INTEGRATIVE CASE 13

BEKO WASHES CLOTHES ACROSS EUROPE

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If you do your laundry in the UK, chances are that you are using a Turkish washing machine. Many household appliances (commonly known as 'white goods') are produced in Turkey under sub-contracting arrangements for other brands. Yet the best-selling washing machine brand is *Beko*, which is owned and managed by Turkey's largest maker of white goods, *Arçelik*. Europe-wide, *Arçelik* in 2015 was the third-largest manufacturer of home appliances with a turnover of €4.7 billion, employing 23 000 people and operating 10 production facilities in Turkey, Romania, Russia, the Middle East, China and South Africa.

While *Beko* had success building market share in some countries, growing sales while raising profitability of the international operations remained major challenges. The *Beko* brand was often perceived as a low-tier brand, and in countries other than the UK brand recognition was low. In Eastern Europe and other emerging economies, *Arçelik*'s low-cost strategies matched local demand, but the potential for demand growth was limited.

TURKISH ROOTS

Since the 1990s, Turkey has become a hub for the white goods industry. The manufacture of large household appliances was labour-intensive, and their transportation was costly because the machines were quite bulky. Therefore, Turkey provided a good basis for the industry: relatively low labour costs and geographic proximity to European markets. Following the liberalization of international trade, in particular the customs union with the EU in 1996, trade between the EU and Turkey has become relatively easy (see Chapter 2, Opening Case). Thus foreign and local companies set up production facilities in Turkey.

Arçelik initially grew its washing machine business as an outsourcing partner for major European and US brands. Such partnerships helped *Arçelik* to stay cost competitive while enhancing its own capabilities.

At the same time, rising urbanization in Turkey created a catch-up demand from growing middle classes in *Arçelik*'s home market. *Arçelik* developed its proprietary sales channels with its own retail stores branded *Arçelik* or *Beko*, and at the peak held a market share of 60% in Turkey.

Arçelik belonged to one of the largest family-owned business groups in Turkey, the *Koç* Group. Family members held directly and indirectly about 57% of the shares of *Arçelik*. The *Koç* Group provided financial support, joint employee training, sharing of management best practices and synergies in purchasing.

The market liberalization changed the competitive dynamics and created a strong push for *Arçelik* to develop its own technologies. Experiences as a manufacturer of other brands helped to develop proprietary technologies, in particular improving its product quality, packaging and logistics. From the 1990s onwards, it adopted total quality management practices, and just-in-time and flexible production practices. A major milestone was the establishment of an R&D centre, which laid the foundations to become a technology leader in Turkey, holding 13% of patents issued in Turkey by 2005.

In the 1990s, *Arçelik* moved into Europe in pursuit of higher income consumers and larger markets. In Eastern countries, such as Russia and Romania, it did not suffer a latecomer advantage as all global brands entered around the same time and there was little brand loyalty. In high income economies in Western Europe, *Arçelik* set up offices in France, Germany and the UK. Its most significant move was the introduction of the *Beko* brand to the UK in 1989. The brand was specifically designed for the export of white goods, including refrigerators, freezers, washing machines, dishwashers and free-standing cooking appliances. The UK and Irish markets were targeted first because they were price-sensitive, not dominated by local brands and, as members of the EU common market, had minimal customs duties.

ACCELERATED GROWTH IN EASTERN EUROPE

Arçelik management started in 2001 to think proactively about growing in foreign markets to spread risk by geographic diversification. *Arçelik* targeted Western Europe, because it felt that it had the required technological and management capabilities. However, apart from the UK, *Arçelik* lacked locally recognized brands and access to distributors. In 2002, *Arçelik* made the big plunge into Europe by acquiring *Blomberg* (Germany), *Elektra Bregenz* (Austria), *Leisure* and *Flavel* (UK) and *Arctic* (Romania). By choosing an acquisitions route of entry, *Arçelik* could quickly raise its international profile and acquire brands enjoying strong brand loyalty in their respective home markets. In 2004, *Arçelik* added the rights to the *Grundig* name to its portfolio after acquiring the German TV and radio manufacturer that had gone into liquidation.

The success story continued. *Arçelik*'s Europe-wide market share rose from 7.9% in 2008 to 10.8% in 2013. It thus became the fourth-largest white goods provider in Europe after *Bosch-Siemens-Hausgeräte* (*BSH*) of Germany (17.9% market share), *Indesit* of Italy (13.0%) and *Electrolux* of Sweden (11.0%). In contrast, US manufacturer *Whirlpool* lost market share from 9.4% in 2008 to 6.7%, while Korean *Samsung* (4.9%) and *LG* (3.4%) gained market shares. As a brand, *Beko* became the second bestselling brand by volume with 7.2% in 2013, with number one positions in the UK and Poland. In Turkey, the *Arçelik* brand was the bestselling brand, and *Arçelik* and *Beko* brands together held over 50% market share, ahead of domestic competitor *Vestel*. In Romania, *Arçelik*'s *Arctic* brand held 35% market share.

POSITIONING

Beko was the flagship brand for *Arçelik*. In the UK, it was the leading brand for fridges, cookers and free-standing washing machines. Its brand awareness reached 80%. However, while *Beko* was positioned as a mid-market brand in Turkey, it was perceived to be at the lower end of the mid-market in many other countries. Many European consumers associated 'Made in Turkey' with inferior quality. Therefore, *Arçelik* made special efforts to disassociate *Beko* from its Turkish roots and instead to emphasize its international nature and its product quality. First, *Beko* sponsored sport events, in particular basketball, including international championships and domestic leagues in Russia, Lithuania and Germany. In the UK, *Beko* sponsored a school's football league and launched 'Mums United', which provided nutritional advice and decoded soccer jargon for British football mums.

Second, *Beko* took initiatives to link the brand with innovation and quality. Marketing campaigns used the slogan 'smart solutions for everyday life' to emphasize innovation, energy efficiency and ease of use, while highlighting awards received from UK consumer magazines. *Arçelik*'s innovation capabilities were supported by nine R&D facilities and over 1000 R&D staff. Coordinated by the R&D centre, *Arçelik* researchers sought to develop technologies that were efficient, environmentally sensitive and enabled consumers to save on energy and water.

Arçelik moreover set out to create an innovative culture. Modern management processes facilitated effective sharing and integration of technological innovations across the company. Ideas for product improvements were captured through a yearly idea-gathering process. R&D staff who initiated an innovative project were given funding for six months to develop their concepts. These initiatives generated a string of product innovations. For example, *Beko* developed the world's most energy-efficient washing machine and introduced the first oven with a liquid repellent coating for easy cleaning.

At the same time, the Turkish home base remained critical for *Arçelik*'s cost competitiveness. First, its manufacturing base in Turkey incurred lower logistics costs than Asian competitors that also pursued low cost strategies. Second, *Arçelik*'s unit production costs were lower than those of its Western European competitors because its production plants in Turkey had substantially lower unit labour costs than most of Western Europe. Third, *Arçelik* enjoyed larger economies of scale because its production facilities were among the largest white goods plants in the world.

Arçelik recognized the need to enhance the positioning of *Beko* to keep up with competitors. In markets where it held leading positions, such as Turkey and the UK, *Arçelik* was exploring opportunities to strengthen its leadership, for example by expanding into adjacent product categories, improving retail management, or innovating its global supply chain management. In markets where its market position was weaker, priority questions concerned investments in brand image and product mix through marketing and product innovations, and the continued search for opportunities to acquire or build a premium brand. In Asian emerging economies, a local production facility would generally be necessary to gain market access. Last, but not least, *Arçelik* owned the *Grundig* brand, which could potentially by re-launched and re-positioned in the white goods market.

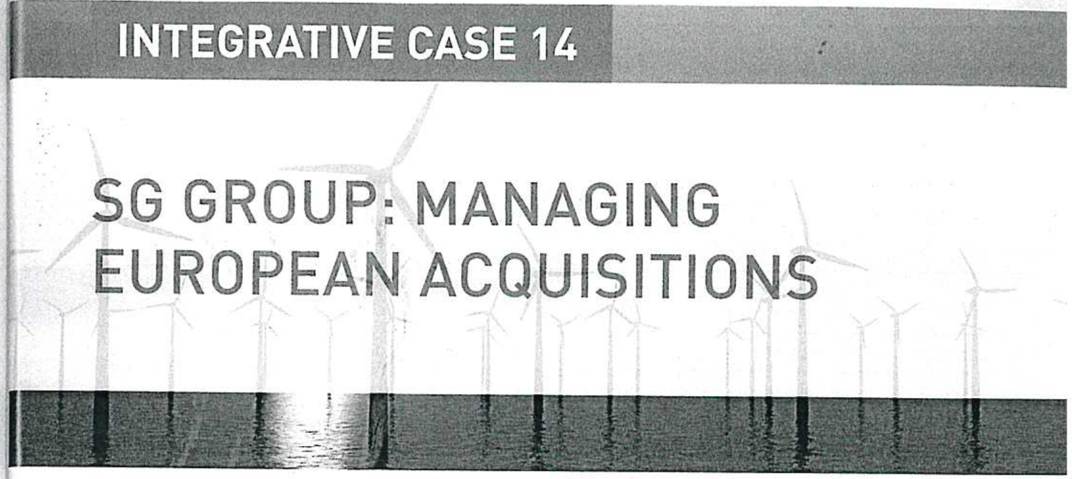
Sources: (1) F. Bonaglia, A.M. Coplan & A. Goldstein, 2008. Industrial upgrading in the white goods global value chain: The case of Arçelik, *International Journal of Technological Learning, Innovation and Development*, 1(4): 520–535; (2) T. Gülsoy, O. Ozkanli & R. Lynch, 2012, The role of innovation in the effective international expansion of an emerging-country firm: The case of Arçelik, *Procedia Social and Behavioral Sciences*, 41: 116–129; (3) D. Dombey, 2012, Turkey's Beko claims UK market top spot, *Financial Times*, December 6; (4) Agence France Press, 2013, Spanish company to declare bankruptcy, *Hurriyet Daily News*, November 8; (5) Arcelik, *2013*, Investor Presentation, November www.arcelikas.com/UserFiles/file/20139MIP.pdf ; (6) www.beko.co.uk/Pg/MumsUnitedNews (7) Arcelik A.S., *Annual Report various years.*

DISCUSSION QUESTIONS

1 From an institution-based view, how did the institutional environment of Turkey (also see Chapter 2) influence the growth strategy of *Beko*?

2 From a resource-based view, what capabilities did *Arçelik* have to develop to build market share for *Beko* in different countries of Europe?

3 How would you suggest developing *Beko*'s European operations further?



INTEGRATIVE CASE 14

SG GROUP: MANAGING EUROPEAN ACQUISITIONS

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One of the first Chinese companies to engage in serial acquisitions in Europe, textile machine manufacturer *ShangGong Group (SG Group)*, acquired *Pfaff Industrial* and *KSL Keilmann* in 2013, complementing its earlier acquisition of *Dürkopp Adler (DA)* in 2005 (see Table 1). Through these overseas acquisitions, *SG* became market leader in China and the third-largest producer in its industry worldwide. Its household sewing machine brands Butterfly and Flyman were widely known in China, while its German industrial sewing machine brands Dürkopp Adler, Beisler, Pfaff and KSL served high-end customers such as *LV*, *Gucci*, *Hermès*, *Boss* and *Armani* in the clothing, shoes and accessories industry and *Mercedes-Benz*, *BMW*, *Audi* and *GM* in the auto industry.

However, acquiring companies is only one part of international growth. Mr Zhang Min, *SG Group*'s CEO, was very aware of the challenges of managing the two new acquisitions. He had learned a few lessons from the acquisition of *DA*, yet the strategic and operational challenges were different this time.

THE DÜRKOPP ADLER ACQUISITION

Back in 2005, *SG Group* faced a challenging competitive environment in China. It had been the traditional market leader, yet faced new competition: European producers were offering advanced highly automatic machines, Japanese competitors offered good quality machines for the mid-market at competitive prices, while local entrepreneurial start-ups sold cheap, manually operated machines. Acquiring *DA* provided an opportunity to move into the premium segment: *DA* manufactured high-tech industrial sewing machines under the *DA* and *Beisler* brands for high-end customers and hence provided an opportunity for *SG* to match its Japanese competitors.

This is an abbreviated updated version of: Klaus E., Meyer, Daniel H.M. Chng & J. Zhu, 2014, SG Group: A Chinese challenger acquires German premium brands, CEIBS Case Center, 2014. © *The authors.*