

SUBCONTRACTING EXCHANGE

THE ISTANBUL CHAMBER OF COMMERCE

MACTCMaking FOR GLOBAL OUTSOURCING

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EXECUTIVE SUMMARY

The Subcontracting Exchange of The Istanbul Chamber of Commerce is a newly developed unit that plays the middleman role between the main and sub contractors.

Current market has tons of subcontractors, but only little provides conceptual services by professionals. The major problems are lack of information, knowledge and experience all which makes turnaround time excessively long. As a result, most jobs are finished at very high cost. The Subcontracting Exchange has created a database using only registered members to gather as much detailed information as possible. This data is later used to help with members export oriented operations. The Istanbul Chamber of Commerce is thoroughly experienced taking part in such activities.

Sales and marketing forecasts prove that Turkish subcontractors have a significant profit and competitive advantage in the past 12 years. The partners who are invested their time and money into this project still have that first day enthusiasm to go further. Hopefully The Subcontracting Exchange will continue to provide much needed service to them in a growing market.

1. Briefly describe how your project originated. How did the idea come about, what needs were identified and why?

The Turkish economy was re-modeled and become more export oriented with the structural adjustment program launched in the 1980s. The establishment of money and capital markets, liberalization of exchange and interest rates and other financial issues have enhanced the effectiveness of monetary, fiscal and income policies. Liberalized import regime, new foreign investment and export promotion policies have enabled Turkey to take its place in the global economy. Since it started applying the principles of market economy in the 1980s, Turkey embarked upon series of reforms which were designed to remove price controls and reduce subsidies, lessen the role of the public sector in the economy. These principles can be listed as follows:

- Emphasize on growth in the industrial and service sectors
- Encourage private investments and savings,
- Liberalize foreign trade, reduce tariffs and promote exports,
- Ease capital transfer and exchange controls,
- Encourage foreign investments,
- Free Central Bank off of state's control as much as possible.

By the end of 80's, Turkey had already liberalized its economy and started with export oriented growth. Before 80's, vast majority of Turkey's manufacturing industry composed of micro enterprises based on import substitution policies. In addition exports were labor intensive and less sophisticated traditional goods such as textile and agricultural products. There were some manufacturing sectors in the market but their technology was obsolete they did not have the competitive edge neither they had sufficient financial sources in many aspects. Most small enterprises were self-financed. Technology levels within the small scale Industries were outdated because of inability to develop appropriate technologies and lack of finance to import modern technology.

There were not an export cultures. Lack of information for export markets was one of the biggest obstacles and the share of SMEs in exports was very small. Turkey's export was only \$2.9 bn and there were only 4.000 registered exporters in 1980.

Relationship between Small and Large Industries; The organization of production is usually based on complex relationship between main contractors and subcontractors. In industrialized countries, the relation between large and small manufacturers are closer than that of developing nations in terms of technology transfer, finance, investment and R&D, therefore industrial nations have the "luxury" of mutual communication.

The Istanbul Chamber of Commerce realized that the SMIs especially in metal, plastic, rubber, electricity and electronics sectors of automotive, domestic appliances, machinery building main contractors, have number of problems:

- lack of technology
- lack of finance
- lack of export knowledge
- lack of human resources
- lack of infrastructure of export activities
- lack of export related institution and subsidies
- lack of global competitiveness and optimizing capacities
- less diversifying sectors and number of customer
- too much dependency on domestic market and economy

To help solve all these problems and to help overall economy of Turkey, The Istanbul Chamber of Commerce, as a pioneer organization with over 315.000 members, initiated The Subcontracting Exchange project in 1990 as a result it was established within the Chamber's body and in the beginning it was facilitated with technical assistance by UNIDO-United Nations International Development Organization.

The Subcontracting Exchange project was designed specially to help SMIs export operations. It focuses more on export promotion of Turkish Industrial Subcontracting goods and capacity than other aspects. It is also recognized as an efficient tool to increase the rate of utilization of installed industrial capacities and to increase industrial production as well as employment opportunities in the small and medium size industries (SMIs). Producing better quality products at a lower price and contributing overall reallocation of industrial resources, therefore eventually helping national industrial growth and integration.

The Subcontracting Exchange is a technical information source and promotion mechanism for industrial subcontracting between main-contractors and subcontractors aiming at optimal utilization (the most complete, the most rational and productive) of manufacturing capacities of the affiliated industries. In effect, the Exchange acts not only as the meeting point and the instrument of regulation between the supply and the demand of industrial subcontracting orders, but it also acts as an instrument of assistance to both parties, particularly the small and medium subcontracting enterprises.

Subcontracting has in many cases shifted from one-off purchases of standardized inputs to complementary between large outsourcing firms and specialized small and medium-scale enterprises. The new type of relation is characterized by longer-term cooperation and know-how transfers.

SME's in Turkey are estimated to constitute more than 99% off all registered business. Most of these enterprises are small and micro size industries. This gives us a great example for emphasizing the need for such subcontracting exchange office. In view of their large numbers, it is widely recognized that the SMEs can play a unique role in Turkey's socio-economic and industrial development by creating new jobs, generating income and ensuring equal distribution of resources. ICC also identified that SME's in industrial subcontracting sectors should definitely be supported.

Overall, 20.000 exporters have been reached out in 2002, up from 4.000 in 1980. This can be considered as an extraordinary rise given the circumstances.

2. Describe your project based on the category selected. (Context, innovative character, invested resources, difficulties met.)

What is Industrial Subcontracting?

Industrial subcontracting usually takes place between small and large manufacturers. It is the link between them. Turkish Subcontracting Exchange has aimed to promote its members to use their dynamism and entrepreneurship to develop capacity and expertise in an efficient way. The Subcontracting Exchange is a center for technical information, promotion processes, and for maximizing capacities while reducing cost and improving quality. Above all it is best described as "matchmaking mechanism"

Problems Facing Subcontractors.

There were hundreds of subcontractors working only for one main contractor. Downside of this is whenever there is an economic crisis in any sector the small and medium companies are affected both directly and dramatically. For main contractors the solution is rather simple, they chose downsizing method to cut their cost in order to get over recessions. After liberalizing the economy and opening the borders for commerce, SMIs had to compete globally without depending on one contractor. Subcontracting Exchange Office helps them to do so.

An average subcontractor is not experienced in marketing. They hardly promote themselves. Therefore they end up with few customers. The most challenging part of this project was helping subcontractors, who are fist-timers in the international arena, to integrate with foreign markets and to help them find their way around.

Turkish Subcontracting Exchange was designed to build up technical information system and networking potentials as to facilitate production linkage between small and medium size subcontractors, particularly with international contractors.

How Does Subcontracting Exchange Work?

At the beginning of the project, the staff of the Turkish Subcontracting Exchange visited each subcontractor and collected their data in many aspects. The collected information coded and installed to the specially designed software. After reaching a sufficient number of subcontractors information in the data base, the Turkish Subcontracting Exchange started promoting its services and the potential of Turkish Subcontracting opportunities in international market started blooming.

The opportunities for networking globally are certain and attractive for the members. Turkish Subcontracting Exchange has selected metal, plastic, rubber, electricity, electronics sectors as a potential competitive sub-sectors and started to build up a data base for matchmaking the incoming requests.

Turkish Subcontracting Exchange also started to participate in international exhibitions in Europe to promote the subcontracting sectors in potential markets. Businessmen around the world are invited to Turkey for meetings, and executing deals. Same is done for their Turkish counterparts.

The structure of Subcontracting Exchange consists of technical team and office facilities. At the beginning, there were one engineer and one supporting staff working . Today there are three engineers and three promotional staff together with supporting staff and consultants working hard to achieve our objectives.

This is the first trade promotion office designed only for metal, plastic, rubber, electronics and electricity sectors in Turkey. This is a practical hand to hand matchmaking system that eliminates the hassle of catalogue search.

Activities can be listed as follows:

Creating Data base:

The data base is designed to describe a subcontracting company's product and process with specially designed coding systems. There are four main fields to describe the product and processes of the subcontractors.

Matchmaking (product-producer):

Then main activity is to create subcontracting demand on Turkish subcontracting sectors and than use these demands to match-make local subcontractors with foreign counterparts.

Organizing Promotional Activities (exhibitions etc.):

Subcontracting Exchange Office truly believes that over the years, participating in international fairs and exhibitions or reaching parties via mail are proved to be one of the most effective ways of conducting business in international markets.

Conducting Training (export seminars):

Training and upgrading the level of members knowledge through seminars and Q&A briefings are done by the subcontracting exchange department. Selected topics, mainly regarding international business, are selected in their order of importance and executed at the Chamber's facilities.

Consulting Services (publications and face to face advisory):

The subcontracting exchange has been publishing market researches and monthly bulletins for its members. Experienced staff of the subcontracting exchange has also give constancy services to its members on marketing and business issues.

Unlike any other country in the world, most of these information and services are provided **free of charge** as courtesy services of the Chamber. Exhibitions and some training seminars are charged only by symbolic costs.

What are the Difficulties;

To best describe the difficulties of the project, we have to split them into two categories: Internal and External difficulties.

Internal Difficulties;

- ❑ Introducing subcontracting as a "concept".
- ❑ Putting SMIs, that are wide spread out, all together under one umbrella.
- ❑ Collecting information from members was a difficult and time consuming process.
- ❑ Training and preparing members who did not have any previous export experience for "how to market overseas".
- ❑ Many did not have export department because it was not needed. Main contractors were getting the job done anyway.
- ❑ They haven't got any leaflet, brochure, catalogues or any other informational description about themselves.
- ❑ Not enough willingness to participate in exhibitions.
- ❑ Lack of self-confidence

External Difficulties;

- ❑ Country's image; Turkey is not known as an industrial nation.
- ❑ Creating subcontracting demand from abroad.
- ❑ Weak export promotion activities and inefficient incentives
- ❑ Global competition was already of vicious existence when Turkey was knocking the door.

3. What have been the results and influence of the project? (short and long term impact, measurable data, benefits.)

Substantial increase in use of subcontracting and in use of harmonized standards instead of internal standards can be considered as the positive results of the project .

International subcontracting relation rather than regional subcontracting relation and moving from capacity subcontracting to specialized subcontracting can be listed among influences.

As for short term and long term impacts, the following can be mentioned:

Short Term Impact:

- ◆ Subcontractors now focuses on international markets more than ever,
- ◆ New sectors were introduced instead of working only in/for one sector,
- ◆ Strong competitiveness in domestic market through international market experience,
- ◆ Better and clear understanding of quality, service, marketing and pricing.

Long Term Impact:

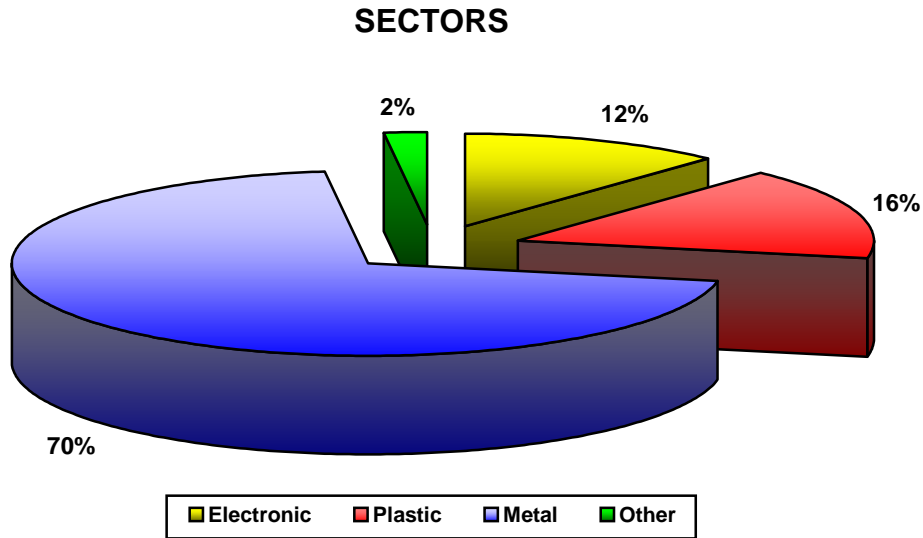
- ◆ Competitiveness ,
- ◆ Productivity,
- ◆ Utilization of existing capacity,
- ◆ Right investment decision,
- ◆ Import substitution,
- ◆ Jobbing to subcontracting,
- ◆ Licensing to co-makership.

Measurable data:

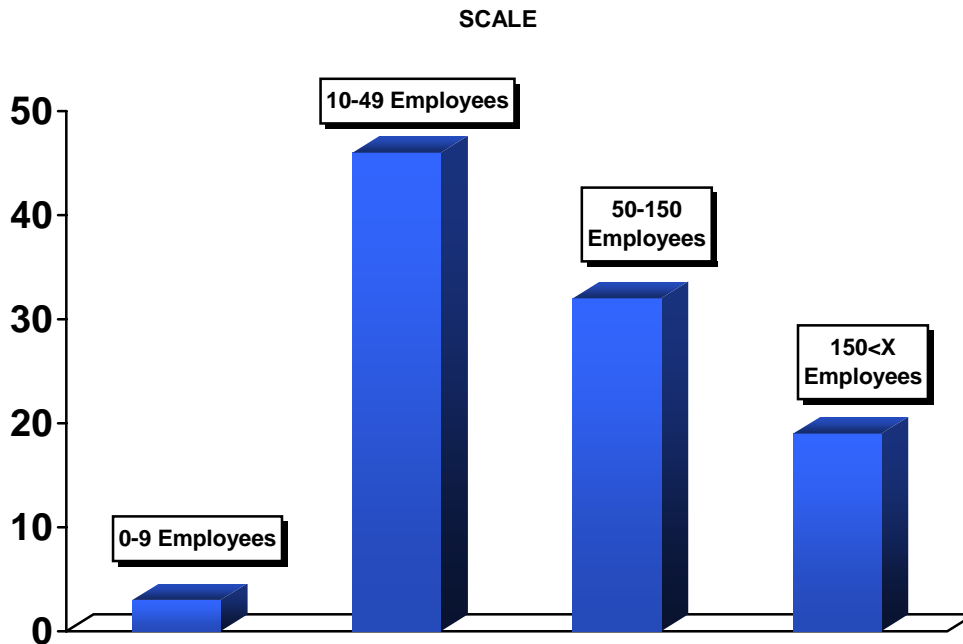
To get a clear picture of the member profiles, an extensive survey is conducted each year by the Subcontracting Exchange. In this survey “fill in the blanks” type questionnaires are sent to each member. Following is the list of some core questions that are asked:

- In what field do you operate?
- What sectors do you provide your service?
- How many employees do you have?
- Do you export? If yes, What percentage of all production goes to exports?
- Which services do you use of Subcontracting Exchange, and what level?
- Have you ever gotten any foreign proposals via Subcontracting Exchange?
- What percentage of these proposals have actualized?
- What are the problems have you faced when entering the target markets?
- What are your expectations from Subcontracting Exchange on how to increase your export?

Following are the two examples of the 2002 data gathering. As seen, metal sector constitutes 70% of all sectors.



10 to 49 employee SBAs takes the largest stake in the market.



After gathering solid information from its members, Subcontracting Exchange than goes into downloading of these info's into the data base in order to get statistical results. According to the results, necessary steps are taken to improve overall objectives.

Following is the list of this very survey's result:

- Increased members' export,
- Increased overall rate of export,
- Diversification of sectors,
- An average contract amount of 180.000 Euro (min. 30.000 Euro max. 600.000 Euro) in 2002 alone.
- Increased number of members from 300 to 1.250 in ten years,
- %84 of members are exporters in 2002, up from 82% of previous year,
- From 1 exhibition and 160m² stand area in 1991, to 7 exhibition and 1320m² stand area in 2003 at international fairs,
- Average of 10-12 matchmaking in a day.
- 80% accuracy in matchmaking.
- 4% of matchmaking has been actualized.

4. Can your idea be applied in other parts of the world? (Please explain how and why.)

Yes, the idea could be applied to other institutions and specially in the developing countries. This is the project could be implemented easily because there is no need for vast investment.

Ghana example;

The Istanbul Chamber of Commerce, Subcontracting Exchange Chief has been assisting a Subcontracting Exchange project in Ghana under UNIDO International Expert since January 2003. Turkish Subcontracting Exchange Chief transfers the know-how and methodology of the exchange to newly established Ghana Subcontracting Exchange.

The project is financed by International Donors such as UNDP and APDF and technical assistance given by UNIDO and a lot has been successfully done for the last 4 months.

Gulf example;

The Istanbul Chamber of Commerce, Subcontracting Exchange was invited to share its' experience with Gulf Countries and work as technical advisor on establishing subcontracting exchange.

Although there may be other examples, neutral and independent Chambers of Commerce, as the true representatives of large, medium and small size companies, are the right address to establish and to run a Subcontracting Exchange.

With its extraordinary financial and informational capabilities, The Istanbul Chamber of Commerce has set an example on its own and it seems perfectly working. Istanbul Chamber of Commerce has managed to overcome this project successfully and the results poured very quickly.

5. Why do you feel your project should be selected as a finalist and presented at the 3rd World Chambers Congress?

We are confident of our project. We believe it should be selected not because of its concept or any other side kicks. It should be selected simply because **it works**. This is a success story of the Istanbul Chamber of Commerce. We have seen the actual results before our eyes.