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COMPETITIVENESS AMONG APPAREL MANUFACTURERS IN ISTANBUL

AN INDUSTRY ANALYSIS

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ABSTRACT

This paper is the result of a minor field study conducted in Istanbul, Turkey, during the period of November and December 2007. The purpose of the paper is to investigate the current business environment for apparel manufacturing in Istanbul. Research was carried out through an industry analysis in terms of competition and potential future development for apparel manufacturers.

The research has been carried out through interviews with actors related to the apparel manufacturing segment. Interviewees include five manufacturers, two sourcing agents, one trade organization and one professor with research in the area.

Our findings concerning the business environment are based on Michael E. Porters theoretical framework on “How Competitive Forces Shape Strategy”. In the case of Turkish apparel manufacturers this paper concludes how the barriers of entry for new actors are high, unless integrating forward. Additionally in general terms the suppliers have a weak bargaining position while customers are relatively strong in the bargaining process. The rivalry among apparel manufacturers is low, but it can be stated how less differentiated manufacturer experience significant higher level of rivalry. Further on this paper also concludes how these factors not are affected by any substitute products, much due to the broad scope of the study.

In respect to these factors a general strategy used by apparel manufactures has been identified as they try to affect the balance of these competitive forces through e.g. differentiation and vertical integration.

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1 INTRODUCTION

Take a look at your garment. Where is it made? A tag might tell you “Made in Turkey” and it should not come as a surprise to you as you probably have seen it before. Turkey is one of the most important apparel producers and is ranked as the third largest exporter of apparel in the world. (Swedish Trade Council, 2006) In addition to the international position, the apparel industry is one of the locomotive sectors of Turkish economy in terms of industrial production, employment and export earnings. (ITKIB R&D Department, 2007b) The industry incorporates over 35.000 textile and clothing companies, where 83 of these are among the 500 largest companies in the world. (Swedish Trade Council, 2007a)

1.1 AREA OF RESEARCH

Turkish apparel industry is experiencing a globalization process where liberalization of trade is a significant part. With the abolishment of the Multi-Fiber Agreement (MFA) in 2005, textile and apparel quotas were after more than 40 years abandoned. (Nordås, 2004) With a revised set of rules for trade, Turkey nowadays has to compete with countries of low cost production, previously limited by the quota system. The process of globalization and liberalization of trade is both offering opportunities and creating obstacles as trade patterns for apparel are under change. Hence, this globalization process will undisputable be the biggest challenge for the apparel industry for the next 20 years. (Ösipkek, 2004)

For Turkey, this creates an issue as persons within the business agree on the fact that Turkey cannot compete in the general segment of low cost production. As Turkey's export performance is negatively affected from competition abroad, the local business environment in Istanbul is influenced as well. This is the area of research for this thesis.

1.2 PURPOSE OF STUDY

The aim of this study is to investigate the current business environment for Turkish apparel manufacturers located in Istanbul. Particularly the local competition between these actors will be studied. How do these manufacturers perceive the market, what are pros and cons for their production and how do they reason about their future competitiveness? As such, the purpose of this thesis is twofold and in more specific terms summarized as:

- The primary purpose of this study is to examine the competitive situation of apparel manufacturing in Istanbul.
- The secondary purpose is to consider and discuss future development of strategies for apparel manufacturing in Istanbul.

1.3 SCOPE OF STUDY

The immense complexity of Turkish apparel industry brings some complications in carrying out the industry analysis. Hence, regulating the scope of study has proved necessary. The geographical limitation on research is constrained to apparel manufacturers with a representative office on the European side of Istanbul province. Istanbul acts as Turkey's major hub of trade and hence most Turkish apparel exporters are established in this geographic region. (B2B Turkish Textile) This limitation though, does not regulate where studied apparel manufacturers locate their production, as long as it is within the borders of Turkey. In addition, all apparel manufacturers in this study have exports to the European Union (EU).

Another limitation of importance is the materials used for production. This study does not take technical textiles, such as used in protective clothing, into consideration as only regular apparel is studied.

It is certain that there is a wide spectrum of aspects influencing the industry that has not been profoundly covered in this thesis. Findings should therefore be considered as a contribution to the general research and knowledge about Turkish apparel sector. By carrying out this industrial analysis we hope to give an insight to what we find a very interesting business segment in a very expansive and dynamic region of Eurasia.

2 TURKISH APPAREL INDUSTRY – A BRIEF INTRODUCTION

2.1 HISTORICAL DEVELOPMENT

Turkey is located at the crossroads of Europe, Asia, the Middle East, the Gulf and the Black Sea region. Acting as a bridge between the two continents, its location by the Fertile Crescent has consequently been and still is a major asset to the Turkish economy. By this, it can be stated that Turkey benefits from a superb access to a wide diversity of markets.

Dating back to the Ottoman period, the textile and apparel industry was one of the very first established industries of Turkey. (ITKIB R&D Department, 2007b) Today, apparel (16%) and textile (7%) industry is responsible for about 23 percent of total Turkish export earnings. Only in the Istanbul area there are thousands of apparel manufacturers who produce clothing for sale on the worldwide markets. The significant most important market for this sale is the European Union (EU) market which is responsible for 74 percentages of total apparel exports. (ITKIB R&D Department, 2007a) Consequently, the apparel industry is a major force in the economy of Turkey. This has not always been the situation though.

As late as in the 1950's, the primary focus of the sector was to satisfy the domestic demand of readymade apparel. As such, the industry enjoyed very poor exports, limited growth and development until the 1970s. (State Planning Organization, 2004) The great leap towards exports and growth would have to wait until the mid-1980s. This was partly a result of governmental actions as it embarked upon a series of reforms to depart from being a closed economy. The objectives with the reforms were threefold; minimizing state intervention, establishing a free market economy and integrating the Turkish economy with the world economic system. (Etkin, et al., 2000)

To further improve the economical situation, the government carried out a shift towards export-led economic policies and gave incentives and support for investments. The shift was successful and increased both productivity and exports of the country. The apparel industry finally started to enjoy a significant growth and new players were seen entering the market. Until this time the major focus of production had been textile products, but this changed in 1986 as apparel exports started to increase steadily. In the 1990s this apparel industry shifted towards a more value added production. This development can be considered the start of modern Turkish apparel industry. (ITKIB, 2007)

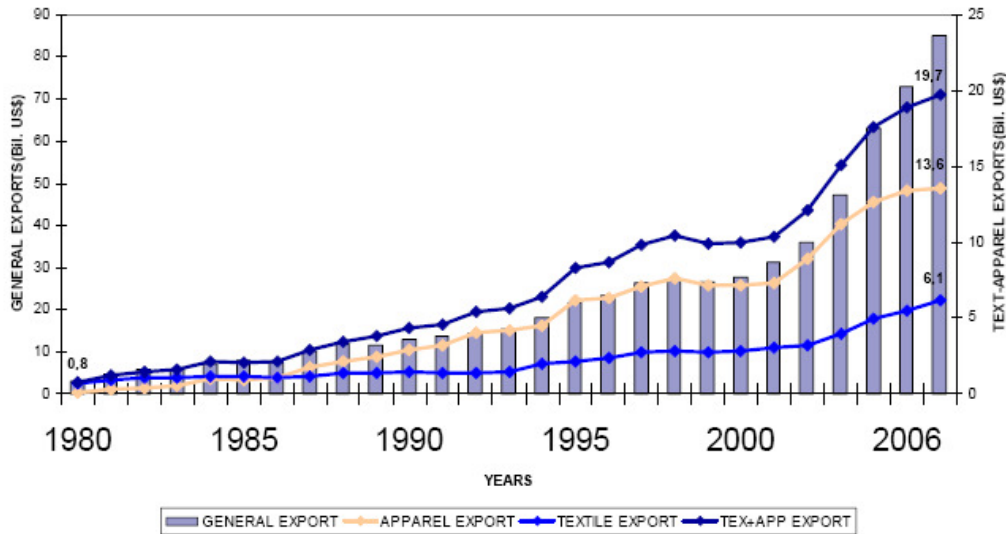


Figure 2.1-1: Turkish Textile & Apparel Exports (ITKIB, 2007)

2.2 TRADE AGREEMENTS AND THEIR IMPACTS

2.2.1 MULTI-FIBER AGREEMENT & AGREEMENT ON TEXTILE AND CLOTHING

As exports of textile and apparel from developing countries rose and started to compete with industrialized nations, the Multi-Fibre Agreement (MFA) was introduced in 1974 on initiative of the World Trade Organization (WTO). The purpose of the agreement was to prepare and over time adjust the imports of developed countries so that the competition from low cost producing countries increased gradually. (Nordås, 2004)

In 1995 the Agreement on Textile and Clothing (ATC) was signed as a measure to govern the elimination of the quota system. During a ten year period, the trade restrictions were phased out and in January of 2005 the MFA was put to an end. Hence, all quantitative restrictions on textile and clothing were to be removed. (Lindänge, 2007)

2.2.2 EUROPEAN UNION – TURKEY CUSTOMS UNION

As a preparation for a future EU accession, Turkey joined the Customs Union (CU) with EU in 1996. It is regarded as a step towards full membership and allows almost every kind of goods to travel without any customs restrictions between EU and Turkey. (WTO) With the CU, Turkey was fully incorporated into the business with the EU. In addition, all foreign policies, technical as well as social standards were adopted. (Bilek, 2007)

3 THEORY AND DEFINITIONS

3.1 THEORETICAL FRAMEWORK: “HOW COMPETITIVE FORCES SHAPE STRATEGY”

Michael E. Porter’s theory about how competitive forces shape strategy (a.k.a. Porter’s Five Forces) is an appropriate tool for conducting an industrial analysis in the microenvironment, such as the one carried out in this paper. Porter affirms how the state of competition in an industry depends on five basic forces. These contending forces determine the potential for profitability in the industry. (Porter, 1979)

The forces that shape strategy can be divided in two general segments; the horizontal and vertical environments. Horizontal forces consist of competition from threat of substitute products, threat of new entrants and competitive rivalry within an industry. The vertical competition is made out of bargaining power of suppliers and customers. (Porter, 1979)

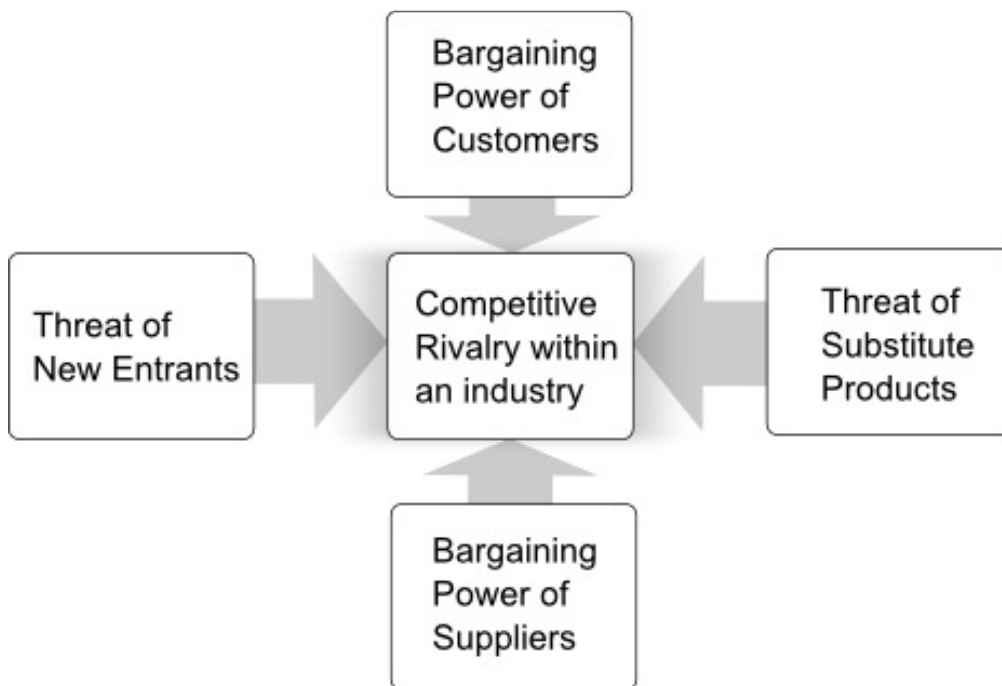


Figure 3.1-1: “Forces governing competition in an industry” (Porter, 1979)

3.1.1 THREAT OF NEW ENTRANTS

New actors in the industry may constitute a threat for two reasons; they bring new capacity to the industry and often bring substantial resources. In the consideration of entering a new market, actors consider how strong barriers of entry are and how existing establishments reacts on new competition. (Porter, 1979)

If the industry benefit from economies of scale it forces new actors to either enter the market in large scale or suffer cost disadvantages. Potential establishments must also reflect on current differentiation of products. Differentiation may take different forms such as product differences or brand identification. Capital requirements and costs related to investment is another barrier new entrants might face. This is especially true if the industry relies on large startup costs where costs do not directly yield return to the company in a short time perspective. (Porter, 1979)

Barriers can also be identified as not so apparent factors such as experience or access to distribution channels. This can be exemplified by supreme knowledge or relations to the best suppliers. Regulations on the industry imposed by the government may also create a barrier of entry. The government might limit access to raw materials, require licenses for production or impose safety and pollution controls. Such necessities are examples on how government by institutional means can regulate the market. (Porter, 1979)

As pointed out above, potential establishments must also consider their competitors reactions, such as retaliations. The behavior of competitors might prove at least as important as any other barrier of entry. (Porter, 1979)

3.1.2 BARGAINING POWER OF SUPPLIERS

By raising prices or reducing the quality of goods and services supplier can exercise bargaining power. The extent of bargaining power is defined by different conditions, such as number of suppliers and differentiation of products supplied. If number of suppliers is relatively low or supplied products are unique or inhibit switching costs, bargaining power for suppliers will improve. The room for bargaining will increase further if there are incentives for the supplier to establish itself forward in the value added chain. (Porter, 1979)

Additionally, if the industry is not of particular importance to the supplier group, the suppliers bargaining power will improve. If contrary and the industry are important, the supplier group will try

to tie the industry to it by building relationships through activities such as research and development (R&D). (Porter, 1979)

3.1.3 BARGAINING POWER OF CUSTOMERS

Customers exert bargaining power by forcing down prices, negotiating for higher quality of products and playing competitors against each other. A customer group which buys in large quantities or is concentrated will attain position for bargaining power. Bargaining power for customers will increase further if the industry has dependence on fixed costs, as filling capacity is highly desired. Level of differentiation among products also has an impact on the bargaining power as the buyers will be able to find alternative suppliers and play companies against another. Another factor that has great influence on the bargaining power for customers is if the industry perceives the customers as threatening to integrate backward. (Porter, 1979)

Customers may also have noteworthy bargaining power if they are price sensitive about the industry's product. Hence, if the industry's product represents a small component cost of a product or it has great affect on the customers production quality, customers will be less price sensitive and thus exert less bargaining power. Additionally, the more important the industry's product is in terms of saving money for the customer, the less price sensitive the buyer will be. (Porter, 1979)

3.1.4 THREAT OF SUBSTITUTE PRODUCTS

Substitute products constitute a threat since it may put a price ceiling on the industry's product. As such, it limits the price a company can charge for their products and therefore limit the industry's possibilities. Earnings and possibly industry growth will suffer unless the industry can upgrade the quality or differentiate its product in such an extent that the threat of substitute products can be minimized. (Porter, 1979)

Substitutes that tend to become more cost effective over time and improve the price-performance ratio or that are produced in industries with high earnings in profit are the largest threat for the industry's product. The latter alternative is considered a threat since such substitute's can quickly change in price or improve in performance. (Porter, 1979)

3.1.5 COMPETITIVE RIVALRY WITHIN AN INDUSTRY

Players that build up a competitive market constantly jockey for position against each other. This jockeying can take different forms such as price competition, product introductions and "advertising slugfests". (Porter, 1979)

Jockeying, or in related terms rivalry, may be considered as especially fierce when industry growth is slow or competitors are numerous and equal in terms of size and power.

Level of fixed costs and production capacity also influence on how companies tend to lower their prices in times of declining demand. Over capacity in the industry becomes especially cumbersome if the industry suffers from high exit barriers. It is of importance to point out that the whole industry may be affected when one independent actor carries out commercials or lower his prices, affecting the whole business. (Porter, 1979)

3.2 CRITICISM OF THEORY

The used theory for this thesis has some limitations as Porter's Five Forces primarily refer to the microenvironment for businesses. Hence, it does not necessarily take the macro environment into consideration. This creates issues as the use of Porter's theory in this paper both refer implicit and explicit to the macro environment. In respect to the macro environment, a PEST analysis might have been of more suitable use but the decision to use Porter's Five Forces were maintained since the focus was on interviewing individual manufacturers acting in the microenvironment. Conclusively, a more thoroughly analysis could be carried out by combining both Porter's Five Forces and a PEST or SWOT analysis. However, with the scope and limitations of this paper in mind, a flexible and alternative use of Porter's Five Forces was decided as reasonable compromise.

It can be argued how the broad scope of this study limits the impact of substitutes in analysis. The reason for this is related to the definition of apparel. As no specific segment of apparel is studied it proves difficult to identify substitute products. A solution would be to narrow the research segment and allow the use of alternative apparels for substitutes. However, this creates another issue as the apparel industry is highly dependent on fashion trends and different tastes. Therefore, if an analysis of apparel segments as substitutes would have to be carried through, the complexity in how substitutes affect prices and demand would be vast.

3.3 DEFINITIONS

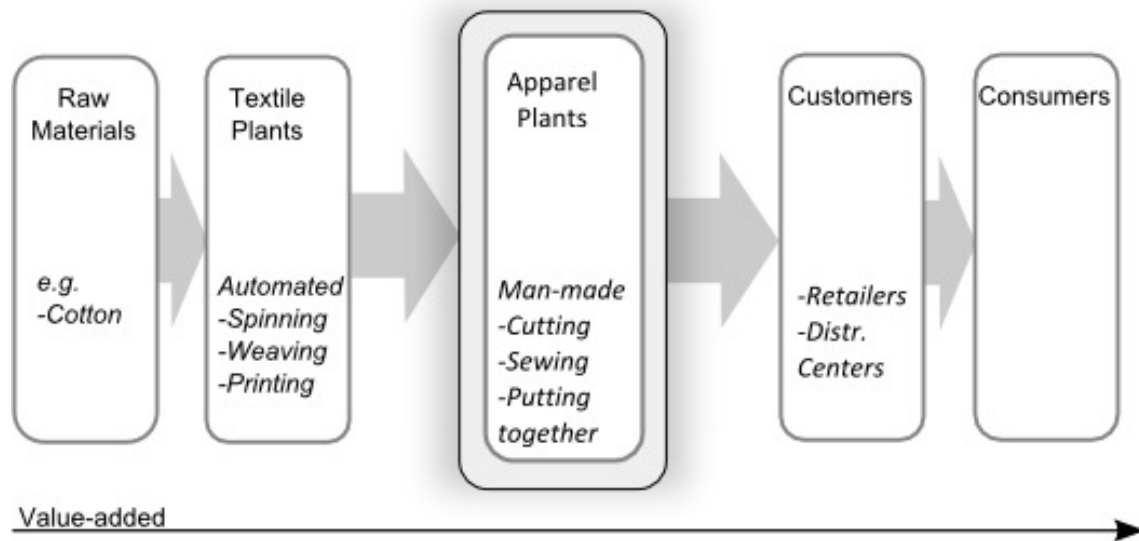


Figure 3.3-1: The Value Adding Chain of Apparel

Industry

The term industry refers to the total population of apparel manufacturers in the area of research

Manufacturer

Manufacturers are defined as producers of high value added apparel. The production is characterized by cutting and sewing components of clothing, such as fabric, zippers, buttons and then finally putting the pieces together.

Suppliers

Suppliers are defined as companies producing textiles and delivering fabric to manufacturers of apparel production. Production of textiles is more capital intensive than apparel manufacturing and to large extent automated. Tasks involved in the production are spinning, weaving and finishing. A supplier is in some cases vertically integrated with the apparel manufacturer but in other cases an external company.

Customers

Customers are defined as companies which buy apparel from the manufactures. These customers consist of either retailing companies, agents or other kind of distributing companies. Purchased goods can be sold either under the manufacturers' brand name or the customers' brand name.

Sourcing Agent

A sourcing agent acts as an intermediary between a manufacturer and retailers or designers. The work is distinguished by arranging suitable manufacturers for clients without know how on production or local knowledge.

Apparel

In this thesis, apparel, clothing and garments are considered as synonymous. The use of these terms refers to apparel that are ready to wear for the end user. In more specific terms, this apparel is regarded as every day clothing such as trousers, shirts, jackets etcetera.

Textiles and Fabric

In this thesis, textiles and fabrics are considered as synonymous. It consists of a network of fibers, such as yarn, and is formed by for example weaving or knitting.

Vertically integrated company

Vertically integrated companies are organized under a common owner with a hierarchical structure. Each member in the group specializes in different businesses and is combined for a general purpose. These businesses could be production of fabrics, ready-to-wear production or jeans washing.

Small and Medium Enterprises (SME)

Small and medium enterprises are defined as companies with less than 250 employees. This is the definition used by the European Commission. (European Commission, 2003)

4 SOURCES AND METHODOLOGY

4.1 COLLECTION OF DATA

Carrying out a comprehensive industry analysis may take months of work and Porter himself recommends going out early on the field of research. (Porter, 1983) Hence, with time constraints in mind and having the possibility to research onsite in Istanbul, the reliance on interviews for data collection was a natural choice. Therefore it was of importance to perform a pilot study and have an initial strategy on how to conduct the upcoming field study. By studying secondary sources such as articles and published material from trade organizations, a general overview of the industry was obtained. This general knowledge allowed the authors to form a strategy and assess the issues that were to be researched during the stay in Istanbul. In the preparation for interviews, questions were formulated in accordance with the theoretical framework presented in chapter 3.1.

4.2 THE INTERVIEWS - PRIMARY SOURCES

Research for the paper has had its focus on primary material. Through ten interviews, actors related to the apparel industry have been interviewed. Interview objects have primarily been found through exporters catalogues (such as <http://www.apparesearch.com>) or through contacts established in Istanbul. Companies of interest to contact for interviews have been selected through a few criterions and thereafter contacted by telephone.

First and foremost, only companies with English speaking representatives have been of interest for interviews. Another important criteria has been apparel manufacturers that are vertically integrated and preferably with European customers. A less important aspect, but still utilized for prioritizing selections of interviews, has been the manufacturer's customer portfolio. Those companies with, for the authors of this paper, comparably renowned customers in their portfolio have been given priority.

Initial interviews were held with actors not longer established in the manufacturing segment. This was a conscious choice as a step towards obtaining deeper knowledge before carrying out interviews with manufacturers. Although, it has to be pointed out that both these actors are in direct relation to the business of apparel production.

Interviews lasted between 40 and 80 minutes with each respondent and recorded when allowed (all except for one). Both authors of this paper were present at all interviews and they have all been held in English without interpretation through third part.

Focal point for interviews has been manufacturers of apparel. Though, in order to minimize the risk of receiving biased opinions, interviews with manufacturers have been balanced with other actors knowledgeable about the industry. Five of these interviews were conducted with pure apparel manufactures (Gürmen Group, BJ Tekstil, Ceyteks Tekstil, Taha Group, Orka Group). One of these five (Ceyteks Tekstil) has today stopped its production of clothing in favor of their regular production of yarn and fabrics. The remaining interviews have been carried out with actors having knowledge and close relationship to the industry. These include the Istanbul Textile and Apparel Exporters Association (ITKIB), two agents (Nova Moda and Minos Tekstil) of apparel brands and Professor Baris Tan at Koç University.

Interviews at apparel manufacturers were mainly held with persons responsible for production or exports. Other interviews were carried out with managers for their respective companies/organizations. The academic approach for the interviews was carried out with Professor Tan, faculty dean at Koç University. Professor Tan has performed considerable research related to the topic of this paper.

4.3 LAYOUT OF INTERVIEWS

The layouts of interviews have been fairly varied. Some have had a very formal outline with questions being strictly asked according to the questionnaire framework, while others have had a more discussions like format. In either case, the topics in the questionnaire framework have all been covered. Many questions were, in addition to apparel manufacturers, also asked both to suppliers and customers. As a result, numerous questions were declared from different perspectives.

Questions in interviews have also been adapted to where the interviewee's company is located in the value adding chain. An example of this is the case when suppliers or customers have been interviewed. In such cases, questions regarding relationships others than to the apparel manufacturer have not been of profound interest.

The questionnaire framework which has been used for interviews originate in the theory of Porters Five Forces. In the following paragraphs questions for interviews and their relationship to the theory will be explained.

4.3.1 INTRODUCTORY QUESTIONS

Interviews have started with an introductory part which included questions not strictly related to the theoretical model. By the end of these introductory questions, the aim was to have a mutual and comfortable dialogue between the authors and the interviewee. The purpose of using general introductory questions was to get familiar with interviewees and confirm company information. During this stage of interviews, the purpose was also to inform the interviewee about ourselves and declare our interest in their specific company or organization. Such questions were for example related to company structure and history as well as the interviewee's responsibilities and background. After this introductory part, questions related to vertical forces were discussed and then followed by questions on horizontal forces.

4.3.2 QUESTIONS ON VERTICAL FORCES

Questions related to bargaining power of suppliers had a primary focus on relationships between apparel manufacturers and their respective suppliers. Topics of interest in this matter measured, among others, how important any supplier is for the apparel manufacturer. Examples of such questions were how many suppliers that are available and how the suppliers in use differ from each other. Answers to these questions gave information on how easy it is to find similar suppliers and how strong differentiation is among them. Another example were questions regarding cost structure of suppliers which gives a hint on how dependent a supplier is on filling production capacity.

Regarding the bargaining power of customers, questions among others covered relationships and more customer specific questions. Topics of interest included measuring the importance of customers. This was done by asking how large volumes customers buy, and how many customers an apparel manufacturer has. Also related to the strength of the customer group is the differentiation of apparel manufacturers. Therefore, questions were asked on production, product segments and marketing strategies for produced apparel. Answers to these questions represent how apparel manufacturers perceive their differentiation. By figuring out the differentiation among apparel produced, it can be decided how easy it is for a customer to find alternative manufacturers.

4.3.3 QUESTIONS ON HORIZONTAL FORCES

Interesting issues regarding the competition and rivalry in apparel manufacturing was somewhat touched through questions in other parts of the interview. However, questions that were of particular interest covered the perceived number of competitors and strategies among apparel manufacturers. Industry growth and export performance of individual companies was also interesting questions in order to anticipate if companies try to increase their market share on the behalf on someone else. Other

questions of interest regarded cost structures and how production capacity is increased. The purpose of such questions was to measure how companies may tend to lower prices when capacity is increased and thus affecting the competitors.

In examining the threat of new entrants, questions were mostly straightforward while a small number had a more hypothetical reasoning. Questions with a hypothetical approach included questions on how theoretical actors could find funding and strategy for establishing in apparel manufacturing. Capital requirements were also such a question when asking on what costs a new theoretical apparel manufacturer would have to invest in. Most questions though, had a more hands on approach. For example were questions about governmental requirements, financial support and subsidies important in order to find out how the government encourage or restricts new establishments to the industry. Another interesting question was how apparel manufacturers perceive their and others brand names. By figuring out how brand names are valued and perceived in the industry, it can be estimated how strong barrier of entry brand names constitute.

Questions on substitute products have both been covered explicit and implicit in interviews. Initially, questions have had general topics of product segments and more specifically material, quality, design and fashion trends. At a later stage though, questions were formulated more explicit since no substitute products had, up to that point, been identified. At this point, questions instead focused on price ceilings on produced apparel and if any substitute products explicitly could be identified by the interviewee.

4.4 SECONDARY LITERATURE - SECONDARY SOURCES

Secondary literature has been a valuable resource in the pilot study and preparation phase. Such literature includes research by scholars, newspaper articles as well as publications by organizations. Such secondary literature has covered topics including agreements on trade, economical performance of Turkey and future of the apparel industry. This literature has also been of interest for the background material in this thesis. In addition, some sector profiles and market analysis have been obtained from the Swedish Trade Council and the Turkish State Planning Organization (SPO).

Also, some of the literature consists of trade statistics such as export performance. This quantitative material has been of interest mainly for two reasons. First of all, it highlights some trends in the apparel industry and secondly it allows the authors, to some extent, verify the material obtained in interviews. Contributors of statistical data have been organizations such as ITKIB, Swedish Trade Council, WTO and SPO.

4.5 SOURCE CRITICISM AND RELIABILITY OF STUDY

In reviewing the obtained material for this paper a few issues have need to be kept in mind. This is in order to minimize the risk of bringing forward biased or erroneous material. Issues that may flaw the source of material are; authenticity, time, dependency and tendency. (Thurén, 2003)

Issues with authenticity of primary sources is not considered as problem as the material has been obtained through interviews. A related problem though, is language barriers as interviews have been carried out mostly in a non native language. Therefore, one might suspect occasions of misunderstandings or misinterpretations. However, as interviews were recorded, such immediate problems have been worked around to some extent. Additionally, third party misinterpretations have been avoided since interpreters have not been used at any time.

Time is not perceived to have any major infliction when conducting interviews. Interviews have not had any emphasis on historical aspects where time issues may inflict. Questions have been asked about today's situation and therefore answers are most likely up to date and not affected by any kind of misstatements or distortions of memory. Further on, all interviews, except one, have been recorded in order to be able to review and recite correctly. However, in the use of secondary material, one has to be careful with in what year material has been published. Since Turkish apparel production and export has gone through some major agreements that inflict on the export performance, hence, in the use of trade statistics one must pay attention. As in this paper, when describing today's situation, only trade statistics after the year of 2005 must be utilized, if not for historical background. This is due to the abolishment of quotas and liberalization of trade. Trade statistics prior this time cannot illustrate the market situation of today. For the same reason, the use of speculative analysis before the quota elimination in 2005 must be restricted.

Upon reviewing the collected material, some minor dependencies have been noticeable. In primary material, the case of Gürmen Group and Nova Moda's relation to each other could involve slight dependency problems. However, Gürmen being a major actor with several more customers than Nova Moda lessen, and maybe even disregard, the risk of dependency. In secondary material, there are two cases when sources have referred to other sources that have been used in this paper as well. In one case the Swedish Trade Council (Swedish Trade Council, 2006) use statistics from ITKIB. Therefore, in such cases, statistics from the Swedish Trade Council has been disregarded in favor for the original source of ITKIB. In another case, Lindänge (Lindänge, 2007) employ statistics from Nordås Kyvik (Nordås, 2004). Nordås Kyvik and Lindänge are both used as sources in this paper, however the information that Lindänge refers to Nordås Kyvik is not utilized in this paper.

Tendency of sources ought to constitute the most important issue for sources in this study. As interviews have been conducted mostly with companies in the industry, some biased opinions can be assumed. In questions about relationships and subjective matters, one might argue how a company would like to reflect its positive and advantageous sides. For example, questions relating to customer and supplier relationships may not fully represent the real relationship since only one actor in the relationships has been questioned. There is one exception as Nova Moda and the Gürmen Group are in business with each other, although questions were never asked about their specific relationship. Also, one might argue how ITKIB as a trade organization with interests in the performance of Turkish apparel industry might have tendencies. However, as long as such issues are kept in mind and balanced with other opinions, they can most likely be handled. In this case, as previously mentioned, interviews have been conducted with different kinds of actors in order to diversify and lessen the risk of rendering biased opinions.

Regarding the reliability of the study, one has to bear in mind the outline of interviews as they have been relatively flexible and open ended. A possible outcome of this is that interviews might have a cumulative effect on deviation from the original research problem.

5 THE APPAREL INDUSTRY OF ISTANBUL

5.1 THE COMPETITIVE ENVIRONMENT

Apparel industry is one of the major driving forces in Turkish economy as it together with textile industry made out 20 percent of Turkey's total export in 2007. (Swedish Trade Council, 2007b) This is the significant largest independent production group for exports in Turkish economy. As briefly stated in the introduction, Turkey is one of the most important textile and apparel producers in the world with over 35.000 textile and clothing companies, where 83 of these are among the 500 largest companies in the world. (Swedish Trade Council, 2007a) Although there are some major actors in the sector, a majority of the companies producing apparel are SME:s. (State Planning Organization, 2004)

Based on a publication by the Swedish Trade Council, Turkish textile and apparel exports in 2006 accounted for USD19.6 billion. In the same publication expectations for 2010 will increase to USD34.8 billion, a growth of more than 75%. (Swedish Trade Council, 2007a) One has to have in mind though, that these numbers are speculative and account for both exports of textiles and apparel. In more apparel specific terms, Professor Tan adds that this growth is somewhat more complex. Hence, when using statistics, total exports increase but if observing item by item, only items sold at a regular basis are increasing in exports. (Tan, 2007) Regarding this argument, apparel is increasingly considered as a perishable good where time to market matters. (Nordås, 2004)

A number of companies interviewed seem to enjoy very beneficiary positions among their competitors. As such they have few direct competitors with long and stable relationships to their customers and suppliers. They are indeed positive about the future. However, there are others who perceive their position and market different. Mr. Yapici at Ceytek Tekstil as well as Mr. Elmali at Minos Tekstil, for example are worried about the clothing industry and its future development. They both point out the difficulty for manufacturers to keep profit margins at reasonable levels and highlight the tough climate in the business. (Yapici, 2007) & (Elmali, 2007) This is further illustrated by Ceyteks choice to stop producing clothing and even diversify into other businesses. (Yapici, 2007) Additionally, Minos Tekstil changed business model from manufacturing into acting as an agent. (Elmali, 2007) They both give the industry's hardening competition as a reason for their decisions. However, there are also companies, such as Yavuz Tekstil, that recognize the harder competition in the industry but still are positive about the future. They for example emphasize the importance of organization and service to stay competitive. (Yaşarlar, 2007)

In interviews with manufacturers it stands clear that most manufacturers do not particular work to gain more clients. They rather build deeper relationships and evolve those already existing than replace or diversify their client base. Yavuz Tekstil for example only has 4 or 5 main clients and state how they very much want to grow with their clients rather than expand to new customers. To grow with their clients, Yavuz Tekstil emphasizes the importance of outstanding service to their customers to keep them loyal. (Yaşarlar, 2007) Gürmen Group adds how they rather recommend one of their main competitors than let a customer step down in quality or service to less renowned manufacturers. (Üçeyler, 2007)

An example of the competition and how apparel manufacturers are jockeying for position is illustrated by a recent trend of apparel manufacturers creating brands for in-house production. The establishment of brands often requires the manufacturer to take a full step from the apparel manufacturing to the retailing channel. Manufacturer chose to establish forward in this way in order to gain higher profits and diversify their income. Mr. Yapici clarifies the incitement for integrating forward into retailing as he points out how an apparel manufacturer receive 3-4 Euros for exports that is eventually sold for 25-50 Euros to the end consumer abroad. (Yapici, 2007)

Professor Tan on the other hand emphasizes that manufactures do not consider the risks associated with prices in retailing. Additionally, the trend that firms try to establish downstream is problematic since retailing has limited growth and very fierce competition. Professor Tan points out how many apparel manufacturers seem to follow the same strategy. (Tan, 2007) Mr. Klangenberg illustrates this argument by explaining how many Turkish apparel manufacturers tend to look at their neighbor and try to do the same thing. (Klangenberg, 2007) This behavior is according to Professor Tan not productive as “Strategy should be like a portfolio, different firms should have different strategies”. He then concludes how one of the greatest weaknesses of the Turkish apparel industry is that they are not sure on what it is good at. (Tan, 2007)

5.1.1 THE ISSUE OF THE HIGH VALUED LIRA (YTL)

Almost every manufacturer in the interviews has marked another issue that is pressuring the apparel industry in Turkey – the overvalued Turkish lira. The high value of the lira forces the manufactures to drop prices in order to compete internationally. (Yilmaz, 2007) It is widely accepted how this is a major issue for the industry and is regular news in Turkey. Although this may be true, there are other aspects of the exchange rates between currencies as well.

Professor Tan adds to this discussion and points out how many firms at the moment benefit from the international financial situation. Companies that probably would situate in a crisis are doing alright

because they buy materials in US dollars and sell their products in Euros. Since the Euro is appreciating against the dollar, the firms are making money even though they aren't adding any additional value. Whether firms are aware of this situation cannot be concluded but if this changes in the future, many companies may be in trouble because of their low profit margins. (Tan, 2007)

5.2 THE APPAREL MANUFACTURERS AND THEIR CUSTOMERS

5.2.1 *PRODUCTION VOLUMES OF APPAREL*

Customers of apparel manufacturers are diverse in terms of buying quantities. Some customers purchase in great volumes from their manufacturers while smaller actors are limited to lesser quantities. Nova Moda, represented by Mr. Klangenberg, is an agent on the market and measures how they can contact about 50 manufacturers directly and further thousands are available in the whole Istanbul area. (Klangenberg, 2007)

It is a common perception by the apparel manufactures that production series of large quantities are difficult to grasp because of the hard competition from countries associated with lower production costs. (Yapici, 2007) Shorter or fast delivery series, where proximity plays a role however, is right now perceived as more attractive for Turkish manufacturers in the long run. (Türkant, 2007) Nevertheless, some production that is located in other countries sometimes makes it to Turkey. This is usually the case when extra capacity is needed with short notice. (Üçeyler, 2007)

Professor Tan tells a somewhat more complex story. In his study regarding textile and apparel trade, one of his major findings was that proximity only plays a role in certain types of products. Products that benefit from proximity are those that are sold on a regular, repetitive basis. For fashion items however, proximity isn't very important since they are often bought well in advance and easy to plan replenishment for. To conclude, for regularly sold products, Turkish advantages will continue since their customers can minimize costs and risks associated to keeping an inventory. Fashion goods however, can in the long run be produced at a much lower costs in other countries such as China. Hence, Turkey will lose that kind of production. This development is confirmed by statistics as total exports are increasing but if focusing on item by item, only products sold at a regular basis are increasing in exports. (Tan, 2007)

5.2.2 COST STRUCTURE OF APPAREL MANUFACTURING

Many companies in the apparel sector have a relatively variable cost structure. In apparel production, the input side of the productivity equation is principally made out of labor. Therefore, for a clothing producer, the largest costs are usually labor costs together with some fabric costs. This can be seen in contrast to textile industry, where a heavy emphasis is on fixed production costs. (Swedish Trade Council, 2006)

At Gürmen Group, labor costs make out about 80% of total costs for production. (Üçeyler, 2007) This has been cumbersome in recent years as Turkey, and especially Istanbul, has seen a great increase in labor costs related to the increase in living standards and minimum wages set by the government. (Tan, 2007) Although Istanbul has a very skilled workforce related to clothing and textile, more and more clothing producers are locating their production outside Istanbul in order to lower their costs. However, there is a minimum wage set in Turkey that some producers see as problematic. Hence, since living costs are lower in the countryside, the latest development is requirements on a more flexible minimum wage that takes the lower living costs in respect. Professor Tan tells many experts agree on that might be a good idea since minimum wage won't help as long as there are illegal employment. (Tan, 2007)

5.2.3 RELATIONSHIPS AND CONTRACTS

Another difficulty for an independent manufacturer is the industry's heavy dependency on references in order to attract customers. Whether a producer of clothing has good quality, ability to deliver on time or have reasonable prices cannot be illustrated better than having a famous customer in the client portfolio. Further on, the client itself may sometime tell something about what the producer is advantageous in. In addition to references, word of mouth plays a crucial role when customers select their manufacturer of apparel. (Klangenberg, 2007)

Production contracts between manufacturers and customers are short term and rarely set more than six months ahead in order to sustain flexibility and easily adapt to fashion-trends. (Klangenberg, 2007) Still, some manufactures emphasize their tight relationships with customers. For example Mr. Üçeyler at Gürmen Group tells about their good and long relationships with most of their customers. Gürmen, explains that their customers simply do not want to produce at lower quality or break up an already good teamwork even if Gürmen are relatively expensive. (Üçeyler, 2007) Mr. Klangenberg adds as he points out, how some suppliers of apparel produce for them solely. By these relationships, Nova Moda's clients can feel how they practically own the apparel manufacturer, and hence get to know the production very well. (Klangenberg, 2007) A special case of this is the Orka Group who recently

engaged in a major partnership with Orsan Tekstil for apparel production. (Köprülü, 2007) Although, such variants of integrating backwards are rare, Orka Group's background as an apparel manufacturer might explain this strategy.

5.2.4 THE VALUE OF FAST FASHION AND DESIGN

All manufacturers interviewed agree on the fact that the business has changed over the last ten years. A major change some say is the alignment towards "fast-fashion manufacturing". "Fast fashion" is a descriptive term used for both the quick changes in fashion-trends and the fast production and delivery. This trend brought awareness and knowledge to Turkish apparel manufacturers as customers started to require better service. An illustration of this is Mr. Üçeyler's explanation on how all know-how, ten years ago came from Western Europe, but today it is all within the borders of Turkey. (Üçeyler, 2007)

In literature, a general perception of Turkish apparel industry is the advantage and high quality of domestic fashion designers. Mr. Klangenberg at Nova Moda on the other hand, states how Turkish designers have lots to learn as they are not good at commercializing their products and reaching the end customers. (Klangenberg, 2007) Mr. Yapici at Ceyteks Tekstil agrees and also explains how Turkish designers do not go abroad or even do proper research about the markets they are trying to reach. (Yapici, 2007)

With the use of designers, the trend of creating own collections and presenting those for customers has emerged. This strategy may lead to shorter lead times for customers. One company obligated to such activities is Yavuz Tekstil who regularly presents their samples and collections for their customers. Yet, Yavuz Tekstil does not claim they are selling designs of clothing. In contrast to this trend, still to this date, the big customers still bring their own design for production. (Yaşarlar, 2007) Knowledge in terms of design can also be valuable and a competitive advantage when reaching for specific markets. Mr. Elmali at Minos Tekstil illustrates this by giving an example on how German clients want more spacey clothes with many colors, while British clients are more conservative. (Elmali, 2007) A result of this is that some of the interviewed companies focus on some special geographic market by the use of designers.

5.3 THE APPAREL MANUFACTURERS AND THEIR SUPPLIERS

During the 1980's the extensive use of incentives and governmental support of the textile and apparel resulted in a large expansion of the textile industry. As a result, the fabric manufacturing sector in Turkey is still immense. Recent statistics from the Swedish Trade Council reveal that fabric

manufacturing today comprises of about 20.000 companies and employs about 400.000 employees. (Swedish Trade Council, 2007b)

Many of these suppliers seem undifferentiated and as Mr. Klangenberg explains most are very flexible and can produce whatever is required. (Klangenberg, 2007) Mr. Yapici at Ceyteks Tekstil hints how this large number of fabric suppliers constitutes a problem for the competition. For example, it is not unusual for manufacturers of apparel to ask ten to fifteen suppliers of fabric about their terms and prices before contracting. (Yapici, 2007) Mr. Yaşarlar at Yavuz Tekstil further adds to this argument by explaining how manufacturers have the possibility to check prices among many suppliers which has led to similar prices among the suppliers. (Yaşarlar, 2007)

However, Mr. Yaşarlar still emphasizes how Yavuz Tekstil prefers to keep their current relationships and invest in those, rather than changing suppliers. As an example Mr. Yaşarlar explains how Yavuz Tekstil at the moment works with about 5 suppliers of fabric. The relations to these suppliers are deep in such sense that both manufacturer and supplier interact in research and development and have know-how about each other's business. Because of these relationships, if any problems would occur they rather work it out than change the supplier. Penalties are not too common because mistakes in planning and scheduling can occur for both suppliers and customers is Mr. Yaşarlar's answer to the question on how they handle problems, for example in the supply chain process. (Yaşarlar, 2007) However, if a change would be necessary it would be easy to carry out due to the vast number of suppliers available. (Yaşarlar, 2007)

There are risks related to these deep relationships which consist of suppliers integrating forward. In the process of building relationships to apparel manufacturers, suppliers learn what is demanded and required in apparel manufacturing. Hence, a supplier has great possibility to learn and internalize those capabilities they saw as subcontractors. (Tan, 2007) These companies expand their business in the value-adding chain, from being a supplier to become a manufacturer as well. "This step is not a great step" is the reaction from a Mr. Yapici at Ceyteks Tekstil, which ones tried to integrate the company forward into apparel manufacturing. Mr. Yapici explains how this process of integrating forward was and is usually conducted under different company name. (Yapici, 2007) Being a supplier brings a wide range of knowledge and therefore it is not a very long way to go to become a manufacturer, only the labor and some capital is needed. (Yapici, 2007)

5.4 ATTRACTIVENESS OF ENTERING APPAREL MANUFACTURING

In interviews with companies established in apparel manufacturing, the perception about occurrences of new entrants is considered as relatively low. At BJ Tekstil, Mr. Akbulut, makes a clear statement

how their company never experience new entrants. (Akbulut, 2007) Mr. Klangenberg at Nova Moda on the other hand clarifies that there occasionally are new entrants on the market. ^(Klangenberg, 2007) In addition to these statements, Mrs. Türkant at ITKIB presents a statistical approach to this issue. Mrs. Türkant explained that although they do not have a total overview of all manufacturers, she adds that the number of members who export apparel has annually decreased since 2005. (Türkant, 2007) As seen, the perceptions of new entrants are diverse but all interviews point towards the fact, that when new entrants occur, they are usually companies which establish themselves forward in the value-adding chain.

As Mr. Yapici at Ceyteks Tekstil points out, investments required for startup production do not necessarily need to be great. Apparel manufacturing industry is a sector where even poor countries can invest in and adopt technology at relatively low costs. (Nordås, 2004) This argument is confirmed by several interviews, for example at both Gürmen and BJ Tekstil, their respective manager's point out how labor costs are the primary cost for production. (Akbulut, 2007) & (Üçeyler, 2007) A reminder of this is Professor Tan's observation as to the manufacturing capacity is quite flexible and how "You need to have one sewing machine and then you are almost done". (Tan, 2007) Further on, Mr. Yapici at Ceyteks Tekstil explains that a company does not need to enter in large scale, as most competitors are SME:s. (Yapici, 2007)

Required investments for establishing a company in apparel manufacturing are not as large as for the textile industry, which is more dependent on fixed assets. Although investments do not need to be large, funding for investments might still constitute a problem because of the high interest rates in Turkey. (Elmali, 2007) In Turkey's adoption of requirements to become a member of EU, a requirement is to lower the inflation rate. Thus the work to meet this requirement drives the interest rate up and makes loans very expensive. Further on, before the quota elimination of 2005, Professor Tan means that the industry itself, to some extent, drove interest rates up. The industry was in fear of new competition, primarily from China. Therefore, most of the industry stated that they were in bad shape and demanded tax breaks, discounts etcetera in order to meet the new threat. However, the fears never got realized to the extent that were claimed but the banks had already listened and therefore increased the risk premiums for the textile and apparel industry, thus driving interest rates up. (Tan, 2007) This brings difficulties for new entrants to borrow money for expansions. Mr. Üçeyler at Gürmen Group explains how many of the larger actors in the industry are backed up by strong family companies. These families have good creditability at the banks and therefore good possibilities for expansion. (Üçeyler, 2007) Another way of financing expansions is the use of a vertically integrated company structure. Mr. Yaşarlar at Yavuz Tekstil for example tells how an entity in the group sometimes allocates resources to aid other companies in the group. (Yaşarlar, 2007)

Related to financial issues, new establishments and relocations may qualify for governmental subsidies and support. By these measures, the government wants to give incitements for companies to establish in less developed regions of Turkey. The subventions have the purpose of distributing employment opportunities. There are a total of 54 regions in eastern Turkey which meet the criteria for such subventions. Companies that qualify, as an example, can receive support for 40 to 50 percentages of energy costs and other benefits such as lower costs for social charges, taxes and allocation of state property. (Storm, 2007)

5.5 THE VARIANCES OF APPAREL

There are no really substitute products to such a wide category as ready-to-wear apparel. Some manufacturers mean how a change in fashion of course could bring new products with it. For example jeans could go down in popularity while for example chinos could increase in popularity. The only thing that changes then is the fabric in the machinery so it would not cause any major changes for the manufacturers. Many of the interviews conducted have made it clear how the great advantage of the industry is this flexibility. Mr. Akbulut at BJ Tekstil gives an example of this by pointing out how people always will need trousers (Akbulut, 2007).

6 DISCUSSION

6.1 THREAT OF NEW ENTRANTS

In previous sections, the term integrating forward in the value-added chain was brought to light. Since apparel manufacturing is very dependent on personal contacts and experience, new actors would have to bring some kind of client base along with the new establishment. Hence, it could be understood how entering the market without clients or contacts must be of difficulty. From this it could be understood how a beneficial way of entering the manufacture segment of apparel industry is by integrating forward, thus bringing contacts, know-how and clients along.

When asking manufacturers about their greatest costs; all interviews pointed out how workmanship together with fabric was responsible for major costs. If more capacity would be needed, only variable costs such as employees together with sewing equipment need to be increased. One might argue, roughly, that costs increase proportionally to workforce employed. Hence, a new establishment will not suffer from increased costs relative its competitors due to any economies of scale.

Product differentiation may constitute a barrier of entry as manufacturers are heavily dependent on references and word of mouth. Without any established client portfolio it is difficult to attract customers and build customer loyalty. Therefore new establishments have to endure increased costs in creating sample collections to show potential customers. Hence, in startup phase costs are not only associated with the manufacturing required but also with the costs for designers and creating samples. In the sense of reference dependency, barriers of entry are considered as very strong.

At first glance, barriers of entry regarding capital requirements may seem relatively low as no major investments for production equipment is necessary. However, capital requirements cannot be considered insignificant, as some upfront startup costs are required to attract a new client base. Such startup costs include research and development (R&D) and attracting designers with suitable know-how. The purpose of these startup costs may include creating own collections in order to attract new customers. Such investments can be considered risky as these collections may not meet customer's expectations. In cases where internal funding is unavailable, funding for such investments may prove expensive as risk premiums are tremendously high.

Related to design and R&D is the learning curve of apparel production. For a new actor, all these factors may be cost disadvantages independent of size. As a new actor has limited experience from

apparel manufacturing, nor any built up relationships with customers, they might experience disadvantages relative the established competitors. As Mr. Klangenberg pointed out, the team work between customer and manufacturer is very important. Hence, new entries do not know what customers require or what service is needed in the production. In correlation with this argument access to distribution channels may constitute a barrier of entry. All these factors exemplify apparent barriers for entering the apparel manufacturing segment.

Governmental policies do affect the business environment to some extent. An example of this is subsidies which are offered to companies establishing production in certain regional areas. Such subsidies include all companies in all businesses. Hence, it can be understood how this aspect do not constitute a barrier of entry for new entrants. Although such encouragements may be more beneficial for new entrants compared to established apparel manufacturers. For an already established apparel manufacturer, relocating production comes with some constraints and may prove cumbersome. For a new actor though, no such obstacles are present and hence subsidies may be used as a competitive advantage for new entrants.

As Porter points out, in addition to these potential barriers of entrance, new entrants may have second thoughts about entering the new market if existing apparel manufacturers may retaliate on new entrants. The apparel sector though, has such a large population of manufacturers so any new actors may hardly be noticed by the competition, which minimizes the risk for retaliation.

6.2 BARGAINING POWER OF SUPPLIERS

The large number of available suppliers gives an initial indication of a weak bargaining position for the supplier group. Additionally, the supplier group lacks switching costs and has a low level of product differentiation. This leads to great possibilities for apparel manufacturers to scout the supplier group for best terms and prices for production. As a result, apparel manufacturers can contact a large number of suppliers and play suppliers against each other. Such behavior weakens the bargaining power for suppliers and as a result pushes prices down and makes prices similar among suppliers.

An advantage which the supplier group can capitalize on, in order to achieve a better bargaining position towards apparel manufacturers is their ability to integrate forward in value added chain. As previously seen, companies in the textile and apparel sector have established forward to create vertically integrated company groups. Thus proving how establishing forward is not a great undertaking and may show successful. As Mr. Yapici explained, establishing forward is usually conducted in a different name and do not interfere with existing customers. Therefore, the threat of establishing forward may not even be apparent for the apparel manufacturer in the bargaining process.

However, one may question the threat of new establishments in an already crowded apparel manufacturing segment.

Deep relationships between manufacturers and suppliers illustrate how important the apparel manufacturing industry is for the supplier group. An example of this is how suppliers and manufactures interact in activities such as research and development (R&D). By this process the supplier obtains knowledge on what customers downstream in the value added chain demands. Hence, a good relationship is of mutual benefit for supplier and apparel manufacturer. Depth of relationships is emphasized by apparel manufacturers even though they denote their ability to switch suppliers. Saying that relations are deep but easily interchangeable seems like a paradox. However, it rather illustrates the suppliers desire to tie the apparel manufacturer to their business. The strength of bargaining power in this case, is questionable as both the depth of relationship and how easily it can be interchanged are matters for discussion.

6.3 BARGAINING POWER OF CUSTOMERS

Although studied apparel manufacturers are concentrated to a geographical area, it is still a comprehensive and quite an anonymous industry in respect to its customer group. It is not of significant difficulty for a customer of apparel to contact a number of manufacturers about terms and prices offered. As in the case with suppliers, such behavior tends to drive prices down and make prices similar. The customer can often feel confident in finding alternative manufacturers for their production of apparel. Hence, the bargaining power of customers is strong. For that reason, it is of importance for a producer of apparel to differentiate their products or production so it will not compete with price as primary mean.

Differentiation in Turkish apparel industry is either carried out through distinction of products or production. In related terms, differentiation is accomplished either by quality or service. Differentiation can be considered as especially important in the apparel industry since contracts are usually set on short term basis and are rarely set more than six months ahead. Hence, there is a need to tie the customer to manufacturers without the need of explicit contracts. As seen, a recent method of differentiating production is increased use of design as a competitive advantage. The use of designers makes it possible for a manufacturer to present collections produced in-house for both potential and existing clients. As pointed out in the empirical section, some manufacturers specialize in know how concerning country specific design to niche themselves. By focusing on such differentiation, the apparel manufacturers in Istanbul no longer compete in the low price segment but rather in a segment where quality, design and service is of greater importance for the customer. Hence, it could be concluded how the bargaining power of apparel manufacturers is improved.

In addition to the numbers of apparel manufacturers, purchase volumes and contract lengths decides how powerful the customer group is. As previously pointed out the length of the contracts varies approximately between one to six months. With such short contracts it can be understood how competition and negotiations are faced both often and regularly. Under these circumstances, the fact that customers buy apparel in large volumes implies their powerful bargaining position. The number of manufacturers, together with short lengths of contracts and large purchasing volumes, it may be perceived how customers have a large ability to bargain with apparel manufacturers. In the case with apparel manufacturers though, fixed costs are considered relatively low and hence it can be understood that the importance of large volume buyers are somewhat lessen.

Whether produced apparel make out a significant fraction of customers total costs cannot be generalized due to the range of price segments in apparel. Usually, it can be said how brands established in a lower priced segment are more price sensitive since production costs make out a larger fraction of total costs. This can be compared to brands in a higher price segment where production costs make out a smaller fraction of total costs. In Turkey's case, as workmanship costs are already high and increasing, the lower priced segment is losing more and more attractiveness as production costs are lower elsewhere. For that case, the customer base for apparel production is increasingly leaning towards middle to high price segments, where customers are less price sensitive. When arguing for customers bargaining power, one also has to take into account how the products that a customer sells are practically the same that the manufacturers produce. In other words, the quality of the industry's product has an immediate effect on the customer's product. According to Porter such a relationship leads to customers being less price sensitive as they are more dependent on the manufacturer. Both these examples indicate on how Turkish apparel manufacturers have positioned themselves in a segment where customers have less bargaining power.

Apparel products will not save the customers any money. However, something that could save money for the customer is a well functioning production and supply chain. Hence, a deep relationship with transfer of knowledge between manufacturer and customer increases chances for flawless production and delivery. Even though commit in building a relationship may take long time and prove costly, it may save money in the long run. In Turkey, many manufacturers try to build such relationships with their manufacturers in hope to stay competitive and tie up their customers. By this reasoning, it is unclear how the bargaining position is affected with such relationship in mind. However, it is clear that the product itself does not save money for the customer and thus the bargaining power for the customer is improved.

6.4 THREAT OF SUBSTITUTE PRODUCTS

In this thesis, when using such a broad term as apparel, there are obvious reasons for identifying substitute product groups proves difficult. One might argue reasoning for substitute products is a trivial discussion. As one interviewee pointed out, how can you substitute clothing? Of course, there are variations in types of clothing and material. Variations of apparel can also be identified as trends in fashion and styles. Hence products within the apparel segment can act as substitutes but the general conclusion still stands; there's no substitute to apparel.

6.5 COMPETITIVE RIVALRY WITHIN THE INDUSTRY

The apparel manufacturing segment is made out of numerous manufacturers which all are varied in terms of size and power. As Mr. Klangenberg made clear, it is a massive sector with thousands of companies producing apparel.

The apparent high growth rate of total apparel exports indicates that the rivalry between apparel manufacturers is low. However, as Professor Tan pointed out, the growth rate is somewhat more complex and differs between different product segments. As such, the growth rate is high in some product segments but even negative in others. Hence, the rivalry between apparel manufacturers is diverse since they enjoy different growth rates. In product segments where the growth rate of apparel exports is negative, it must be said how the rivalry is augmented. This has been indicated in interviews as some interviewees emphasize the hardening competition and rivalry while some hardly recognize it.

Since apparel production is flexible and switching costs can be considered as low, manufacturers' customers cannot be regarded as attached to its manufacturers. The low grade of switching costs increases the risk of manufacturers being raided on its customers by competitors. Additionally, apparel, as a perishable product group, is in the risk of temptations to cut prices when demand slackens. For example, when there are recessions in the business cycle apparel prices will drop significantly in price. Both these factors exemplify and indicate that the rivalry between manufacturers is high.

Flexibility to adapt production levels for demanded capacity lessens the risks for periods of over capacity. If extra capacity is required, a major issue for the apparel manufacturer is to recruit labor for meeting increased demands. Thus, capacity is not augmented in large increments with eventual periods of overcapacity and price cutting as a result. One might argue how the supply and demand of production adapts quickly to each other. Related to the flexibility of production levels and the major asset of workforce, exit barriers can be considered as low. Regarding these issues, the rivalry between

manufacturers may seem lessened as apparel manufacturers both easily can adapt production levels and exit the industry.

Strategies among apparel manufacturers seem to be similar. More often than not, they seem to be variances of each other. Mr. Klangenbergs statement on how Turkish companies tend to look on their neighbor and do the same is a good illustration of this tendency. This imitating behavior tends to lessen the rivalry between apparel manufacturers.

Although not directly related to Porters theory, an external issue that has often been brought to light and seen as a problem for quite some time is the high valued Turkish lira. The appreciation of the lira becomes an issue in competing for exports. As Turkish apparel manufacturers are pressured to lower prices in order to stay competitive with companies abroad, the overall rivalry within the industry gets affected. When profit margins drop it creates incentives for domestic companies to expand their customer base in order to keep profits up. It is therefore reasonable to believe that such expansions may occur on the behalf of competitors if possible, and thereby increase the rivalry in the industry.

7 CONCLUSIONS

The study's primary purpose of investigating the competitive situation among apparel manufacturers in Istanbul is summarized below in the format of Porter's five forces. Concerning future development of apparel manufacturing, a significant part of the conclusions is of a somewhat more speculative kind. Therefore this secondary purpose is more thoroughly covered in chapter 8.

- Establishing forward into the apparel manufacturing segment in Turkey may at first sight seem like a modest undertaking. New establishments can benefit from subsidies, and the acquiring of labor and fabric-suppliers are reasonable tasks. The total undertaking in entering the market may prove much harder though. Building up a network of suitable customers and distribution channels are cumbersome and investing in designers risky. The use of subsidies may also end up useless if the products that are being produced are undifferentiated. It can be concluded that entering the apparel manufacturing segment is difficult without prior know-how. Therefore, integrating forward is the primary mean of starting apparel manufacturing.
- Bargaining power of suppliers is considered as low, although being part of a vertically integrated company structure or partnerships may strengthen their positions. Suppliers may engage in relationships by using activities such as R&D in a try for better bargaining position and tying up the apparel manufacturer. Although, the lack of differentiation and the number of suppliers weaken the bargaining power radically. As seen, there is a history of suppliers integrating forward but as the number of apparel exporters is decreasing and competitive situation for apparel manufacturing increasing, it is considered as a minor threat.
- The customer group often feels confident in finding alternative apparel manufacturers. In Istanbul the apparel manufacturers are increasingly leaning towards middle to high price customers, due to their production costs. Turkish apparel manufacturers are trying to adopt this situation by differentiating their production towards quality, service or design. Even though apparel manufacturers have positioned themselves in a less price sensitive segment, it has to be said that the customer group still enjoys a strong bargaining position.
- The lack of substitutes for apparel makes it clear, how substitute products only exist within the segment, in other words, different variations of apparel. Hence, as this thesis has a more general approach the effect of price ceilings and related issues to substitutes have no effect on apparel per se.

- Related to the reasoning on product segments, the rivalry seems to be somewhat varied even though many use similar strategies. For example, a number of apparel manufacturers enjoy growth with present customers but others have to put up a war for every contract. This difference of rivalry may depend on magnitude of the apparel manufacturer, whereas the larger ones seem to take pleasure in fine references and stable relationships. In either case, the apparel manufacturing segment in Turkey seems more worried about external competition and issues related to the exchange rate rather than the domestic competition.

In direct relation to these five forces it can be concluded how the general strategy for Turkish apparel manufacturers have been defensive in the past. Companies used to position their companies where the five forces are as weak as possible. Nowadays though, strategy is used in strive for affecting the balance of these competitive forces. Hence, apparel manufacturers try to differentiate their products or production and many companies have developed into a vertically integrated format in order to create barriers of entry. Although apparel manufacturing in Istanbul already is an arguably difficult business to establish in, there is attractiveness in it. Manufacturers have a good outlook if they can differentiate themselves from the competition.

Domestic differentiation by quality or specialized production will do fine for the moment. On the horizon though, some major transition of the industry is taking place. Proximity of end markets is getting more essential and the importance of supply chain management is growing in importance. Thus the apparel manufacturers should try to take advantage in such development and change their strategy in order to exploit industry change.

8 SPECULATIONS ON FUTURE DEVELOPMENT AND EXTERNAL COMPETITION

In the long run, an apparel manufacturer has to take into account the external competition that is increasingly affecting Turkey's position as a major actor among apparel producing countries. There are some indications on how there is a crisis or even a shakeout among apparel manufacturers in Istanbul. Those apparel manufacturers that are affected have not succeeded in differentiating themselves enough among both domestic and international competitors. However, as Professor Tan pointed out in his interview, many are doing okay due to the international financial situation with buying supplies in dollars and selling goods in euro.

Whether they are doing okay for the moment or not, those that are differentiating themselves in special products or quality production may meet a difficult future. Remember how Turkey once was a country of low cost production but nowadays emphasize competing in a high value added segment? So will probably other countries develop as well. Hence, if competing in quality production, competition will increase from companies established abroad.

Professor Tan explains this obstacle more thoroughly as he points out the following advantage for Turkish apparel production. Even though Turkish apparel manufacturers emphasize their location and proximity to end markets, some apparel producers should focus their competitive advantages even further. As Professor Tan delicately put forth, there are product segments that take advantage in proximity as a primary mean. Products that are replenished often can take advantage in Turkey's proximity as inventories, and risks associated, can be minimized. Because of this, Turkish apparel manufacturers should try to take place in the international retailing chains and hence will not need to work for new orders every single week. If successful, Turkish manufacturers will continue to compete with location as primary mean, independent of if they are producing in a specialized or high quality segment or not.

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