

The Koç Group

– web enabled thought leadership



“OUR LONG-TERM STRATEGIC GOAL IS TO BE THE FIRST ENTERPRISE OF TURKISH ORIGIN TO BE A TOP 200 GLOBAL COMPANY. WEB ENABLEMENT, NOT ONLY OF OUR BUSINESS BUT ALSO OF THE ENTIRE COMMERCIAL FABRIC OF OUR REGION, WILL BE KEY TO ACHIEVING THAT GOAL.”

Mehmet Ali Berkman President, Strategic Planning and Human Resource Management, Koç Holdings

Strategic goal

By anyone’s standards the Turkish conglomerate, Koç Group, is an enormous company. With annual sales of over \$11 billion it employs nearly 43,000 people and is among the Top 500 global companies. Its activities stretch from automotive manufacturing to financial services and from the production of consumer durables to computer networking. Its position as a major contributor to the Turkish economy confers a unique responsibility on the company to assume thought leadership for the region. Where Koç goes, others must surely follow.

Foreign competition together with Turkey’s recent economic problems, have placed twin pressures on the conglomerate. It was therefore inevitable that it would accelerate the web enablement of its businesses to maintain its leading position.

EXECUTIVE SUMMARY

Background

Koç Group is the largest conglomerate in Turkey and holds a uniquely influential position in the region. Its activities, accounting for nine per cent of GDP, have a significant effect upon the local economy and it is closely watched as a thought leader and trendsetter.

Challenge

The twin pressures of global competition and difficult local economic conditions have given momentum to Koç Group to accelerate its own web enablement programme and to seek to lead Turkey into the Information Age. Culture change in the diversified and decentralised Koç Holdings organisation is key to success.

Solution

Cisco has assisted Koç Holdings as a trusted advisor and a catalyst of change across the entire Group. A structure has been put in place to co-ordinate and drive forward web enablement projects – prioritised for maximum impact in minimum time. Existing web successes in some subsidiaries have been extended to other parts of the group.

Results

Attitudes have changed and managers are co-operating across the boundaries of individual subsidiaries. Within the first year, web enablement initiatives were occurring at group level and in ten of the 100 operating companies. Arcelik for example has launched 26 projects and is planning to save \$4 million over four years for an investment of \$1.4 million in the first year. Also Beko has launched seven projects and is targeting savings of \$1 million for an investment of \$200,000.

Mehmet Ali Berkman, Koç Holdings’ President for Strategic Planning and Human Resource Management, explains: “Our long-term strategic goal is to be the first enterprise of Turkish origin to be a Top 200 global company. Web enablement, not only of our business but also of the entire commercial fabric of our region, will be key to achieving that goal.”

A structure for growth

Like many companies taking their initial steps towards the web, Koç Group launched its first projects in a decentralised fashion.

Ali Koç, Chairman of Koç Holdings’ Information and Communication Technologies Group and also Director of New Business, takes up the story: “When you are operating in a relatively closed economy with extreme volatilities and fragmented markets, adopting a



KEY FACTS

The Koç Group is among the Top 500 global companies. Its activities stretch from automotive manufacturing to financial services and from the production of consumer durables to computer networking.

- Annual sales of over \$11 billion from 93 separate companies
- Annual exports are valued at \$810 million
- Employs nearly 43,000 people
- Its products are in 12 million of the 15 million households in Turkey
- Its Arcelik (white goods and household appliances) and Beko (brown goods and electronics) companies have between them 351 service outlets and 4,755 authorised dealers
- Arcelik, with annual sales of \$1.1 billion, is the largest private equity company in Turkey
- Its Tofas (automotive) company is the largest car manufacturer and fifth largest company overall in Turkey, producing over 100,000 vehicles each year and with annual revenues of \$500 million
- Its Koçbank company is one of Turkey's strongest privately-owned banks
- Global partnerships with (for example) Ford Motor Company, Allianz, Tokyo Marine, Siemens, Fiat and Carlyle Group

conglomerate structure is the best way to grow. And you need to give individual company managers as much responsibility as possible to give them incentives to outperform in their own marketplaces.

“But that model has its penalties when you are trying to adopt a whole new way of thinking on a group-wide basis. The understandable temptation is to address immediate problems at the expense of the broader picture. So, with something as important as e-transformation, we knew that we had to provide some leadership and co-ordination from the centre.”

Going to work together

Cisco Systems was an established supplier to the Koç Group, particularly as a partner to its Koç Sistem and Koç.net companies. It was at a meeting with Cisco in the summer of 2000 in London that Ali Koç first broached the topic of web enablement. Cisco suggested that its Internet Business Solutions Group (IBSG) should engage with Koç Holdings and help the group's web enablement activities.

In November 2000 a memorandum of understanding was signed for Cisco to become Koç Group's 'trusted Internet advisor' and the two companies went to work together. In February 2001, a group of 24 Koç Group senior managers visited Cisco's Executive Briefing Centre in San Jose, California.

Catalyst of change

The nature of Cisco's involvement is not that of consultant, but that of catalyst and agent of change. Members of Cisco's Internet Business Solutions Group (IBSG) have assisted in two of the most important preparatory tools: the Net Readiness survey and the e-Business Compliant Network (ECN) analysis.

Net Readiness is aimed at 'scoring' an organisation for its ability to drive forward strategic Internet business practices – providing prescriptive next steps based on four pillars: leadership, governance, organisational competencies, and technology. Koç started assessing itself against the Net Readiness matrix in January 2000, early in its engagement with Cisco.

The assessment process is an ongoing exercise. As each new Koç company joins the transformation programme the very first activity is to undertake the Net Readiness survey. At the end of 2001 some 2,100 Koç employees had already been through the survey.

Following the first wave of Net Readiness assessments, the Cisco team helped the group to put in place a structure to address the governance dimension to achieve maximum possible results in the shortest possible time – essential for continued success.

That structure consists of a central e-business steering committee in Koç Holdings together with e-boards in each of the Koç Holdings entities selected for first-phase projects: the consumer durables companies, Arcelik and Beko Elektronik, and Koç Holdings the Group's corporate headquarters. Cisco employees are active participants in those teams and Cisco sits on the central e-business steering committee and attends the regular monthly meetings.

ECN analysis is intended to ensure that the group's network infrastructure can support its strategic e-goals. Interviews were held with business and IT managers as well as members of Koç Group's service provider (Koç.net) and its system integration arm (Koç Sistem).

Koç Holdings is still considering many of the recommendations but, as a direct result, a \$1½ million upgrade to the Koç Holdings network in 2002 will extend Internet access to all 12,000 white collar employees within the group. This will enable full e-mail facilities – with bandwidth being allocated according to need.



By the end of 2001 the web enablement programme had spread to a further eight Koç Holdings companies. Between them, the 10 companies now involved account for around 60 per cent of Koç Holdings' annual revenue.

Practising the art of the possible

Even before the Net Readiness and ECN exercises, one of the first activities that the two companies undertook together was to develop and prioritise a portfolio of e-business projects – including those that were already in progress.

In fact, Koç Holdings was much further along the path of web enablement than might have been expected.

Arcelik had created an online Supply Chain Management system for its service operation including the capture and reconciliation of parts and labour expended and the automatic generation of payment details. Of real power in that was a feedback loop to the product development function, so that learning in the field would quickly lead to improved product quality – creating a virtuous circle.

The consumer durables companies had implemented a SAP Supply Chain Management system that linked order placement systems to warehouses through order fulfilment and delivery systems to invoicing and payments.

Koçbank, in particular, had in place very successful Internet channels and the Turkish population had proved to be very enthusiastic in embracing Internet banking. Migros, the retail arm, was implementing a web enabled customer care system to learn more about its customers and their buying habits in order to better anticipate and meet their needs.

Creating a web culture

Mehmet Ali Berkman explains: “What was missing – and what Cisco taught us – was the means to share this learning around the company and to generate internal projects and initiatives that would create a web culture within Koç Group. We have called that expanded programme ‘Koç E-Transformation 2003’.”

Suggestions for web enablement from the subsidiary companies were considered (alongside existing initiatives described above) by the steering group and prioritised against a matrix that – among other things – factored in business impact and ease of implementation.

Now, 12 months downrange, the Arcelik supply chain system is not only being adopted for use in Beko Elektronik (a ‘quick win’) but is also enabling suppliers to become partners in the product development process; the Migros customer care system is being extended to other group companies to take in a much broader view of the customer; and the consumer durables SAP Supply Chain Management system is being integrated across Koç Group's intranet.

Thirty-six other group-wide initiatives are in progress including:

- A Workforce Optimisation project called ‘e-archiv’ that has put all market and competitor information online to Koç Holdings' people in 2001 – replacing armies of ‘newspaper cutters’, saving \$200,000 per year, and providing an integrated and intuitive research tool
- Use of e-procurement by Koç Holdings companies in 2001 for such products as office equipment and construction materials
- An e-HR performance evaluation, job classification, and salary administration system that will be online early in 2002, resulting not only in improvements in efficiency but also in a powerful culture-change signal
- An e-learning application that will, in 2002, spread the web enablement message throughout the group and will soon save costs as face-to-face training is replaced by self-service learning
- An upgrade to the Koç Holdings network by Koç.net in 2002 to extend Internet access to all 12,000 white collar employees. This will enable full e-mail facilities – with bandwidth being allocated according to need.

Ali Koç says: “That last point is very important, because the network upgrade is being funded centrally by the corporate headquarters. That is a very important signal – in these straitened times – of how serious we are about web enablement.”

Change management

All of Koç Holdings' web enablement projects and initiatives have objectives and performance indicators attached within a standard framework. In most cases these are quantified in terms of (for example) return on



investment and cost efficiencies. Arcelik for example has launched 26 projects and has 200 more ready to start. From those 26 projects it is planning to save \$4 million over the next four years for an investment of \$1.4 million in the first year. Also Beko has launched seven projects and has 130 ready to start. From those seven projects it is targeting savings of \$1 million for an investment of \$200,000.

In some cases projects will be measured by attitude change through staff surveys. In all cases progress and success will be rewarded through web-linked bonus schemes for those involved.

Mehmet Ali Berkman adds: “The key to success, as with all change management programmes, is leadership from the very top. When we meet with Cisco our CEO is involved. He sits alongside other top managers as well as those involved in implementation. This is too important to delegate, and that would give the wrong signal anyway.”

Better communication and Koç Holdings’ demonstration of financial investment are paying big dividends.

Co-operation between the subsidiary companies is greatly improved and managers are making big savings through joint project investment and shared learning.

Invaluable global perspective

Koç Holdings’ endgame is twofold. First to continue to use the IBSG methodology as its web enablement gathers pace – increasingly independently of Cisco’s support. Secondly to use the IBSG methodology to assist companies within its region with their own web enablement programmes through Koç Sistem and Koç.net.

That latter phase requires Cisco certification and, in early 2002, Koç Holdings executives met Cisco in London to discuss progress and next steps.

Ali Koç concludes: “It does not end here, of course. We want to be independent of Cisco in terms of being able to implement information technologies, but we will maintain a very close partnership between our two companies particularly in terms of keeping up to date on developments in technology and business process and applications. Cisco brings a global perspective that we could never hope to achieve. You really can’t put a value on this kind of relationship.”



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