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**EIB**

# **GECA TEXTILE**

**-Case Study-**

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*GECA Tekstil was co-founded in 1990 by two entrepreneurs one of which was a textile engineer while the other one was a business administration graduate. For their master's study, Ozan and Anil moved to Germany where basic t-shirts were quite in demand, as they noticed. They thus decided to start manufacturing basic t-shirts. This entrepreneur attempt marked a success story which was considered quite an achievement during that time. So, how did it struggle in the ever-changing market and competition conditions. Or did it fail?*

After graduating from the university, one moved to Cologne and the other moved to Frankfurt to pursue their master's study. The two returned to Turkey for summer holiday on completion of the first year of their study, spending it in Ozan's summer house. They were talking about their impressions and they each stopped the moment the subject came to the popularity of basic t-shirt. It was an upcoming trend in Turkey, so why wouldn't they pioneer it? The season didn't matter for basic t-shirt which could be worn in all seasons. In Turkey, cotton was high-quality and abundant. Labor costs were also lower, compared to Europe. Ozan's father was involved in cotton trade, so they were already familiar with a network of fabric suppliers. It would also be easy for them to build business relations with shareholders in the same network across Turkey. Therefore, they could grow their business in abroad thanks to their experience and relations if they manage to gain success in the domestic markets. They thought they were advantageous when all these came together. In 6 months of time, the two buddies officially co-founded GECA Tekstil.

They didn't have any difficulty in supplying the raw materials. Plus, they used cost advantages and their company strategy was based on offering low prices. This way, their initial basic t-shirt export activity took place in Germany in a year after they founded their company. The company of these two young entrepreneurs boomed as a result of quite satisfactory profit margins. There was a general conclusion that suggested textile and clothing products would be demanded even more as Turkey joined the Customs Union, and also, thanks to the increasing demands of customers. Therefore, they decided that it was the right time for such a breakthrough.

Recalling those times, Anil said: We had a serious volume of sales in the domestic markets, while export was of top priority for us. Our increasing capacity and customer satisfaction enhanced our business relations, helped our company become more recognized, and thus we started exporting our products to the other countries including France, the Netherlands and Belgium. During that time, Turkey's biggest advantage was that it boasted high-quality raw materials with high-quality labor for low costs. Furthermore, it was also advantageous in terms of logistics, which means that the Chinese market was quite "gated" during that time and far from Europe. Then that exciting development happened: the long-awaited Customs Union Agreement. We thought our country could take an advantage from the non-quota and duty-free product entry for Europe. However, it didn't turn out to be so. It actually impacted many textile companies, including ours, negatively. There were no longer borders and everyone was able to carry out trade activities with anyone. Turkey had to strive against fiercer competition conditions. Textile industry, which had been the locomotive of country until 1998, was underwent a country-wide devolution for the first time, which was followed by the 2001 crisis. In 2005, all the quotas were abolished and China marked a breakout, which brought about the toughest times of our lives. At first, we only downsized. Due to the excessive production capacity, we had to reduce our production capacity, lowered our costs

and, unfortunately, we eventually had to dismiss some of our workers. We thought we could survive the severe financial crunch by making a shift from national sources to international suppliers.”

But did supplying raw materials work out? “Unfortunately not. Although we were satisfied for a short while, it didn’t help us”, said Ozan. And he added: “If what we cared was the costs, then we needed to find places where fabric was cheaper and manufactured with lower costs, we thought. We attempted to globalize our supply chain. By that time, for us, foreign trade had to do with export but we needed to learn importing as well. We continued to boast the cost advantage. We thought good times were back but we were mistaken. In a year, our competitors could catch up with us through international fabric supply activities. We in turn decided to import yarn, which had a cheaper raw material, invest in knitting machines and go for a retrospective integration. This way, we could lower our product costs, while adding fabric production to our contract manufacturing activities. This time, we encountered another problem. We didn’t have any dyeing plant and our clients no longer preferred “basic” designs and colors. We would not be able to establish our own dyeing plant because it required a huge amount of investment. We eventually managed to collaborate with dyeing plants although that was too hard. Things were almost back on the rails until many people managed to be involved in textile business when the government granted them incentives and loans. Fabric manufacturing capacity kept increasing and increasing. We yet again ended up at financial crunch due to price competition.”

*Has it all ended? Are new chances waiting for us?*

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Thanks to the knowledge and experiences Ozan and Anil gained in the course of their business life, it occurred to them that they weren't able to tackle price competition and it was the beginning of the end. They needed to do something before all their investments and efforts were wasted. During that time, the fast fashion trend, which was spawned in Spain, dominated Europe and later spread all over the world. Following these developments closely, thanks to their relations in Europe, the entrepreneurs were determined to turn this trend into opportunity. Initially, GECA Tekstil was organized around a two-season approach to product ranges but it managed to increase the number of its collections. However, companies such as Spain-based chain ZARA, which was later followed by H&M and GAP, prepared around 10-15 collections on a yearly basis. This way, they dramatically surpassed us in the competition not only in terms of cost and quality, but also in terms of supplying and delivery times by developing and improving their business models.

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Ozan: Anil, I don't think we will make it.

Anil: Don't be such a pessimist. Let's travel to Europe to visit our clients and figure out their expectations. And we will also relax for a few days and evaluate the latest situation.

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After their travel, Ozan and Anil returned to Manisa with a new kind of an approach. According to what their clients pointed, the booming companies in Europe boasted an R&D department or a brain team which helped them keep up with the trends on time, while positioning them as an industry leader through trend-making activities. Therefore, they

decided to employ a highly creative person to initiate the R&D efforts and built an infrastructure accordingly.

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On a Friday, Murat Bey had a day off from the textile company he was working for to have a secret business interview. He told his friend that neither the company he worked for nor he contributed anything to each other so he wanted to change his job. His friend then sent him a resume of a close friend of his, Ozan Bey, who owned a company intending to change its strategies based on R&D efforts. As part of this application, GECA Tekstil invited Murat Bey for an interview, considering his experience in the textile industry. The interview went well. Both Anıl and Ozan were present but the job description they offered was not very clear to Murat Bey. Anıl Bey told him that he would work under his company but his position would be determined later if he accepts the offer. He pointed that their main goal was to keep up with the competition conditions and become an innovative company which would undergo a transformation on many terms to become more professional and competitive. He added that this could be achieved through R&D and innovation. Murat Bey was hardly familiar with R&D and innovation. So, when he was offered a salary 1.5 times more than his current one, he had a bunch of questions on his mind such as “Is it actually worth to be involved in something I don’t know just for the sake of this salary but if I continue with my current company, would it help me make any further progress?”. When the interview was over, he thanked Ozan and Anıl, asking 3 days of time to think about their offer. *What should Murat Bey do?*

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Upon accepting the job offer, Murat Bey spent the first 2 weeks without a clue about what he was doing, therefore, he wasn’t taken seriously. Almost all the departments attempted to cast him aside, while only very few people said that the company would be doomed to demise soon if it continues this way, telling him about why the company was faced with such a situation. It was because nobody was eager to adopt innovative ideas and the company lacked the innovation culture. Everyone in the company was concerned that this new guy would ruin the existing company structure. Murat Bey was left alone. He thought it was a mistake to have accepted this job offer. He called Ozan Bey to resign. Ozan Bey was abroad and he told him to wait for a few days and discuss it again on his return to Manisa.

When Ozan and Anıl returned to the factory, everything was changed. Ozan held a meeting with each department of the company, one by one, inviting Murat Bey as well. He explained that they were to take a significant step for the company’s future, which would happen under the coordination of him and Murat Bey, and that everyone be involved in and contribute to this process. At each department, Ozan Bey pointed that Murat Bey was going to prepare and submit a report regarding the innovation efforts and which areas to focus on. He said they needed support in this process. *But where should Murat Bey get started?*