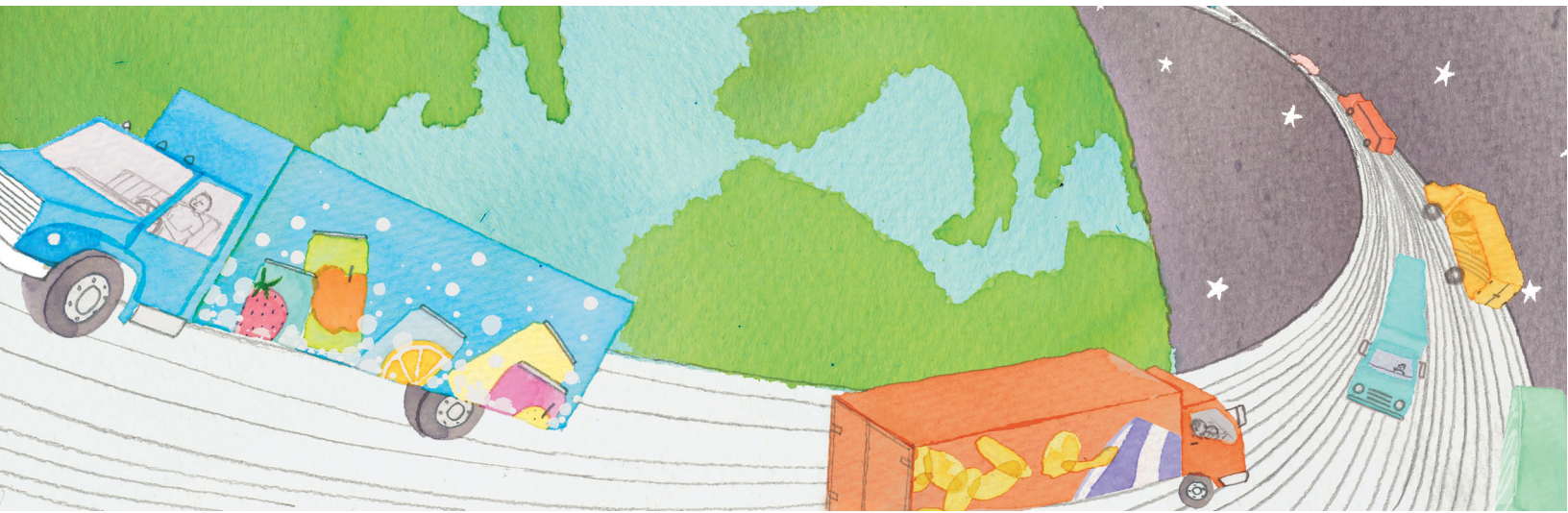


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CONSUMER PACKAGED GOODS / RETAIL

How Turkish companies can become global successes

The country's demographics and business climate have made it fertile ground for local companies with global aspirations.

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With a GDP of \$857 billion and a population of approximately 80 million, Turkey is the 17th largest economy in the world. It is home to a number of major players in the consumer sector: for example, the world's third-largest biscuit producer and seventh-largest home-appliances manufacturer are Turkish companies. More than 60 percent of the world's hazelnuts come from Turkey, as does 10 percent of the world's pasta. Turkey is also among the top ten textile and jewelry exporters globally.

The country has a young and increasingly urban population: the average age in Turkey is 31, compared with 42 in the European Union, and approximately 75 percent of its people live in urban areas. In the coming decade, the working-age population will increase, potentially driving growth

in both domestic consumption and production (provided that Turkey can continue to increase labor productivity). Over the past ten years, annual GDP growth has averaged 5 percent; in the first half of 2017, GDP growth exceeded 5 percent, making Turkey one of the fastest-growing large economies in the G-20.

Its dynamic population and a low cost base for businesses have helped Turkey become competitive in consumer industries, including food and beverages, home- and personal-care products, durable goods, and apparel. And more Turkish companies are venturing outside their home market. Having honed their business skills and expertise in the volatile yet growing Turkish economy, several Turkish companies have built a

presence in multiple countries—and have become multinational success stories. Within the past decade in particular, Turkish companies have had a steep upward trajectory in the globalization journey. But to sustain their global success, they'll need to strengthen their culture and capabilities, particularly in performance management, digitization, innovation, and design thinking.

What it takes to make it abroad

To thrive in emerging markets, consumer-goods manufacturers and retailers must excel in certain areas, such as tailoring their offer to local needs and preferences, or developing a route-to-market model to serve the fragmented trade (which still accounts for slightly more than half of Turkey's \$165 billion retail sector). We have found that, in addition to these capabilities, three other attributes have helped leading Turkish consumer companies win not only in Turkey, but also elsewhere.

1. An entrepreneurial spirit and an ownership mind-set

Among Turkey's corporate success stories, many feature a family business led by an ambitious founder or leader. This person's entrepreneurial drive, along with his or her ability to build a leadership team and nurture strong business relationships, are key to the operating company's growth. The founder ensures that this expansive vision and passion for the business are passed on from generation to generation. Indeed, a majority of Turkey's conglomerates carry the names of the founding families. Every single one of the 13 largest Turkey-based consumer companies operating internationally is either fully or partially owned by a family (exhibit).

In successful Turkish companies, shareholders with an ownership mind-set (whether they are family members or professionals who have an entrepreneurial spirit) formulate the company's vision, define the growth ambition, and establish the agenda—either by directly leading the

management teams and being deeply involved in day-to-day operations, or by being active and outspoken board members.

2. Rapid decision making to capture expansion opportunities

In emerging markets, the success of a new business often depends on how quickly it can reach critical mass and achieve profitability through economies of scale. Companies that grow up in emerging markets thus tend to expand more rapidly and have a higher risk tolerance than their developed-market counterparts do. Instead of taking small, cautious steps, Turkish companies take a running start. They learn to be resilient and persistent against early obstacles.

For instance, Doğu Restaurant Entertainment and Management—also known as d.ream—was founded a mere five years ago, but has already expanded to Europe, Asia, the Middle East, the Far East, and the United States. It has created or acquired 51 restaurant brands, with 180 outlets. Its model is to combine the corporate structure and financial resources of its parent company, Doğu Group, with top culinary and executive entrepreneurs and talent in the otherwise fragmented and underdeveloped restaurant industry.

BİM, Turkey's largest retailer, also expanded its international operations quickly. In 2009, BİM opened its first stores in densely populated cities in Morocco. Instead of bringing Turkish-made goods to Morocco, BİM strove to understand the particularities of Morocco's local culture, tastes, and consumer behavior, then developed relationships with local suppliers to manufacture its private-label products—a somewhat risky proposition, since BİM had no preexisting relationships with suppliers in Morocco. Today BİM operates more than 300 stores in Morocco. In 2013 it expanded into Egypt as well and now has more than 200 stores in that country.

Exhibit

The largest multinational consumer companies based in Turkey are all family-owned businesses.

Company	Revenue, \$ billion	Industry	Countries of operation (excluding Turkey)
BİM	6.65	Retail	2
Arçelik	5.33	Electronics	32
Migros	4.44	Retail	2
Vestel	4.16	Electronics	10
Anadolu Efes	3.45	FMCG ¹	16
LC Waikiki	3.16	Retail	36
Hayat Kimya	1.40	FMCG	6
Ülker Bisküvi	1.30	FMCG	19
Eti	0.91	FMCG	3
Koton	0.80	Retail	28
Sütaş	0.71	FMCG	3
d.ream	0.70	F&B ²	12
DeFacto	0.67	Retail	19

¹ Fast-moving consumer goods.

² Food & beverages.

Source: "Capital 500: The largest 500 companies in Turkey," *Capital* magazine, 2016; company annual reports; press searches

3. The ability to manage market-specific complexity

A third success factor for Turkish companies is the ability to react immediately to market signals and to manage complexity in the market. Turkey has had an open economy for a long time, so Turkish products have long had to compete with imported goods. Fast adaptation, innovative problem solving, lean decision making, and a nimble organization are important factors that enable local companies to hold their own against competitors.

Excellence in complexity management is one of several qualities that helped Arçelik become

Turkey's leader in home appliances (its market share is 50 percent) and one of Europe's largest durable-goods manufacturers. The company has been able to rapidly enter new markets and localize its offering. Today, it generates about 60 percent of its revenues abroad. Arçelik's ability to manage complexity stems in part from its relentless focus on consumer needs, an infusion of global talent, and its investments in advanced technology. The company's 14 R&D and design centers are constantly generating market-specific insights and developing market-specific products and solutions. In addition, the company has



set up “garages” that bring together cross-functional talent and ecosystem players in a start-up-like environment. These garages use innovative approaches and tools to quickly scale up promising ideas in each market.

How can global Turkish companies continue to improve?

These attributes together constitute a recipe for transforming a homegrown Turkish entity into a thriving international business. To accelerate growth and sustain performance in highly competitive foreign markets, Turkish companies must continually build capabilities in the following areas:

Fostering a performance-driven culture. Most multinational Turkish companies already embrace and celebrate cultural diversity and strive to create

an inclusive environment for employees, suppliers, and stakeholders. But to become world-class in talent attraction, engagement, and retention, they still need to better articulate the essential elements of their desired global culture and strengthen performance management. In addition to creating accountability through traditional performance-management processes and formal people reviews, companies need to establish rigorous, unbiased consequence management.¹ Long-term global aspirations also require a company to pay close attention to its organizational health, not just its current financial performance—in part by setting stretch targets for employees, sharpening managerial skills, and increasing the organization’s external orientation.² Establishing globally consistent ways of working is critical as well. Also, companies should provide incentives for mobility,

Turkish companies should invest in building advanced digital and analytical capabilities, especially in areas where digitization can help them leapfrog their developed-market counterparts.

both to increase expertise across regions and to build cross-country bonds.

Leapfrogging through digitization. As new technologies—including digital solutions, artificial intelligence, 3-D printing, and the Internet of Things—continue to transform all aspects of the global consumer industry, companies should develop a clear understanding of the threats and opportunities that digitization brings. Turkish companies should invest in building advanced digital and analytical capabilities, especially in areas where digitization can help them leapfrog their developed-market counterparts. They should consider accelerating their digital transformations through capability-building investments such as partnerships with digital experts and recruitment of new kinds of digital talent.³

Setting up an innovation engine. Only a handful of Turkish companies have been able to build strong brands that are recognized and respected in many countries around the world; examples include Turkish Airlines and Arçelik's appliance brand Beko. Building global brands and staying competitive in the global arena takes constant innovation—both incremental, “close to the core” innovation as well as breakthrough innovation in the form of disruptive flagship projects.⁴ Turkish companies tend to do well at incremental innovation but need to develop a medium- and

long-term innovation ambition, as well as systems and resources to continuously generate, prioritize, and cultivate the best ideas.

Establishing a “design thinking” mind-set.

Design—not just of products and services, but of the entire customer experience—is increasingly becoming a core capability that can drive growth and competitive advantage. Companies that adopt design thinking strive to truly understand customer needs, instill a customer-centric empathy in the organization, engage in cross-functional ideation processes, and act quickly to bring a product to market and adjust it based on customer feedback.⁵ Through design thinking, companies can boost customer satisfaction and brand loyalty, ultimately yielding higher sales and profits



As Turkish companies look to expand outside the country's borders, they can learn from other companies that are farther along in the internationalization journey. An entrepreneurial vision, quick decision making, and excellence in complexity management have been—and will continue to be—crucial to success, both in Turkey and beyond. But these are only the first steps. To sustain success as multinationals,

Turkish companies must then take big strides in strengthening their culture and capabilities. ■

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¹ For more on performance management, see Raffaele Carpi, John Douglas, and Frédéric Gascon, "Performance management: Why keeping score is so important, and so hard," October 2017, McKinsey.com; and Boris Ewenstein, Bryan Hancock, and Asmus Komm, "Ahead of the curve: The future of performance management," *McKinsey Quarterly*, May 2016, McKinsey.com.

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³ Tanguy Catlin, Jay Scanlan, and Paul Willmott, "Raising your Digital Quotient," *McKinsey Quarterly*, June 2015, McKinsey.com.

⁴ Marc de Jong, Nathan Marston, and Erik Roth, "The eight essentials of innovation," *McKinsey Quarterly*, April 2015, McKinsey.com.

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