

TURKEY in Transition:
Expectations in the Textile and Apparel Industry
for the Next Two Decades

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Table of Contents

Turkish Economy.....	1
Unleashing a European Tiger.....	2
Privatization.....	5
Foreign Direct Investment(FDI).....	5
The 20 Year Projection of the World & Turkish Textile Industry.....	6
Turkish Textile and Ready-to-Wear Industry: The Next Two Decades.....	7
SWOT Analysis of the Turkish Textile and Ready-to-Wear Industry.....	7
Future Vision and Targets of the Sector.....	8
The Technological Priorities of the Textile Sector.....	9
What are Turkey's Recent Developments?.....	9
Turquality.....	11
Success Stories of Global Turkish Apparel Producers.....	13
Mavi Jeans.....	13
Bil's.....	14
Turkish Woolmark Licensees Exporting under their Own Brands:.....	15
Turkey: A Consumer Market?.....	16
Conclusion.....	17
BIBLIOGRAPHY.....	18
APPENDIX.....	20

Introduction

This essay aims to exhibit signs of the radical changes shaking both the Turkish economy and the textiles and apparel industry. Although, striking developments are on the agenda, there are still crucial steps to be taken in the short and medium term, and thus, this essay examines the next 20 years.

In doing so, the recent developments of the Turkish Economy are considered while delving into the transformation struggle of the Turkish Textile and Apparel Industry from selling under private brands to own brands. In this context, two distinguished examples of Turkish brands, namely, Mavi Jeans and Bill's, are also covered. The number of such firms is not abundant, but not limited to these two firms.

The phenomenon of 2005 has also been tackled regarding the removal of quotas and its initial impact on the sector, the sectors' immediate response, and the future safeguards.

The concluding section discusses the Turkish Consumer profile, which is increasingly becoming fashion and brand minded.



Turkish Economy

Today, adverse effects of the 2001 economic crisis are almost over, and the Turkish economy appears to have stabilized to provide a solid ground both for private domestic and foreign investment. This is not to say that the Turkish economy is completely immune to foreign shocks, particularly when one considers the mounting current account deficit of 6.5 percent. Accordingly, it is possible to argue that it is now more robust having lived through such a crisis. Steady decline of public borrowing requirement, interest rates and inflation are the main indicators of a relatively more stable business environment. The growth rate has surged over 5.5 percent, and the year-end inflation rate was 7.2 percent; a single-digit annual inflation that is a first in the past 30 years. The 2006 inflation rate is expected to be 5 percent, and the interest rates are now under 14 percent. The unemployment rate this year, however, is expected to see a trivial decline of perhaps 0.01 from the rate of 9.4 percent last year.

The main factor helping the economy to provide a better business environment has been the IMF stabilization programme with strong emphasis on tight fiscal policies. The programme started in 2001, and has been implemented by two successive governments without making any concessions. This has been the first IMF programme successfully implemented, since many times, the IMF and Turkey's agreements crumbled before reaching any meaningful conclusion during the past decades. IMF programmes are not, of course, without criticism recognizing the disputed prescriptions to conflicting results obtained from all over the world; however, it was compulsory for Turkey to start such a programme in light of the huge public debt.

There has been another additional determinant for the success of the stabilization programme; the EU Anchor. The EU Anchor has been the main factor driving Turkey to achieve impressive macroeconomic figures, as it has heightened the expectations for a safer business environment that would attract more FDI (Foreign Direct Investment). This safer business environment has also been the source of income received from privatizations. The initial effects of accession talks granted by the EU to Turkey on 3 October 2005, has been noticeable; and, the privatization income ahead and immediate aftermath of 3 October has reached record levels. The most recent sale of Telsim in December to British Vodafone for 4.5 billion has verified the confidence in the achievements and potential of the Turkish Economy. Telsim was the second largest GSM operator in Turkey with 10 million subscribers, which was forfeited due to bad debts from the Uzan Group to the second largest GSM operator in the world, Vodafone.

As another example of an increasing interest in the Turkish economy, a group of around 400 Italian businessmen visited Turkey in December 2005, and they looked for ways they could invest in both the production and service industry and the

consumer market. In the Hürriyet newspaper of 8 November 2005, Mr. SantoVersace, the chairman of Versace, in a meeting in Istanbul, likened Turkey to Italy 10-15 years ago, and compared his impression of his first visit to Turkey with today and stated:

“...I am amazed to see the difference that came about since 1997...Turkey will rise up to the level that Italy has on ready-to-wear in a short time. There is a lot of energy in this city. All the energy needed to create fashion is present here. To use this energy properly, Turkey should perform this task with passion...Turkey has a young population and I cannot see this energy neither in Rome or Milan. Europe also needs Turkey’s energy. In my view, Istanbul, from now on, is a European city. This is understandable from the young and the ambiance of this city. Turkey’s place is within the Europe. I would like to see Turkey in Europe.”

At this point, it is crucial to stress that the accession talks have never been easily granted to Turkey. An important reason for this is the idea that with a young and relatively large population, Turkey could push the limits of unemployment, which is already an issue particularly for some countries within the EU. Conversely, it is often argued both by Turkish officials and the spokespersons from international organizations that if the free movement of Turkish labour within the EU is granted in 10-15 years time--in fact, Turkey is not insistent on such liberalization--the most feared thing would not happen. The state minister, Ali Babacan, argued that as long as Turkey keeps growing at an annual rate of 6 percent, then in eight to ten years time, Turkey would have a GDP of 1 trillion USD. Estimates of the population growth during the same period are also considered to be low. He adds that most values which go unrecorded in the informal sector will be included during this period in the formal sector and thus, by the end of this period, Turkey would be the sixth largest economy in the EU. (Hürriyet, November, 2005)

This Argument is also supported by Andrew Vorkink, the director for Worldbank Turkey, but he also draws attention to the issue of the lack of directed credit to the private sector which could frustrate the process. The next section will cover the issue of how Turkey would become a European Tiger and the factors needed to be considered to fulfill this goal.

Unleashing a European Tiger

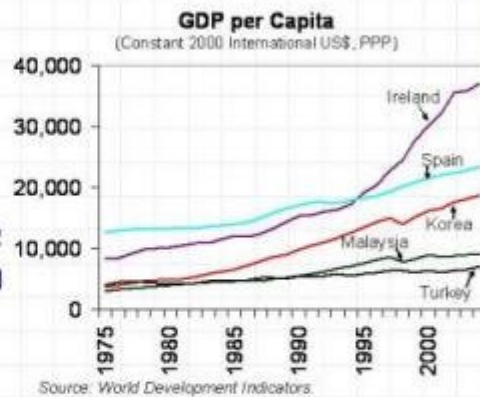
In December, 2005, Andrew Vorkink, the director for Worldbank Turkey compares Turkey with Asian Tigers--Malaysia and Korea, and also with European Tigers--Ireland and Spain. He suggests that several countries in East Asia enjoyed and sustained annual per capita income growth of about 5 percent for three decades. Turkey, during the same period, achieved only 2 percent, less than half what these other countries grew. In 1975, Turkey had higher per capita income than two Asian Tigers--Korea and Malaysia. Had Turkey experienced the same growth of per capita as Korea¹ since 1975, today, Turkey would have a per capita income about 2.5 times higher than it has now.

¹ Demetriades, P (1996)



The Path of a Tiger

- ◆ The Tiger economies have experienced sustained strong growth
- ◆ Had Turkey had same growth rates as Korea since 1975, Turkey's GDP/capita would be 2.6 times higher
- ◆ Financial sector development is recognized as a very important ingredient in a Tiger's impressive performance.



Source: Remarks of Andrew Vorkink, Turkey Country Director, delivered at the 3rd International Finance Summit, Istanbul, December 1, 2005.

Andrew Vorkink proposes that the success of Asian Tigers is not secretive, and it is their ability to deploy good economic policies; opening up their economies to international competition and promoting a high level of savings channeled by the financial sector to fund the investments required to maintain growth. European counterparts, Spain and Ireland, have also deployed similar policies.

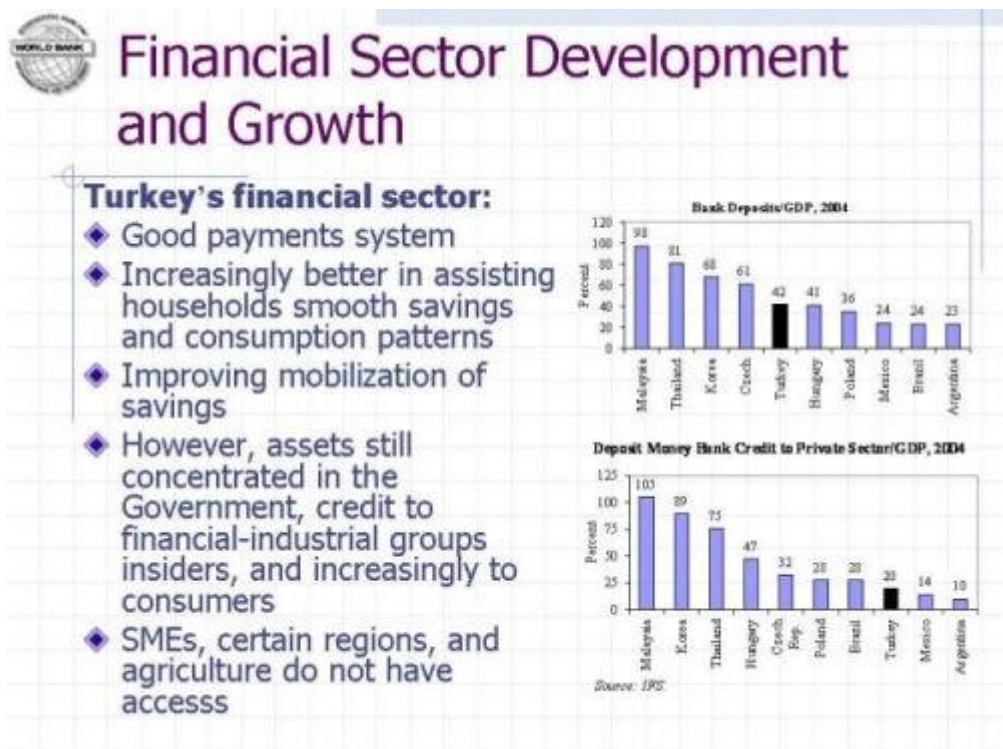
In this same light, Turkey has some advantages which could help them deploy their resources more formidably, such as:

- The banking sector has an advanced depositor and payment system, like internet and phone banking, a large ATM and branch network, and widespread use of plastic cards.
- Credit card loans, mortgage loans, and other customer loans are growing rapidly.
- The financial sector mobilizes bank deposits fairly well, and the mutual fund deposits have become an important alternative to time deposits.

Conversely, Turkey has some drawbacks which has, in the past, contributed to challenges in the economy, like:

- Underdeveloped and small life-insurance and pension fund savings.
- Credit to private sector as percentage of GDP is fairly small compared to both European and Asian Tigers.
- Financial and Industrial Conglomerates get a large share of the credit outstanding in Turkey.
- There is still a large presence of government securities in the bank balance sheets, even though it keeps improving.

Vorkink suggests that Asian Tigers have achieved high-growth rates due to their ability to allocate credit to the private sector of these economies. As shown in the graph, Korea and Malaysia doubled or tripled their credit to the private sector over the last three decades; whereas, Spain and Ireland significantly increased their credit to private sector in recent years. The credit allocated to the private sector in Turkey, during the same period remained stagnant.



Source: Remarks of Andrew Vorkink, Turkey Country Director delivered at 3rd International Finance Summit-Istanbul, December 1, 2005

The other problem is the larger portion of credit allocated to the private sector go to Industrial Conglomerates. Large industrial conglomerates have created their own banking entities, which was one of the drivers of the 2001 crisis. Additionally, the deficiencies in the legal and institutional infrastructures were great. They needed to manage the risks of lending to new parties, but insufficiently used movables (planes, automobiles, ships, furniture, personal property, etc.) as collateral for credit borrowed.

Due to inadequate legislation, slow and inefficient operation of courts in resolving commercial disputes added to the problem; while unreliable financial reporting for assessing credit risk compounded it. Corporate governance is full of weaknesses and the state crowds out private investment. Since the public required large loans, most of the credit resources available in the economy was directed to the government and little remains for the private sector, For all these reasons, the conglomerates established their own banks.

Since credit was directed mostly to large enterprises, the SMEs (small and medium size enterprises), the dynamic force of any economy, had many difficulties in accessing the credit needed to fund their operations and investments.

Vorkink argues that when additional steps are taken to remedy the financial sector-- the sector that has seen radical change for the good since 2001-- it would be possible to unleash a European Tiger. In December 2005, he held that:

“...Turkey does have the ability to become a European Tiger over the next ten years, if all these parties work together by doing their part in making the financial system safe and sound while financing the development of the country. I am confident that if all these parties work together, the Turkish Tiger can be unleashed.”

Privatization

Although, privatization first entered Turkey’s agenda in 1985, the practice has not produced the desired results of efficiency or the potential income; and until 2002, the total income received from privatization had only reached 8 billion USD.

The recovery after the 2001 economic crisis heralded the start of a new age with confidence that followed in the interest of foreign capital to Turkey and the EU aspects. 2005 saw the biggest privatizations of the year, namely, Turkish Telecom with 6.55 billion USD; Tüpraş with 4.14 billion USD, and Erdemir with 2.77 billion USD. The total privatization income in 2005 reached a record level of 22.2 billion USD.

Foreign Direct Investment(FDI)

FDI is a type of investment carried out by foreign individuals or companies, and it is made either by acquisitions or by creating new production plants, capacities, etc., in the targeted country. In the first case, FDI compels use of a country’s idle production capacity and increases the level of production. The second scenario implies an increase in the total production capacity of the country. Either way, FDI is very beneficial to a country’s economic growth and development compared to international portfolio investments.

Portfolio investments are financial undertakings carried out by international investors, and often called “hot money.” The term, “hot money,” underlines the fact that portfolio investments are fast to enter a country’s financial system, but just as fast to leave that country in the case of an uncertainty or loss of confidence in the economy. Even so, FDI is more beneficial and implies a long-term commitment in the economy of a country since the plants and factories cannot be liquidated quickly in the face of financial turmoil.

Recently, Turkey has been seen as a country that symbolizes a lot of investment opportunities; yet, it has not attracted as much as its potential suggests. Nevertheless, this scenario now appears to be changing for the better due to the positive expectations created by the EU granting Turkey accession talks for full membership, which began on 3 October 2005. The latest significant example of FDI inflow to Turkey is the most recent sale of Telsim in December 2005, for 4.5 billion, to second biggest GSM operator in the world, British Vodafone.

An indicator, regarding the increasing popularity of investing in Turkey, is its rankings in the “Foreign Investment League” due to Turkey's big step in 2004, boosting liberalization and privatization policies. According to the World Investment Report of United Nations Conference, it jumped to 35th place from 57th in 2004, with foreign direct investments worth 2.7 billion USD. Further, according to YASED (Foreign Capital Association), if Turkey surpasses \$10 billion in foreign investment in 2005, the country could be ranked within the top 20 countries directly attracting foreign investments.

In the following section, we will cover future prospects and a SWOT (Strength Weaknesses Opportunities Threats) analysis of the Turkish Textile Industry for the next 20 years. An overview of the past will provide foundation, and then the next 20 years of the world industry will be addressed. Establishing the future prospects of the world textile industry will be essential, as the Turkish Textile industry is not free from the prevailing trends of the global industry.

The 20 Year Projection of the World & Turkish Textile Industry

The trade of textiles and ready-to-wear clothing has dramatically increased over the production. During 1980-1999, world textiles trade had increased 150 percent; whereas, the production had only increased 15 percent. 2005 will embark upon this trend, as the removal of quotas will enter the agenda. Intra-block trade is also expected to increase within the EU, NAFTA, and Far East, etc².

Considering the distribution of the World Production, it is noticeable that the developing countries have been increasing their share of both production and trade of textiles and ready-to-wear clothing. During 1980-2000, textiles production had increased on the American continent by 75 percent and by 100 percent on the Asian continent; whereas, it had dropped by 30 percent on the European continent. During the same period, while Europe was producing half of the textiles in 1980, this share has now fallen below 30 percent. Asia in the meantime increased its share of production from 20 percent to 25-30 percent. It is expected in the coming years that the Asian countries, including China, will continue to increase their share.

Fiber Production: It is expected that consumption of the global fiber will reach 100 million tons in 2023 from today's figure of 55 million tons. The first process of raw material production, in the mean time, will be undertaken by 75 percent in Asia, and almost half of this raw material will still be processed in Asia.

While after World War II production of synthetic fibers gathered pace, cotton, in the 1950's, still constituted more than 70 percent of the world's fiber production. However in the 1970's, the share of cotton declined to under 50 percent and in the 1990's, to under 40 percent. In 2023, it is expected that polyester will be the most produced and consumed fiber in the world.

In the beginning almost all production of synthetic fibers was performed in Western Europe, the USA and Japan. Today, 60 percent of this type of production is carried out in the South and Southeast Asian countries, including China, Taiwan, South Korea, and India.

Nevertheless, while the share of synthetic fibers in Western Europe, the USA and Japan will drop to under 10 percent in 2023, the value will dramatically increase at incomparable rates. The reason is, these countries will stop producing cheap synthetic fibers and yarns, like polyester and polypropylene, but start developing and manufacturing completely high-performance, new-generation special fibers to include the cellulose-based ones.

So, considering these prevailing trends of the World Textile Industry, how should one expect Turkey's role to develop in the process within the next two decades?

²Tübitak, (Tekstil Panel, 2003)

Turkish Textile and Ready-to-Wear Industry: The Next Two Decades

The Turkish Textile Industry accounts for one-tenth of the value added (GNP) created in the country, and more than one-third of the exports. Textiles and the ready-to-wear industry, constitutes the value-added share of one-sixth of the manufacturing sector. Due to the fact that the clothing sector is a labour-intensive one, it provides employment to 523,000 people within 27,500 workplaces. It has a crucial social function when one considers that more than two million, including the supportive industries, have been employed in the sector.

Turkey, with its exports of textiles and ready-to-wear, are worth almost 15 billion USD, exclusive of border, luggage and tourist trade. It is the first largest procurement country of textiles for Europe and 14th in the world. Further, it is the second largest of the ready-to-wear procurement country for Europe and the seventh for the world.

To be able to maintain today's strong position, Turkey needs to develop its technology beyond the era that it competes in, orient to the products that embody high-value and gather intensive information. To do that, Turkey needs to attach importance and allocate resources to R&D (Research and Development), and develop technologies in the area of yarn, knitting, non-wovens, weaving, textiles finishing, and apparel making.

SWOT Analysis of the Turkish Textile and Ready-to-Wear Industry

Strengths: Turkey owns a developed infrastructure and has experience in the sector and is able to adapt to new technologies and fashion. Turkey has progressed in environmental-friendly production standards and in complying with international specifications. She has a logistics, transportation and communications infrastructure, and the advantage of competitive labour costs created by a young labor force compared to developed countries. Turkey has the entrepreneurial spirit and the developed labour force within the sector.

Strengths for processes of production, sources and inputs include: Abundance of raw material and materials³; Variety of product and process richness; flexible and fast production and swift decision-making; tendency to small-scale work that exclusive demand requires; machinery less than 10-years old producing three-quarters of the total work; and a young and trainable population in the country.

Weaknesses: What puts the industry in difficulty involves: Insufficient proprietary capital, lack of venture capital, and deficiencies in the management of working capital and cash flows; high input costs, particularly energy and employment tax; staying out of the global retail market due to lack of skills in direct distribution channels; and insufficient participation to global net structures and global integration; an inability to create a large number of brands; a large, informal black-market sector and deficiencies in developing technology with a lack of R&D. Insufficient use of international R&D funds; an under-developed IT-sector implementation; the weak textiles machinery production and chemicals industry; less developed technologies for quality control; process automation and virtual production; no domestic and foreign benchmarking practice; the lack of informative and directive sector strategy and policies; deficient dialog among university-industry-professional organizations;

³Özben, et. al (2004) "*Cotton, for example, as an abundant raw material found in Turkey, has contributed positively to the development of the sector. Turkey holds almost 2% of the 34 million hectares of the World's irrigated land area for Cotton.*"

inability to create synergy between textile and apparel industries;⁴ burdensome bureaucratic legislation, insufficient legal infrastructure, and gaps to legally protect intellectual property rights.

Opportunities: The chances ahead for the industry are: The geographical position of the country (easy access to EU, Russia and Turkic Republics); developing relationships with the regional countries; the low level of penetration to these markets so far; finding new markets through quota removal and increasing economic conjuncture and expanding possibilities of tourism sector cooperation.

Threats: The industry expectations of danger would comprise: a politically unstable region; lack of resources; scarce, expensive, short-term, risky financing; a poor image of the country; imports and exports legislation inconsistent and unstable; and insufficient development of free trade rules and institutions. Due to the decline in transportation costs, the advantage of vicinity to the market over rivals does not hold as it once did. Global supply surplus in the sector; current and future regional and bilateral agreements; distance to U.S. markets and the growing Far East; and an increase in the market share of the Asian countries due to the removal of quotas.

Having seen the strong and weak sides of the sector supported or hindered by opportunities and threats, it is only right to address what can be done to improve the current situation with a future vision in mind. The following section provides a framework that presents a future vision regarding the sector (Tekstil Panel, 2003).

Future Vision and Targets of the Sector

According to the Textile Panel held by Tubitak (The Scientific & Technological Research Council of Turkey), the vision of the Turkish Textile sector should be: innovative and high value added with competitive products that embody high technology and service presentations to increase Turkey's share of world trade and social wealth. To fulfill this vision the sector needs to have two groups of targets.

Macro Targets:

- To acquire 5 percent of the world textile trade
- Double the contribution provided to the country (not related to GNP).
- At least 15 percent of the export income from high-technology products
- Remove the non-productivity resources.

Other Targets:

- Pioneer the establishment of textile faculties and research centers with related institutions and associations.
- Search for, adapt and implement practices and textiles technologies to increase global competition.
- Strengthen the sector and inter-sector information flow and cooperation.

⁴ Özben, et. al (2004) "Turkey has very diversified and established textiles sector which gives manufacturers a great advantage over competitors and only a few countries are able to match Turkey's level of integration between textiles and apparel sector. Yet, Turkish textile and apparel manufacturers cannot reap the benefits of this synergy due to the lack of cooperation and disputes between participants. As a result, apparel manufacturers' source from the Far East or Europe, and the textile companies supply their goods to Europe. Therefore, benefits of being a cluster within an economy and the chance to produce more value added goods simply disappear."

- Fashion, brand and distribution channels formed toward global trends.
- Increase innovations, high value added, and multi-purpose products with increased use of high technology while preserving the environment. Preservation will also help industry avoid the limitations set by anti-campaigns against goods produced which cause environmental damage--goods that are increasingly prevalent in the world markets.

The Technological Priorities of the Textile Sector

The Textiles Panel suggests that the sector should have both medium and long-term priorities. Medium term priorities should increasingly involve original design, quality, productivity, marketing and distribution techniques, and the production of technical textiles and high-class fashion products. In the medium term, the priorities should also involve the search, attainment and further development of intelligent and multi-functional textile products. Thus, the competition mounting from Asian and African countries producing commodity textiles for the lower end of the market can be avoided; and instead, the sector can upgrade their know-how and information-intensive high-value added products, and market to the world.

Taking into account the technological trends that will shape the industry within the next 20 years, the textile panel established that the priorities should include:

- Use of environmental-friendly and energy-efficient technologies in textiles finishing
- All information and data flow in textiles should be in electronic settings.
- Computer-aided knitting design and production
- Special production specific to individuals and techno-tailoring in apparel making.
- The development of intelligent, multi-dimensional/multi-functional textiles
- Automate machinery calibrations and adjustments.

A brighter future seems to be on the horizon for Turkey considering this analysis of the Turkish textile and ready-to-wear industry. The Textile Panel set the industry's vision and implementation for the next 20 years, along with short and medium-term and technological priorities, to provide a synergy and cooperation among all the institutions in the industry. This synergy would give birth to new global fashion/brand trends coming to life as a result of new R&D, design, and technologies that also care for the environment. Finally, by doing so, the adverse effect of rising competition from Asian countries like China and India, particularly after 2005, would be avoided.

What are Turkey's Recent Developments?

Having made a projection as to what Turkey should be doing within the next two decades, we must examine what steps Turkey has been taking recently to achieve its goals. In this respect, two topics will be covered in this next section: Turkey's resistance to the Chinese invasion and some examples of increasing brand awareness in the country.

China's Effect on Turkish Textiles and Apparel Industry: Turkey's Resistance

Although it is too early to draw a definite conclusion since the removal of quotas and the struggle to replace them with other quotas or barriers, it is possible to say that China has demonstrated how powerfully it can force and invade world markets, indeed, Turkey as well. Turkey, however, has acted swiftly against the removal of quotas and somehow managed to preserve its Textiles industry from complete destruction. Turkey has initiated some barriers that also echoed in the U.S.

The earlier negative effect of China, to our knowledge, was felt by the spinning industry in Turkey, as most spinning companies either downsized their operations or closed down at least one of their factories. Woolmark spinner licensees were also among the first to be affected by Chinese yarns as they claimed that Chinese fabrics were being sold for the price of yarns, let alone yarns. This adverse effect of China caused our spinner licensees to either close one of their factories or dramatically cut the number of their staff.

The imports to Turkey from China reached a record level of 4.8 billion USD, and exports to China remained at the level of 414.1 million USD leaving a foreign trade deficit of 4.385 billion USD within the first nine months of 2005. This has indicated an increase of 54.4 percent in foreign trade deficit compared to the same period last year. Turkey's imports from China for footwear has increased 131 percent; for apparel imports 37.1 percent; for leather and fur apparel 56.9 percent, and 35.8 percent for other clothing imports.

Turkey did not standby to watch Chinese products pour into the country or to foreign markets, but initiated some steps to protect its industry and markets. In Istanbul in 2004, the representatives of textile and clothing producers from countries and regions throughout the globe gathered to address the Director General of the World Trade Organization (WTO). To sum up, they requested that WTO act immediately to extend the deadline for implementation of the final integration stage to December 31, 2007, for the reasons quoted below (Istanbul Declaration, 2004).

1. China became a member of WTO in 2002, and this has irrevocably altered the reasonable transformation of global production and sourcing patterns.
2. As numerous credible studies have shown, if quotas are removed on January 1, 2005, a few countries such as China will monopolize global textile and clothing trade. In textile categories in the United States, where a number of quotas have already been eliminated, China has taken almost 60 percent of the market in less than two years and also, quickly captured a dramatic portion of the market in other regions and countries, including the EU, Japan and Australia. Due to the quota phase out and China's invasion of world markets, especially the least developed and the developing countries, they are poised to lose as many as 30 million jobs.
3. As the quota phase-out draws to a close, it is evident that trade in this sector has been compromised by the use of trade-distorting practices in a few dominant countries. These practices include deliberate currency undervaluation, state subsidies and the proliferation of non-performing loans and rebate schemes.
4. The creation of a monopoly position by a handful of countries will be disastrous to the health and well-being of the many developing world economies that are dependent on this vital export sector. Accordingly, we urge

the World Trade Organization to act immediately to extend the deadline for implementation of the final integration stage to December 31, 2007.

As a result of this declaration, Turkey took some steps toward stopping some Chinese textile products from freely entering its domestic market until 2008. Finally, Turkey's efforts to stand up against Chinese influx echoed across the Atlantic, and the U.S. ended a "safeguard agreement" with China imposing quotas on 34 product groups in November 2005. The agreement came into effect on 1 January 2006.

The President of İHKİB (Association of İstanbul Ready-Made Garment Exporters) Mr. Süleyman Orakçioğlu, also the President of GAFTT (Global Alliance for Fair Textile Trade) stated that:

"...the safeguard agreement is a product of the GAFTT coalition in which Turkey is the founder of the alliance...secured categories with the agreement to include socks, towels, bras and underwear, shirts and cotton trousers in which Turkey is confident...since April 2004, we worked with the U.S. like strategic partners and claimed important victories. This decision is made in favour of the world economy and many countries like Turkey will reap the benefits." (Dünya Tekstil, December 2005)

GAFTT is an alliance of textile and apparel groups from around the world that are fighting for the principles of fair trade and free markets. These groups have united under the Brussels Communiques, the successor to the Istanbul Declaration, to draw attention to a looming takeover of the world's textile and apparel trade by a few large exporters who refuse to play fairly. As of June 17, 2004, 91 trade groups in 49 countries have joined the alliance (GAFTT web-site). Turkey is the founder member of GAFTT.

Mr. Süleyman Orakçioğlu argues that the EU should also act in a decisive and brave manner and stand up against the unfair trade posed by China. The EU took protective measures in June 2005, yet abolished them in September 2005.

Although these initiatives taken by Turkish textiles and apparel businessmen and women appear to let the industry breathe a sigh of relief, the real solution will, undoubtedly, be to upgrade to fashion/brand minded, high value added, high-tech textile products and offerings as soon as possible.

Increasing Brand Awareness in Turkey

As the Turkish Apparel Industry has started shifting from commission manufacturing to the category of value-added products, the awareness of being a brand has also gained momentum. The concept and the logo of "Turquality" and "European Quality Awards" and "Superbrands" have all attracted the interest of Turkish Firms.

Turquality

With the increasing awareness in Turkey that Turkish firms can no longer afford to survive by price competition and the production and sale of basic textile goods, in January 2004, the branding programme called **Turquality** was introduced through the joint efforts of the Under Secretariat of Foreign Trade (DTM), the Turkish Exporter's Association (TİM), and the İstanbul Association of Textile and Apparel Exporters (İTKİB). Turquality embodies the words *Turk* and *Quality*.

Turquality aims to be the symbol that shows the difference in the quality of products and services made in Turkey. In other words, Turquality will upgrade the international image of Turkish-made products. The project will also provide a powerful stimulus to the industry to upgrade and reposition on the upper-end segments of the new global market. Turquality is unique in that it is a complex mix of marketing, quality upgrading, and strategic positioning implemented for the first time, not only in Turkey, but also possibly in the world.

In 2004, Werner International was assigned as the only management consultancy company to provide strategic guidance for the establishment of the Turquality branding programme. In association with the Istanbul Association of Textile and Apparel Exporters (ITKIB), the apparel industry was selected as the pilot industry.



Source: Express Textile, April 2005
“Turquality”: A branding programme to promote Turkish excellence in apparel production & marketing.

Fifteen apparel firms have, so far, qualified for the Turquality certificate. These firms are:

Altınyıldız Mensucat ve Konfeksiyon Fabrikaları A.Ş; **Bilsar** Tekstil Sanayi ve Dış Ticaret A.Ş; Çak Tekstil Sanayi ve Ticaret A.Ş; **DSD** Deri Sanayicileri Dış Ticaret A.Ş; **Eroğlu** Giyim Sanayi ve Ticaret Limited Şirketi; **Esas** Tekstil Sanayi ve Dış Ticaret A.Ş; **Harmanlı** Deri A.Ş; **İpekyol** Giyim Sanayi Pazarlama ve Ticaret A.Ş; **Mercek** Holding A.Ş; **Mithat** Giyim Sanayi ve Ticaret A.Ş; **Orka** Tekstil San. ve Tur. Ticaret A.Ş; **Pasha** Deri Konfeksiyon San. ve Tic. Ltd. Şti.; **Polo** Giyim Sanayi ve Ticaret A.Ş; and **Ramsey** Giyim Sanayi ve Ticaret A.Ş with **Sarar** Giyim Tekstil Sanayi ve Ticaret A.Ş.

Altınyıldız, İpekyol, Sarar and Ramsey are also **The Woolmark Company (TWC) apparel licensees** which proves that these companies have already demonstrated their commitment to branding quality.

The designers, Atıl Kutoğlu, Ayşe and Ece Ege, and Hüseyin Çağlayan were selected to take part in the project.

Why not use *Made in Turkey* instead of *Turquality*?

The state minister, Mr. Kürşat Tüzmen, explains that:

“*Turquality* ... is not only an indicator of the country of origin... It should be perceived as a support programme to differentiate the value-

added goods produced in Turkey from domestic and foreign competition.”

The Turquality Logo



Source: DTM web site

The implementation of the project started in Moscow, an important target market, in December 2005, and will be followed by activities in Paris, London and Madrid.

Success Stories of Global Turkish Apparel Producers

This section will cover two striking examples of Turkish apparel firms that clearly made their way to be a brand and a truly global firm. These two cases demonstrate that there are Turkish firms, among many, which are fashion and brand minded and cast an example of the increasing awareness toward capturing new markets under trade brands.

Mavi Jeans

The success story of Mavi Jeans is a striking example of the increasing transformation of the Turkish Textile and Apparel Industry from commission manufacturing to selling trade brands. Mavi Jeans has established itself as the domestic market leader and a global player for quite sometime. Mavi is known for high quality, great fitting and fashionable denim.

In 1990, Mr. Sait Akarlilar wanted to create an entirely new denim brand, one with Mediterranean roots; and Mavi, which means blue in Turkish, was founded in 1991, by Akarlilar, in Turkey. He asserts that before they launched their brand, they had 30 years of experience of producing for international brands, and felt Turkey was ready for its own line of branded jeans.

In 1996, Mavi had become the number one jeans label in Turkey, and Mavi considered that it was the right time to target the U.S. market. They knew if they could be successful in the U.S., then all the other markets would be much easier to capture. They entered into the market with a unique angle as the opening price point for designer brands that attracted teenagers and college students, who loved the fit, the quality and the price.

Mavi's never-ending goal is to create the perfect pair of jeans with an unmatched fit. In the early years, success grew out of a fresh approach to an established concept and Mavi established itself as a new talent in the denim world with styles like the *Molly* and *Mindy*. These fits are still popular today. Like the people that wear them, each pair of Mavi jeans has a distinct personality. Over the years Mavi has grown from just selling great fitting jeans to offering an entire lifestyle collection.

Shortly after the success of Mavi in the U.S., it was widely cited in the Turkish press that Mavi was preferred not only by teenagers and college students, but also had become the choice for some of the Hollywood stars.



The flagship store in New York's Union Square highlights the creative vision that is key to the success of Mavi Jeans.

New York Times, December 10, 2005

Another factor driving Mavi's success has been supporting and fostering art and artists through programmes and special events. With these special programs, Mavi seeks to complement its customer's lives, and to add a layer of creativity and self-expression. Building on that theme, in 1997, Mavi founded its own magazine, named: Maviology. The concept behind the widely distributed free quarterly magazine was to establish a creative outlet and voice for the brand. Maviology has featured everything from music festivals to groundbreaking photography to personal essays and reflections. Maviology represents a near limitless outlet for interesting, noteworthy and expressive content.

Mavi jeans are sold in over 4,600 specialty stores and better department stores in 28 different countries including the U.S., Australia, Canada, Turkey, Germany, Italy, England and Denmark. Mavi owns and operates stores in many cities around the world, namely New York, Vancouver, Montreal, Berlin, Frankfurt and Istanbul. There are also ten Mavi showrooms located all over the world in Istanbul, New York, Milan, Los Angeles, Vancouver, Montreal, London, Frankfurt, Copenhagen, and Sydney, making it one of the few Turkish products that is a truly global brand.

Bil's

Although Bil's (www.bils.com) sounds like an English name, it is, in fact, a famous Turkish white shirt brand created by Bilsar (www.bilsar.com). Bil's surely is not a very large global company but it is a fast growing, flexible, innovative, and new company that responds successfully to their customers needs on a global scale. They seem to be taking serious steps to be global player. They both produce for, and under the license of, the world famous shirt labels Brooksfield, Arrow, Rodier and also market under their own brand, namely Bil's, which was originally created for the U.S. market. Bilsar is the leading shirt producer in Turkey and has doubled its exports from 13 million USD in 2002, to 24 million USD in 2004. Mr. Selman Bilal, the owner of Bilsar, comments:

“This increase did not stem from an increase in production but from an increase in high value added products. We created a superior service

that utilized information technology to create a flexible production model. This model helped this exporter, who is racing against time with zero-fault tolerance, to have an advantageous service. It is this area of service culture that countries like China will never constitute a threat.” (Milliyet, 20 November 2004)

Bilsar was founded in 1947. The company relaunched itself in 1990, with a new business focus. Today, Bilsar exports over 90 percent of its total annual in-house production of 1.5 million shirts to a select client base in the USA and in Europe. They work with a small number of challenging clients, all of which are major international fashion brands or large-scale resellers.

The production is carried out in an 18,000 square meter, state-of-the-art plant. The technological structure is constantly updated; and the very best sewing, pressing, button holing, ironing and folding systems are adopted and performed by a highly-skilled staff of over 600.

The organizational structure of the company is adjusted in a way to provide full service to the client that includes research, development, collection design, distribution, sales and after-sales service. Preliminary simulation tests are conducted to anticipate problems and provide solutions before production commences. Both of Bilsar’s production and client management teams attach special importance to speed, efficiency and total reliability, which garnered the company, a perfect reputation worldwide.

An important sponsorship activity of Bilsar, like many famous brands, is in the area of art, and they sponsor short films aimed at motivating young filmmakers.

Bilsar has also launched a new store concept like Corso Cosmo in Milan and Collette in Paris. In doing so, Bilsar started selling not only shirts but also a life-style. This concept store, Bilstore, opened in the Capitol Shopping Center in Istanbul and sells a wide range of products to include cosmetics, stationery, cartoons, aromatic teas, Toys for Big Boys, Apple Ipad and the like. Bilstore in Istanbul has only white interiors, film screens and music where Bil’s shirts in Turkey are sold only in this shop at affordable prices.

Bil’s, the Bilsar brand, represents white and unisex shirts. Bil’s shirts are created by an international team of young designers from Turkey, Italy, Britain and the USA and marketed across the world. Bilsar claims that every Bil’s collection embodies an idea and a life style statement. Bil’s shirts have attracted an enormous amount of attention across the world.

Finally, Bil’s is listed among the distinguished brands of Turkey on Superbrands European Portal. Superbrands is the independent and international arbiter on branding. Bil’s is also one of the 15 apparel companies that qualified for the *Turquality* Certificate.

Turkish Woolmark Licensees Exporting under their Own Brands:

A recent survey carried out among Turkish exporter (apparel and interior) licensees by The Woolmark Company revealed that almost more than half of them sell their products under their own brands at varying degrees. A statistical analysis of Turkish licensees shows that there are currently 40 active licensees and 31 of them engage in exports (See Appendix).

Of the 26 Textile and Apparel and 5 Interior export licensees, 31 export products under their own brands as follows: Six companies export 100%; two export over 90%; six export 50-89%; and twenty export 15-100% of their exports under their own brands.

All 5 Interior licensees engage in exports under their own brands at varying degrees with two carpet licensees exporting 100%; one exports 30%; and two export between 0-20 percent.

Thus, Turkish Woolmark licensees keep exporting to main consumer markets under the assured branding system. As for the domestic market, the recognition of Woolmark as a quality-assurance logo is limited, except for the popularity among wool underwear producers. Younger generations are almost totally unaware of the exact meaning of the Woolmark Logo. The effect of our efforts to make Woolmark Logo known by articles published via written media-textiles sector magazines, stays limited. Although, textiles people read them, it is hard to claim that they reach the bulk of the consumer.

Turkey: A Consumer Market?

The potential of the Turkish economy and the ability of businessmen and women and the skilled labor force are well documented in literature. Therefore, it is easy to access information explaining Turkey's production capabilities. Conversely, the information about the Turkish consumer market is not widespread and readily available, although there does exist a few excellent resources on the topic. Nevertheless, these sources are expensive to attain. They are quoted in the bibliography section with highlighted links and embody striking figures on the Turkish consumer market and profile.

What these resources commonly tells us about Turkish consumers is that the young, fashion-oriented consumers spend remarkable amounts of money on designer goods, clothes, etc.⁵ There are, of course, large numbers of people living through difficult conditions; but as the GDP of the country increases, so also does the tendency to spend on superior and luxury goods. Turkey, also shown as one of the **investment havens** in a PWC (2004) study, aimed at identifying top markets for retail and consumer investment and offers general opportunities for development both in the short and long term.

One should not omit the fact that income distribution is not balanced in Turkey, just like Latin American countries; however, the size of the affluent minority and upper middle classes in the population is comparable to the entire size of some small European countries.

A quick look at the research results from Euromonitor would give us some insight about the topic. They say that with a population of 69 million and a relatively less advanced economy, Turkey is the fastest growing consumer market in Western Europe. The rapid economic expansion and an increasingly affluent population enable the Turks to purchase higher-valued consumer goods and raise the standard of living. (Euromonitor 2005)

Moreover, IBS has designed and executed high-quality research programmes with Turkish consumers for over a decade, and it reveals that Turkey has now become a

⁵(Özben *et.al*, (2004).

brand society, with consumers expecting and finding goods and services of the world's leading companies. For these companies, assessing and tracking the way the Turkish consumer behaves is critical. The market is large, with as many people living in Istanbul alone as in Ireland. It is fast growing with GNP rising by an average of 5 percent per year. But competition is increasingly fierce. (IBS 2005)

Conclusion

The Turkish Economy has been moving toward a safer and stable business environment, and this has gathered pace with EU accession talks granted to Turkey. Increasing amounts of FDI and portfolio investments have now been made in the country. Increasing interest from both domestic and foreign investors via privatizations has also clinched the rising trust in the economy.

The textile industry is not without its chronic problems of high-energy costs and heavy labour tax and more recently, a highly appreciated YTL (New Turkish Lira) against USD. Nevertheless, radical solutions to these problems are expected to reveal themselves as the government ceases to take the largest part of credit sector funds and decreases in the high level of taxes on employment and energy use.

Other problems can be solved by the synergy created via the cooperation of all the sector organizations, such as the need for more Turkish textiles brands in the global arena under trade brands, support through a higher level of R&D, designing better facilities and the like. This could also help the sector overcome the fierce competition posed by Asian countries. Perhaps, we can see the power of how required will and cooperation together can set a clear example as given by GAFTT in its internationally organized reaction to unfair practices.

The wool textiles and apparel sector in Turkey are now more closely related to the general global trends. Recent popularity of wool fiber in the fashion world, coupled with the relative price advantage of wool against synthetics due to rising oil prices, are important drivers of this trend. The joint efforts of the wool industry, namely AWS, AWI and IWTO to promote wool (e.g., Test Marketing US) are also expected to have a positive affect on global wool demand, and thus on the trend to use more wool in Turkey. On the other hand, the near-future projection of new licensees becoming members is also related to the domestic competition in sub-sectors. For example, using Woolmark or Woolmark Blend main brands among underwear manufacturers has increasingly become popular. Our fight against misusers in this sub-sector also seems to have contributed to the perception that using TWC logos are a serious thing. Additionally, a less severe but a recent rising competition and split up within existing companies in the carpet sector is also helping us to increase our number of interior licensees.

Finally, Turkey is increasingly becoming a fashion-brand-minded consumer market as well as a producer country. With its young, dynamic population and the prospects of rising per capita income, any brand wishing to exist in this market must be known among this young population.

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APPENDIX

Licensee Name	Product Type	Reason of WM Application	Name of Retailers/Branding/Trading Company from Other Countries	Exports Under Own Brand or Private Brand
Ak-Al Tekstil San. Tic. A.Ş.	APPAREL-Spinner	Export Requirement	US, East and West Europe, South America, Middle East, Exports via Customers to Next, ZARA, Wall Mart, Arcadia, H&M	60%Own brand 30% Private
Altinyıldız Mens. ve Konf. Fab. A.Ş.	APPAREL-MU &Weaver	Domestic	Fabrics & Apparel: Loren, Ann Taylor, Tommy Hilfiger Fabrics: M&S, Next (UK), Hugo Boss(Germany)	98%Own brand 2% Private
Arslanlı Örne San. Tic. A.Ş.	APPAREL-Knitter	Export Requirement	Next Plc, Specialty Retail Group Plc, Castle Hosiery Company, Drew Brady (Five Gold)(UK); Arlington GmbH &Co. KG (BURLINGTON), E. Breuninger GmbH, Rudolf Wöhr AG, Spirit of Golf GmbH (BALLY), Rosner GmbH, Carlo Colucci, Mode Montecarlo GmbH, Marc O'Polo, Olsen GmbH, Gelco GmbH (Germany); Armas GmbH, Kastner Öhler(Austria); Ritter,5 Karmanov, Defile Lux(Russia); Giovanini, Amadeo Ferrante S.A.S.(Italy);	80%Own brand 20% Private
Aytemizler Tekstil San. ve Tic. Ltd. Şti	APPAREL-Knitter	Export Requirement	Next, M&S-(UK), Armani Jeans (Italy), Maxmara; Nike (US)	100%Private
Baha Paz. Konf. San. Ve Tic. A.Ş.	APPAREL-Knitter	Export Requirement	Tchibo (Germany) , George, M&S(UK); Bonita, Ciao Mare, Bonita (Italy)	100%Private
Bahariye Mensucat San. ve Tic. A.Ş.	APPAREL-Weaver	Export Requirement	Japan	100%Private

Bensu Giyim San. Tic. A.Ş.	APPAREL-Knitter	Export Requirement	Dellca/Richayd James(Australia)	20%Own brand 80% Private
Birko Koyunlu Tekstil San. Ve Tic. A.Ş.	Interiors-Carpets	Export & Domestic	US, Spain, Germany, France, Greece, Lebanon	20%Own brand 80% Private
Boyar Kimya San. Tic. A.Ş.	APPAREL-Spinner	Domestic	Sette, Jack Wolfskin (Germany); Bhm, Dolce Bella, C&A, Mc Kay, Littlewoods, Oliver Harding (UK);	100% Own Brand
Buca Yün Mensucat San. Ve Tic. A.Ş.	Interiors-Blankets	Export Requirement	Denmark	20%Own brand 80% Private
Çizmeci Giyim	APPAREL-Knitter	Export Requirement	Karstadt, Quelle (Germany)	100%Private
Desen Örme San. Tic. Ltd. Şti.	APPAREL-Knitter		France-Wholesalers, Exports to Russia via Laleli in Istanbul	70%Own brand 30% Private
Duman Group Duman Tekstil San. Tic. Ltd.	APPAREL-Knitter	Export Requirement	Exports to Russia via Laleli in Istanbul	70%Own brand 30% Private
Haskul Halı San ve Tic. A.Ş	Interiors-Carpets	Export & Domestic	Germany, Netherlands, Austria, Switzerland, Belgium, France, Macedonia, Greece	100% Own Brand
İpek – İş Mensucat Tic. A.Ş.	APPAREL-Weaver	Export Requirement	Jones New York, Ann Taylor,Banana Republic, Fort&Town (US); Ewalters, Next, Douglas&Graham(UK); More&More (Germany); Dan (Denmark)	100% Own Brand

Ipekyol Giyim San. Paz. Ve Tic. A.Ş.		Domestic	2 own Stores in Greece; Franchisees in Romania, Letonia, Kazakhstan, Azerbaijan; Wholesale to Russia, UAE Japan, Holland, Albania, Cyprus, Denmark, UK, France	100% Own Brand
İstanbul Elyaf ve İplik Sanayi Ticaret A.Ş.	APPAREL- Spinner	Export Requirement	UK, France, Germany	100% Own Brand
Karsaklar (Sementa) Tekstil İmalat Sanayi ve Tic. Ltd. Şti.	APPAREL- Knitter	Export & Domestic	Tween(France),Exports to Russia via Laleli in Istanbul	95%Own brand 5% Private
Nüans Tekstil Ltd. Şti.	APPAREL- MU	Export Requirement	Various Catalogue Firms in Germany	15%Own brand 85% Private
Ormo Tekstil San. Tic. A.Ş.	APPAREL- Spinner	Export & Domestic		60%Own brand 40% Private
Özkul Halı	Interiors- Carpets	Domestic	Germany, Netherlands, Denmark, Sweden, Austria, Switzerland, Belgium, France, Macedonia, Greece	100% Own Brand
Ramsey Giyim San. Tic. A.Ş.	APPAREL- MU	Export & Domestic	England, Germany, Russia, Switzerland, Czech Republic, Bosnia & Herzegovina, Kazakhstan, Azerbaijan, Israel (Matalan, H&M, Bagir, M&S, Armani, Van Laack)	25%Own brand 75% Private
San-Fa Tekstil San. A.Ş.	APPAREL- Knitter	Domestic	Exports to Russia via Laleli in Istanbul	100% Own Brand
Sarar Giyim Tekstil San. Tic. A.Ş	APPAREL- MU	Export & Domestic	Own stores in England, Germany, France, Italy, Sweden, Iceland, Ireland, Hungary, Holland, UAE, Lebanon, Russia, Switzerland, Spain, India, Bulgaria, Egypt, Austria, Czech Republic, Kazakhstan, Israel; Export to famous brands in the US and Europe	60%Own brand 40% Private

Sedef Triko San. Tic. A.Ş.	APPAREL- Knitter	Domestic	Golle Haug (Germany),	100% Own Brand
Sertler Örne Tic. San. A.Ş.	APPAREL- Knitter	Domestic	Arcadia (UK), Timberland(US), Camel; Peek + Cloppenburg, Otto(Germany)	30%Own brand 70% Private
Simge Tekstil	APPAREL- Socks	Export & Domestic	Burton, Tesco (UK), Adidas, Puma(Germany), Burton, Wal- Mart(US) etc.	15%Own brand 85% Private
Şirin Tekstil San. İth. İhr. Paz. Ltd. Şti.	APPAREL- Socks	Export		20%Own brand 80% Private
Uğur Tekstil	APPAREL- MU	Export	REDCATS,LAREDOUTE,VERTBAUDET,ELLOS,VETIR (France); WAREHOUSE,FREEMANS (UK)	100%Private
Yataş Yatak ve Yorgan	Interiors- Mattress	Domestic	Netherlands Wholesalers, Hungary Yatas Distributors, Germany, Middle East Private Dist., US, Canada	30%Own brand 70% Private
Yünsa Yünlü San. Tic. A.Ş.	APPAREL- Weaver	Export & Domestic	Germany, UK, France, Italy, Scandinavia, Spain, Japan, China, US, Canada	100%Private