
Is Turkish Electronics Ready to U.S. Market?

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As the sector is not only that of a unique industry having a market share of 1 trillion USD, and holding the rank of being the highest employer sector for the 21st century, but also has become the basic sector improving all the other sectors. The Electrical-Electronics and Machinery Industry is considered to be one of the major sectors of Turkey, as it is the source of information technology used by the developed nations to ensure competitive advantage. Electrical-Electronics and Machinery Industry is the main target sector that will ensure Turkey's competitive advantage in export markets. Fatih Kemal Ebiçlio lu, Chairman of Istanbul Electrical-Electronics and Machinery Products Exporters' Association talked to TURKOFAMERICA.

Turkish electronic firms are particularly recognized brands in European markets. What should be done to able to repeat the same success in North America?

The North American consumer market is a highly competitive and mature market with most consumer niches already addressed by a plethora of very strong global and local manufacturers and retailers.

Furthermore, the North American consumers' needs and wants are different from their counterparts in other parts of the world, given that they tend to live in larger houses, drive longer distances and exhibit different social behaviors which impact the types of consumer products they choose to use. For example, top load and large capacity washers are still preferred in US vs. front load and small capacity washers in Europe.

Hence, any new entrant needs to create value for the consumer either through lower prices and/or better features and accomplish this by capturing share from existing players who are already pretty good at addressing the needs of different consumer segment.

For companies which are based out of Europe and/or have strong European based manufacturing capabilities, they have to overcome four very big hurdles that they may not face when competing in Europe. The first is developing the products that the North American consumer would want in quantity; the second is managing the logistics around transporting bulky products and/or finding a way to have the products sourced in North America cost effectively; the third is finding retailer partners who are willing to create space for your products and the fourth is generating awareness and consideration for the brand in a very competitive media environment.

Given these hurdles, you typically see strategies that are on the extreme ends of the spectrum. Certain players will overinvest on all fronts; for example Hyundai in building assembly facilities, pricing products lower, providing longer warranty periods, overinvesting in marketing and finally developing products that cater to the unique needs of the North American consumer. Certain players will stay niche and pick areas where they have less competition. For example, some European companies with European style high end products are working with niche retailers. Alternatively, certain players will try reinventing the business model by securing low cost supply chains, developing good products, figuring out how to communicate their brand message with design and packaging and working with the club channel that has most to gain from a relationship with a low cost new entrant.

New entrants will have to heavily weigh the costs and benefits of each strategy and pick what suits them best. One other factor that is also very critical for new entrants is the risk profile of the North American market being different from other geographies. The consumer protection laws and the legal environment also create some additional risks for any player, including established players, let alone new entrants. For example, recently very large scale recalls have hit some prominent players in the industry.

What could be some disadvantages for industries entering the North American market?

Geographical location of manufacturing facilities, differences in consumer and business culture and legal know-how are areas of key disadvantages for Turkish electrical, electronics, machinery and information technology sectors. Overcoming these hurdles typically requires big investments and given the risk associated with winning in North America, not many Turkish companies have been able to get to scale in North America yet in these sectors.

When the figures for 2010 were examined, one of the products with the highest sales to the U.S. were freezers. When you consider industry capacity and production of power, what product groups could be profitably sold to the U.S. market?

Freezers have been potential growth areas for Turkish manufacturers to date. While energy efficiency and higher end features such as frost-free may help create additional demand for our manufacturers, the freezer market is still very much a price driven market. Most of the demand for freezers come from consumers who tend to use these products in garages or small business owners who use these as add-on freezer capacity out of sight. Hence for any player, bringing these products to market at low cost is key to continued success.

The U.S. is the world's number one consumer of electronic goods. Can the U.S. market be a new target after the European market to increase product sales for items such as refrigerators and televisions?

Fridges are bulky products compared to TV's. So logistic and supply chain issues must be analyzed before moving forward. Typically any product sourced from Europe will not have such a great chance to compete unless it is a high-end unit above a certain retail price. Innovative and energy efficient products could be targeted given Europe may be ahead of the curve in certain product segments like front load washers.

In the coming years, is it possible for Turkish companies to establish research and development offices in the United States and to develop strategic partnerships with American companies?

While the US is still the driver for innovation in many sectors, there are two main hurdles to considering R&D investment in US. The first is that the cost of skilled engineering talent is very high and the second is that white goods products are very much unique to the NA consumer. Therefore in considering alliances around technology with American firms and/or establishing R&D centers in US, all cost/benefit tradeoffs will have to be evaluated. We observe that many American firms move some of their R&D capabilities overseas to countries like India and China.

When you examine the development of the sector in recent years, what improvements you expect in next 10 years? How do you expect the sector to look like 10 years from now?

On one end, more environmentally responsible products (lower electricity, lower water consumption) coupled with improved features (e.g., better hygiene, larger capacity) and better design (e.g., inox) will continue to take a larger share of the existing replacement markets. For the environmentally conscious products, the speed of penetration will depend on the amount and type of governmental subsidies and/or environmental policies put in place.

On the other end, there will be hundreds of millions of new households that will move into the middle class in countries like Brazil, China and India who will still seek basic products for their first purchases. Therefore, companies which will be successful in the future will have to cater to both trends.

In 21st century technology, the electric-electronics and the machinery industry's importance are more critical than ever before. To keep pace with the rapid change in this era of the sector, what are the biggest disadvantages?

To drive new technology into households, the price/feature tradeoff needs to be right. Sometimes the better technology is more expensive and the consumers are unwilling to make the tradeoff en masse. So regulations and subsidies play a prominent role in driving technology to the next level. For example, for a smart grid to work, the standards must be developed before manufacturers could start investing to drive the penetration. Similar issues exist with energy and water consumption levels. Given that it is very hard to develop worldwide standards in the sector, our manufacturers have to have the scale to be able to address needs of multiple markets from product innovation to registration.

What are the industry's advantages to get a bigger share of Turkey's exports?

The main advantages of our electrical, electronics, machinery and information technology sectors are; availability of skilled and low cost labor and engineering talent and a network of scalable feeding industries and supplier bases. Furthermore, logistical advantages in many markets including Europe, the Middle East, and Africa set Turkish exporters apart from their counterparts in East Asia, for example. Finally, Turkish producers have largely achieved scale economies given advantages in the export market as well as a large and growing domestic base.