ANNALS OF THE UNIVERSITY OF ORADEA
FASCICLE OF TEXTILES, LEATHERWORK

THE ANALYSIS OF TURKISH LEATHER INDUSTRY'S COMPETITIVENESS

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Abstract: *Considering its export-oriented performance and the close relationship with various branches, the Turkish leather industry is one of the most important sectors of Turkey. Turkey is also a well-known leather and leather products manufacturer in the global market. Thus, Turkish leather industry is faced with a constant competition pressure. Analysing the developments and the factors that are driving the industry, and contributing industry's sustainable competitive advantage are important for both the industry and the country's economy. In this study, analysis of Turkish leather industry's competitiveness was discussed by using Porter's Diamond Model. For this purpose, both primary and secondary research methods have been utilized. Interviews consisting of open-ended questions prepared in the light of data surveys were made with two researchers who are experts in leather industry and three large-scale leather apparel companies in Izmir and Istanbul. As a result of the analysis, the main elements of the competition structure of the industry were described under the titles of Input conditions, Demand conditions, Relevant and Supporting authorities, Strategy and competitive structure of company, State activity and chance by analysing the results of respondents; and various suggestions have been made in order to let Turkey have a more competitive position on the world leather industry platform.*

Key words: *Leather industry, Porter diamond model, competitiveness analysis*

1. INTRODUCTION

Turkish leather industry has made important contributions to the development of Turkey industry, especially after the 1980's; Turkish leather industry's name also has begun to be mentioned in global markets by the export-based production model. However, because of the increasing market share of the low-priced and low-quality products coming from the Far East, the leather industry has faced with a constant competition pressure. Thus, increasing competition and sustainability of this industry is of major importance.

Surviving of Turkish leather industry in these competitive conditions and increasing its share in the international markets will be possible by correctly analysing and interpreting the dynamics of the industry, and taking strategic steps towards the future. Porter's diamond model allows systematic evaluation of the elements of competition together. For this reason, in this study, the competitiveness of the leather industry was analysed by the Porter approach, and some prospective deductions and suggestions were made. Furthermore, competitiveness analysis studies based on the diamond model are available for different industries but it is not studied for the leather industry yet. Consequently, it is thought that this study will also contribute to literature in this issue.

1.1. Diamond Model Approach in Competitiveness Analysis

Porter has developed a model, namely diamond model, to analyse the competitive power of an industry or a country. The model analyses the elements of global competition in a system approach in order to systematically reveal the determinants of national competitive advantages. Four major factors affecting the competitive advantage of an industry in the diamond-designed model have been identified. These basic variables are the factor conditions, firm strategy and competitive structure, demand conditions and supporting industries, which are composing the diamond's corners. In response to these four internal variables, there are two external factors in the system, namely government and chance. In this model, the basic variables determine the competitive advantages together, not individually. Hence, the variables influence each other's and form a whole. The diamond model is used to determine industries' competitiveness positions by explaining how a factor is affected by three other factors [1]. Figure 1, shows the model and dynamics that form the model.

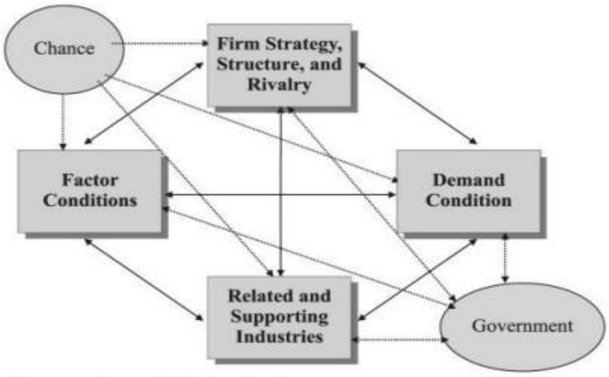

Fig. 1: *Porter Diamond Model*

2. METHOD

In this study, the competitiveness of the Turkish leather industry was analysed by Porter's Diamond Model method. The elements that constitute the competitiveness of the industry have been evaluated within this framework. The researchers have utilized primary and secondary data collection techniques during the data collection step. In the secondary data collection method, sources that related with the industry and the method (industrial reports of public institutions and organizations, databases of these institutions, relevant internet resources, scientific articles, company catalogues, etc.) have been examined.

In the primary data collection method, interviews consisting of open-ended questions were made with two researchers who are experts in leather industry and three large-scale leather apparel companies in Izmir and Istanbul. The questions in the questionnaire were prepared in the light of the secondary data survey and these questions were used in the interviews.

3. RESULTS

Information and data obtained for the competitiveness of the leather industry are given in the light of the findings obtained by primary and secondary data collection methods. In this context, the sub-headings that constitute the model are summarized by numerical and interpretive data, and the "high-moderate-weak (low)" triple scale is used in order to base the interpretations on a common classification [2].

3.1. Input conditions

Labour: Leather industry has a 2% share in employment in Turkey. The average daily earnings of these people are 50.93 TL (9.93Euro) [3]. According to the enterprises, there is a significant decrease in the number of students who go to the leather-related schools, which negatively affects the supply of qualified labour force. Moreover, it was emphasized that many employees changed leather industry due to the economic problems experienced. For these reasons, the level of qualified labour force in this industry is considered as "weak". It is observed that the average wage level of the employees is 2000 TL (389.88 Euro) and recruitments are made by references or advertisements on the internet.

Raw material: leather industry have share in production costs of 60% of raw material, 20% of labour, 7% of auxiliary materials, 7% of energy, 4% of financing and 2% of another components. Therefore, raw material costs constitute an important input item [4]. As is known, production costs are increasing in leather industry. The increase in raw material prices is one of the main reasons for this situation. Company officials and experts have stated that they have experienced "low" in terms of quantity in the supply of raw materials and "moderate" in terms of quality and cost. It is stated that almost 70% of the raw materials are imported from abroad.

Capital: Firms in the leather industry indicate that new investment incentives are limited for them and that existing clusters are not adequately supported [5]. Industry experts and businesses classify financing sources on average at 50% bank loans and 50% equity. It is believed that cost of capital is considered to be "high".

Energy: Industry staffers have stated that they don’t experience any quantity and quality problems in supplying the energy they need, so they see problems in this area at a "low" level.

3.2. Demand conditions

Domestic demand: It is thought that domestic demand is insufficient and "weak" compared to external demand, and the demand variability in this market is considered to be "weak". It is argued that insufficient purchasing power and the changing weather conditions due to global warming cause low demand of leather; and leather products in the domestic market are mostly export leftover and second quality products.

Foreign demand: According to experts, foreign demand for Turkish leather products is increasing. Among the main reasons for this are the geopolitical position and its high quality and experienced production infrastructure. The foreign demanding level is stated "moderate" and this demanding variance is at "high" level. Parameters affecting external demands are economy, politics, fashion, climate change and instability in the country.

The status of the related industries: Leather industry performs activities in close relationship with many different sectors such as, animal husbandry, textile, chemistry [4]. According to experts, changes in demand in the related industries are not widely reflected in the leather sector and are "moderate" level of influence. It is thought that other concepts such as economy and fashion direct demand more.

3.3. Relevant and Supporting authorities

Industry is in contact with the Ministries of Economy, Customs and Trade, Development and many others. In addition, occupational and non-governmental organizations like Turkish Association of Leather Industrialists, Turkish Leather Foundation, Footwear Industrialists Association of Turkey, Turkish Leather Garments Manufacturers' Association, and Turkish

Exporters Assembly can provide many possibilities and advantages such as education, labour force, and cooperation. In addition, Turkish Leather Brands carries out activities aimed at increasing exports of Turkish leather, leather goods and footwear industry, developing its image and branding it abroad. Ege University Leather Engineering Department trains engineers for leather industry and carries out projects and R&D studies jointly with companies in the industry. However, according to the interviews, the experts find the university-industry cooperation as "moderate". Looking at international cooperations, companies participating in international fairs and leather companies can strengthen their cooperation and market share. Cooperation capability in the logistic infrastructure is considered adequate at the "moderate" level in terms of technology, cost and time opportunities.

3.4. Strategy and competitive structure of company

The situation of the SMEs: The leather processing industry is concentrated in Istanbul-Tuzla, İzmir-Menemen, Tekirdag-Corlu, Usak, Bursa, Balikesir-Gonen, Bolu-Gerede, Isparta, Hatay and Manisa-Kula. The distribution of shoe supplier firms is 50% in Istanbul and the other firms are located in cities like Izmir, Konya, Gaziantep, and Bursa. Leather apparel firms are mostly located in Istanbul and Izmir [6]. According to experts, firms are mainly small and medium sized enterprises, and the proportion of these firms is 90%. According to industry workers and experts, leather firms' strategies are more cost-oriented.

The situation of R&D, design and branding activities: There is one R&D center in the leather industry. There is no leather factory with a design center [7, 8]. The companies in the industry are also signing various R&D projects with universities. According to managers and experts, R&D, design infrastructure and branding in leather industry are seen at "low" level. Concentrated areas of R&D projects are indicated as new technologies in production, technologies for the environment and productivity increasing methods. Especially design becomes recently an important fact at firms. It is emphasized that this situation is reflected in the branding and that the branding is inadequate especially in the foreign market.

Capacity utilization (ratios): According to the data of Central Bank, the production capacity utilization ratio of leather and related products is 57.4% by 2016 [9]. This ratio proves that the capacity cannot be used efficiently.

Production range: By means of know-how, craftsmanship, high collection and design capacity of double-face production, the leather garment area is known internationally. In the footwear industry, production and product quality are rapidly improved, and design and R&D capacity develops to produce higher added value products [5]. It is thought that the Turkish leather is among main players in footwear and garment area, while main competitors are Italy in leather garments and China in footwear. According to experts, Turkish leather is seen as high quality but also high cost according to Far East market and low cost and moderate quality according to European market.

3.5. State activity

Social security payments: Taxes on labour costs and employment in Turkey are an important part of production costs [4]. The minimum wage in Turkey was 277.18 Euro, the total cost to the employer together with other expenses 412.31 Euro stands out [10]. This situation can cause informal employment in the sector.

Tax rates: The rate of VAT on leather and shoe upper leather made by a subcontractor has been reduced from 18% to 8% starting 25 November 2016 by Decree No 2016/9542 [11]. Industry executives and academics agree that tax rates for Turkey's manufacturing industry are "high".

Incentives: There are many incentive schemes closely followed by the leather industry [12]. According to experts and academicians, the effect of incentives and tax policies provided by the government on competitiveness level is "moderate".

Audit: The leather industry, which moved from an environmental point of view, signed an "Environmental Protocol" with the Ministry of Environment in 1994. Protocol is required that the enterprises either take part in any organize industrial zone with a treatment system or establish their own treatment systems. As a result of the efforts of industry to adapt to the environment, 70% of the goods produced are produced by environmentally sensitive methods today [13]. It is argued that the practices in the regulation of intellectual property rights in the fight against counterfeiting should be activated [5]. Representatives of industry have stated that the efficiency of the state control systems is "moderate".

Informality: Informal employment has become widespread, wage levels have fallen, and long working hours have been used as the most known way to lower the labour [14]. One of the important means of reducing costs is to employ uninsured workers, so industrial representatives particularly point out that informal employment is at a "high" level.

3.6. Chance

It is also a factor that affects the competitiveness of the leather industry, like every industry both nationally and internationally. The Turkish leather industry has a structure that is influenced by economic and political developments due to its commercial relations especially with other foreign markets in other fields. Managers and academicians interviewed within the scope of the study see the leather industry as "moderately bright" for the future of Turkey.

4. CONCLUSIONS AND SUGGESTIONS

Turkish leather and leather goods industry is one of Turkey’s important industries in international markets in terms of competitiveness. The leather industry has been on a rising trend for the last two years, although it has followed a long period of ups and downs. The export target of the industry is 5.2 billion dollars in 2023. When the leather industry is examined, it is seen that it is composed of shoes, leather and fur garments, finished leather and furs and saddlery product groups. Leather shoes has 51% share of the leather industry in export; leather apparel, finished leather and furs saddlery product groups have 19%, 17%, 13% respectively. According to Porter's Diamond Model, the competitive power of the industry appears to be "moderate". While the industry is weak in terms of input conditions, it has moderate competition power in terms of demand conditions. When we look at the strategies and structure of the companies in the industry, it is seen that there is a low competitive power except from the product variety. The reason for this is that firm strategies are largely based on cost strategies due to the fact that 90% of the company structures are composed of SMEs, low capacity utilization rates (57.4%), low level of R&D, design and branding. Product range is seen as the most important success of leather industry and it is at a high level.

When we look at the efficiency of the government, it is seen that it is a moderate effect of competition power. The most significant weaknesses in terms of industry are shown as high tax and social security payments that state implements. It is also seen that government incentives and supervision are moderate.

It can be said that the competitiveness of the Turkish leather industry is at a moderate level. In order to increase the competitive power, it is necessary to improve the weak and moderate competition elements. According to this;

• Input conditions need to be improved. In this regard, the industry and the government should give more support to the vocational schools and University that provide intermediary and expert personnel for leatherworking in order to solve the problem of qualified personnel. Also; government incentives need to be developed to lower energy costs. Likewise, remedial measures should be considered for high capital costs and public measures should be taken to reduce credit interest.

• Foreign alternative markets should be emphasized in demand conditions. In particular, markets such as the USA, Africa and Iran should be evaluated.

• Turkish companies should focus more on marketing, innovation, design and branding-oriented strategies than on cost and production-oriented strategies.

• As with all of industries, the most important problems of the leather industry are high tax rates and social security payments. These costs need to be removed from the factors that have an adverse effect on competition power of Turkish firms. Likewise, the emphasis should be given on incentive system to industry-oriented by reviewing.

• One of the most important problems of the industry is informality, which has also a great effect to unfair competition. In this regard, necessary regulations and inspections must be done urgently.

The improvements to be done on these terms will provide significant contributions to leather industry's ability to increase its competitive power and achieve its goals for the year 2023.

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