

# E-Commerce as a focus on the Digital Market: Turkey's Place in the World, Present Status and Steps for the Future<sup>1</sup>

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written by Sina Afra

## Executive Summary

This report consists of two main parts and a conclusion which includes an evaluation of the future prospects.

### (1) E-commerce worldwide and in Turkey

The first part of the report reviews Internet and e-commerce from the viewpoint of the consumers, online retailers, investors and decision making authorities, investigates driving forces of the e-commerce and provides information on the widespread e-commerce models and companies operating according to these models in our countries. Furthermore, the influence of the entrepreneurial ecosystem of our country on the development of the e-commerce is discussed and the legislations regulating e-commerce and entrepreneurship are evaluated.

### (2) The reasons of the low e-commerce volume in Turkey and recommendations

The second part of the report identifies challenges, supplies examples of best practice in the world for benchmarking and proposes recommendations for the legislative and executive public authorities, and also for the other agents in the e-commerce ecosystem, in order to deepen, develop and expand the e-commerce business.

### (3) E-commerce in Turkey in 2023: A Prognosis

The concluding part of the report underlines the significance of the e-commerce in accomplishing the official 2023 targets and forecasts the role and the importance of the e-commerce in achieving the targets determined by the Vision 2023 document, if the recommendations stated in the report are adopted.

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<sup>1</sup>TÜSİAD has published a report titled "E-Commerce as a focus on the Digital Market: Turkey's Place in the World, Present Status and Steps for the Future" written by Sina Afra. This is the Executive Summary of the report, published in Turkish on June 5th, 2014.

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## Internet entrepreneurship and the importance of the e-commerce

Internet entrepreneurship requires low initial investment capital and relatively low operational capital and hence contributes to the quick emergence of the startups, swift experiments with new business ideas and it increases the numbers of the SMEs, the keystone of the economy, providing 78 percent of the employment in Turkey. Moreover, thanks to Internet, goods and services become rapidly available to large populations as well as massively scalable.

While these advantages of the Internet entrepreneurship are inherent in e-commerce, it provides further benefits to the society and economy:

- E-commerce creates new business lines and fields of expertise, injects a new dynamism into the related industries and generates new employment as well as increasing productivity.
- While it contributes to the development of logistics, information and communication technology and various other industries it interacts with and buys services from, it also enables disadvantaged groups in society.
- Moreover, it makes international promotion of goods easier, faster and cheaper, increases export potential of the companies, enlarge export markets and reduce input costs by diversifying purchase options.

Due to these intrinsic properties, the e-commerce will help to reduce the unrecorded economic activity, it will help to enhance competitive power, to unleash a new dynamism into the related industries, to generate new employment by creating new business lines and fields of expertise, and it will contribute to the regional development, the education and the development of social solidarity. Consequently, e-commerce will add its share to the efforts of implementing the vision of "Turkey, a country with a stable growth, a fairer income distribution, possessing a global competitive power, transforming into a knowledge society, a country which has completed the harmonization process for the EU membership," as stated in the Strategy document of the Ninth Development Plan.

## Findings and Recommendations

With its population of 76 million and 36 million Internet users Turkey has a larger number of users and greater potential than most European countries; however it

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falls behind this potential with respect to the ratio of users to the total population and the trade volume it generates.

The principal causes of the unfulfilled potential of the e-commerce are the problems of perception (customers' prejudices against e-commerce because of insufficient level of information and the deficient infrastructure (the shortcomings and inadequacies of technological, regulatory and financing infrastructure required for the implementation of the e-commerce).

**Problems of perception** bear upon corporate companies, SMEs, educational institutions and even the legislative and executive public authorities as well as the customers. Digital literacy in our country is insufficient for the development of the e-commerce, both at the individual and institutional level; confidence in e-commerce is not well established. The lack of information about the potential contribution of the Internet and e-commerce to the daily life of individuals, to the companies and to the future of the country further nurse the problems of perception.

**Deficient infrastructure** has various aspects related to the regulations, the financing infrastructure, the entrepreneurial ecosystem, the industry specific reporting and the education, in addition to the indispensable technological and human infrastructure needed to develop the e-commerce and to increase its volume. Mobile and fixed broadband infrastructure have made headway considerably in recent years but further improvements aiming at providing Internet access to larger segments of population are needed. The indistinctness of the legal regulations impedes the operations of the e-commerce companies, aggravate lack of customer confidence and cause investors to refrain from investment in e-commerce business. Furthermore, the shortcomings of the financing infrastructure and the entrepreneurial ecosystem, both crucial for the Internet entrepreneurs, are among the main factors inhibiting the development of the e-commerce.

Research activities and workshops with the business leaders carried out during the preparation of this report indicate that business representatives and other stakeholder possess detailed information and experience about the issues and various recommendation discussed in this report. The most prominent obstacle in front of relevant measures appears to be the absence of an initiative encompassing all the business representatives and groups advising them aiming

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to develop a common discourse and an action plan and communicating this common position to the legislative authorities.

Existing NGO structure should be developed in a way to bridge the gap between the legislative authorities and the business representatives, to define and itemize the demands of the business, to prepare action plans and communicate them to relevant institutions and to monitor the implementation of the measures taken. The coordinated, organized and well-focused communication of the problems and the recommendation of the business will enhance the dialogue with the public authorities and will have a beneficial effect on the development of the e-commerce business.

From the perspective of the public authorities, Ministry of Finance, Ministry of Development, Ministry of Science, Industry and Technology, Ministry of Transport, Maritime Affairs and Communication Ministry of Customs and Trade have their respective domain of responsibility in the Internet and the e-commerce business issues. The creation of an office in the administrative structure to function as the main communication counterpart of the business representatives and the NGOs will help considerably solving problems requiring state intervention, (such as regulation, financing and education issues) rapidly and to the benefit of all stake holders. It will be advantageous to enhance the efficiency and the functionality of the Retail and Electronic Commerce Directorate under the General Directorate of Domestic Trade of the Ministry of Customs and Trade, designated as the main authority in charge of e-commerce according to the Electronic Commerce Draft Law on the agenda of the National Assembly. This Directorate may assume leadership in regulating the e-commerce and in guiding and coordinating the interaction of the stake holders with the public authorities by establishing relations with relevant companies and institutions.

If such a bridge functions effectively, Turkey may realize its e-commerce potential and become a leading player among the developing countries by taking a number of actions defined and grouped as follows:

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### PERCEPTION AND DIGITAL LITERACY

- Informing the consumers, institutions and SMEs about the positive contribution and opportunities the e-commerce provides for the companies and daily life of individuals.
- Creating awareness about the e-commerce and Internet in the formal education.
- Enhancing the use of Internet in the governmental bodies, particularly through the e-state applications; providing governmental information to the business representatives about the required ecosystem and regulatory modifications in order to develop Internet technologies and Internet economy.

### INFRASTRUCTURE

- Carrying on the efforts to overcome technological infrastructure deficiencies.
- Popularizing alternative payment systems.
- Remediating the regulatory deficiencies.
- Developing the infrastructure of the industry specific reporting.
- Improving education opportunities provided for the investors and entrepreneurs.
- Developing the ecosystem and financing infrastructure; establishing an entrepreneurship / technology exchange market.

The rest of the report consists of detailed study of items listed above. Four top priority area of development among them are as follows:

## (1) Digital literacy and perception of confidence

Digital literacy in Turkey compared to both the developed and developing markets is quite low. The following measures will help to increase digital literacy:

- Development of the infrastructure
  - Increasing access to fixed and mobile broadband,
  - Revising the tax on the devices and Internet packages, providing incentives in regions of low penetration,
  - Providing more widespread free wireless Internet services in downtown areas by the municipal authorities.
- Smoothing out gender, region and age differences in Internet use.
- Broadcasting public service announcement produced by public-private partnership.
- Promoting the use of the Internet technologies by the new generations in schools.

Another obstacle in the way of developing e-commerce is the lack of perception of confidence.

- Implementation of an accreditation system will improve the perception of confidence. The process should be undertaken by an institution which possesses the following properties:
  - High recognition level among the Internet and e-commerce users.
  - Good reputation appropriate for building the perception of confidence
  - Self-governing
  - Mindful not to create bureaucratic obstacles impeding entrepreneurship.

A quality approval mark such as TrustMark being prepared under the leadership of the EU and already in use in many EU countries can be developed by TOBB (the Union of Chambers and Commodity Exchanges of Turkey) which is a professional organization with public institution status. An ombudsman structure within the aegis of TOBB to handle controversial cases will increase the perception of confidence as well.

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## (2) Laws and regulations

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The legal framework of e-commerce in Turkey is broadly in line with the regulations of the European Union. The regulatory framework of the European Union is systematic and harmonious with respect to its general outline and its connections with the e-commerce ecosystem. On the other hand, Turkey is short of knowledge and experience for designing, implementing these regulations and establishing their connections with the e-commerce ecosystem. There has been a number of positive steps aimed to develop regulations on the Internet entrepreneurship and e-commerce in Turkey; however in the process of developing and interpreting such regulations, the parallelism with the European Union regulations is still a crucial issue.

In order to make the current regulatory framework in Turkey as self-consistent as in European Union and satisfactory for all the requirements of the e-commerce business, revision of the current regulation according to the present-day needs of the e-commerce community or new regulations are necessary. Implementing the essential legislation which regulates the e-commerce business directly or indirectly and ensuring its due application is critical for the e-commerce business. Currently in the draft status but expected to be enacted soon, the Draft Law on Regulating Electronic Commerce and the Draft Law on Protection of Personal Data are among the most important regulations to bear an impact on the e-commerce business. Secondary regulations related to the Law no. 6502 on Protection of the Consumer enacted on 28 May 2014 and also very recently enacted Law on Payment and Security Settlement Systems, Payment Services and Electronic Money Institutions will also a noticeable impact on the e-commerce business. To follow closely the developments related to these regulations and to contribute to the modification processes are crucial. The following points are particularly critical in order to secure the compliance of the activities of the e-commerce business community to their obligations according to the current regulations, to incorporate the European Union regulations in the Turkish regulatory framework and to ensure that the new regulations have a positive impact on the prospects of the e-commerce business:

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- Scrutinizing the regulations created in the European Union and to be transferred into the Turkish laws at the level of European Union policies, strategies and action plans; analyzing the main reasons or “ratio legis” of these regulation and use the insight gained in the preparation of new regulations.
- Constantly updating the institutionalized perspective on the e-commerce business according to the needs of the e-commerce ecosystem and in line with the modifications in the original European Union regulations; interpreting, applying and modifying the implementation instruments (laws, directives, communiqués, policies, strategies) accordingly; using this constantly updated perspective in measuring monitoring efficiencies.
- Enacting the Law on Regulating Electronic Commerce and the Law on Protection of Personal Data; promulgating the directives within the scope of the Law on Protection of the Consumer; improving the legal framework according to the recommendations listed in this report.
- If the players in the e-commerce business are included in the preparation activities more closely, the regulations will reflect the dynamics of the e-commerce more realistically and their applicability will gain from this process. Hence, while preparing and developing regulations, the opinions of the companies operating in the e-commerce business and of the related NGOs should be taken into account.

### **(3) Ecosystem and Financing Infrastructure**

- Development of the ecosystem
  - Transforming the existing NGO structure into a body reflecting the representative power and enjoying full support of the entire e-commerce business community; providing an effective communication between business representatives and public authorities.
  - Establishing a unique address in the administrative structure for the business representatives and the NGOs to facilitate their relations with the relevant ministries (enhancing the efficiency and the functionality of the Retail and Electronic Commerce Directorate under the General Directorate of Domestic Trade of the Ministry of Customs and Trade). In addition to that, paving the way for the establishment of a public body responsible in the IT



matters (a body fulfilling similar functions of a “Chief Digital Officer”).

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- Enhancement of the financing infrastructure
  - Developing governmental incentive schemes focusing on the technology and Internet enterprises,
  - Creating investment instruments (Fund of funds and direct investment fund),
  - Augmenting financial exit opportunities (entrepreneurship / technology exchange market),
  - Supporting angel investor activities and venture capital by means of regulations and incentive schemes.

## **(4) Alternative payment systems**

The penetration and the usage of credit cards are very high in our country. However development of alternative payment systems will be helpful both by facilitating the shopping of the consumers owning credit cards and by familiarizing non-credit card holders with the e-commerce.

The popularization of the alternative payment systems will

- have a positive effect on the development of the perception of confidence,
- support the growth of e-commerce,
- contribute to the reduction of the unrecorded economic activity which has still a considerable volume in our country

Measures in order to develop alternative payment systems are as follows:

- Revising the laws and regulation on the payment systems to include alternative payment methods and clarifying practical aspects of their implementation,
- Informing consumers about the payment conditions with activities organized through public-private partnership,
- Initiating and promoting electronic billing in the b2c market

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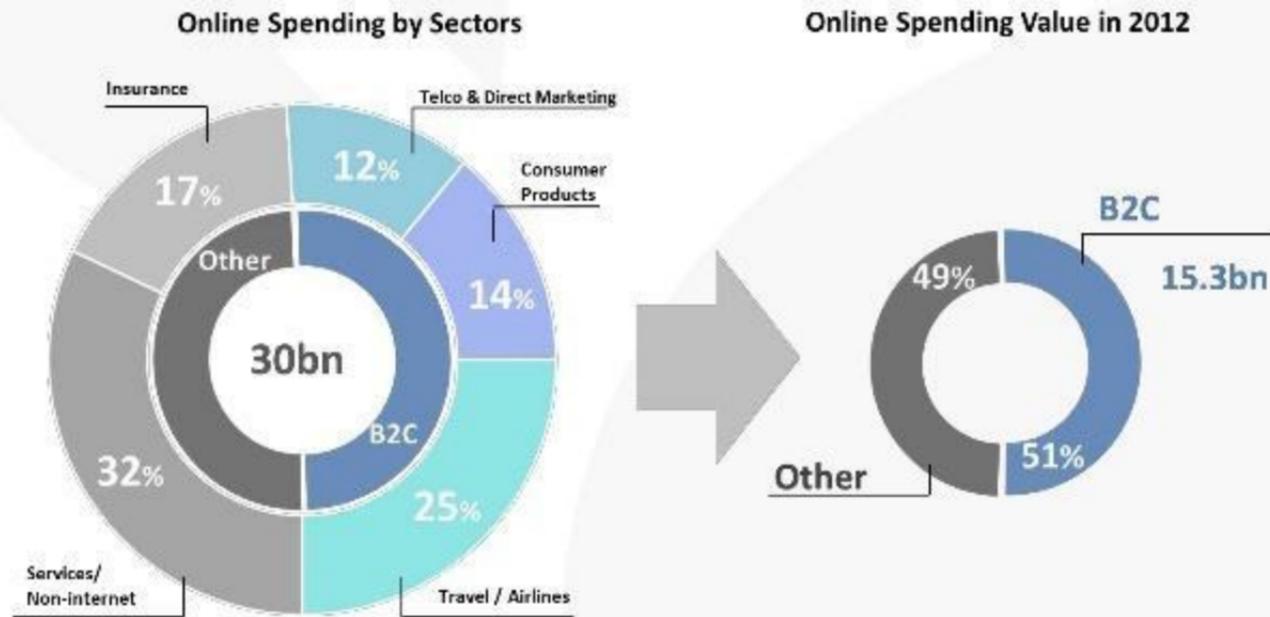
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## Turkey continues to be an attractive market for eCommerce



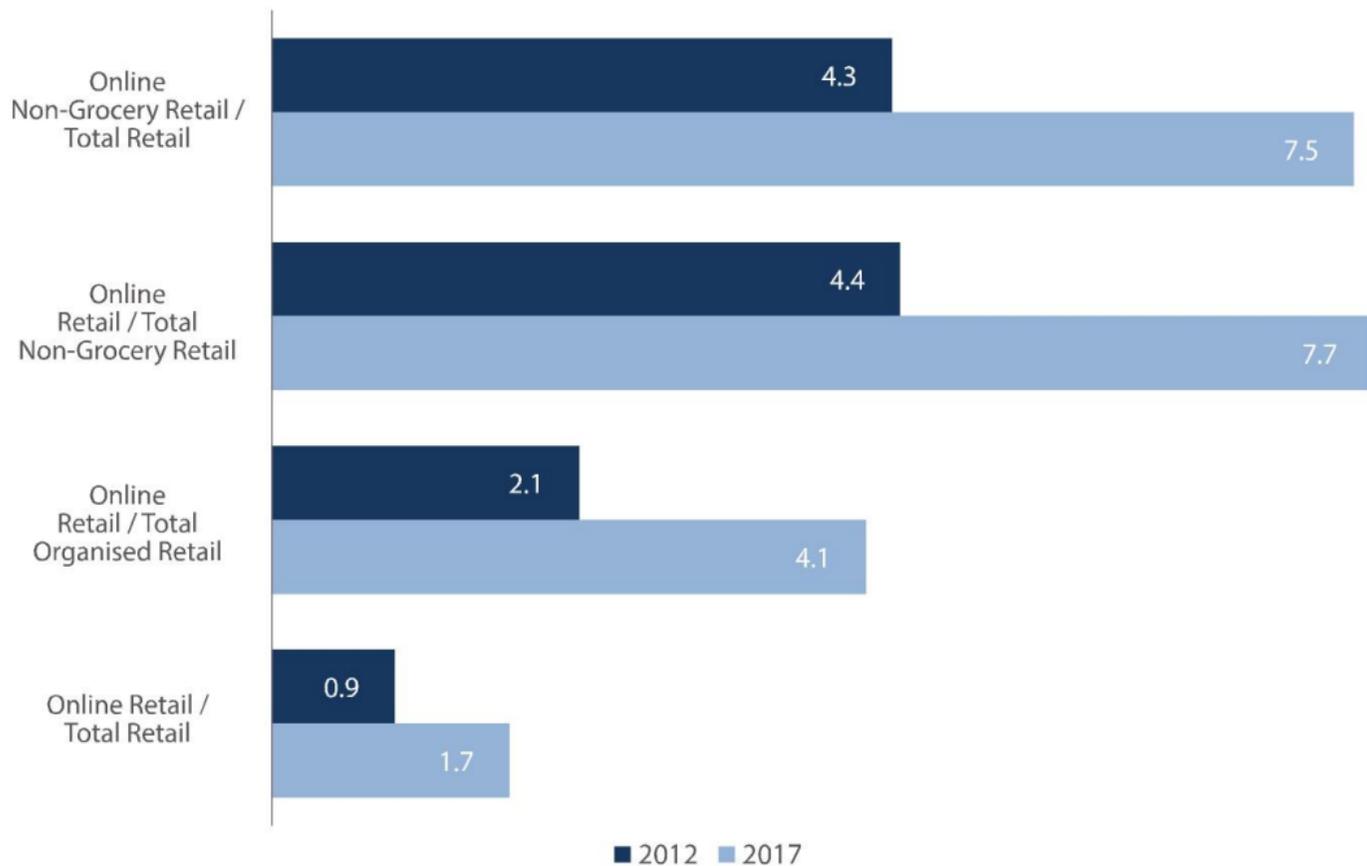
Source: Sina Afra, Digital Bosphorus, The State of Turkish eCommerce (2013)

## B2C Online Spending was 15 Bn TL in 2012

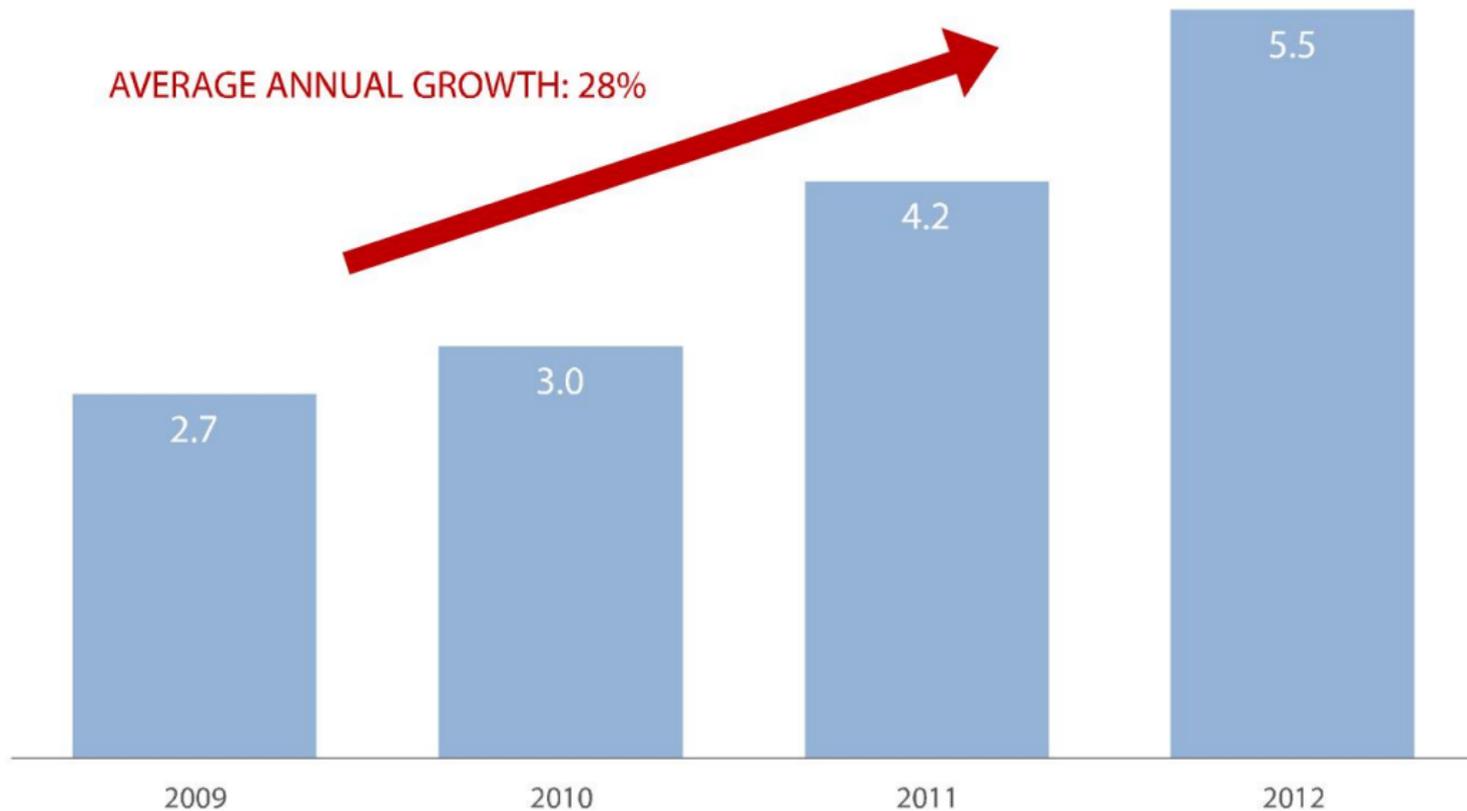


Source: Sina Afra, *Digital Bosphorus: The State of Turkish eCommerce (2013)*

# Share of Online Retail Sales in Total Retail Trade in Turkey By Category (%)

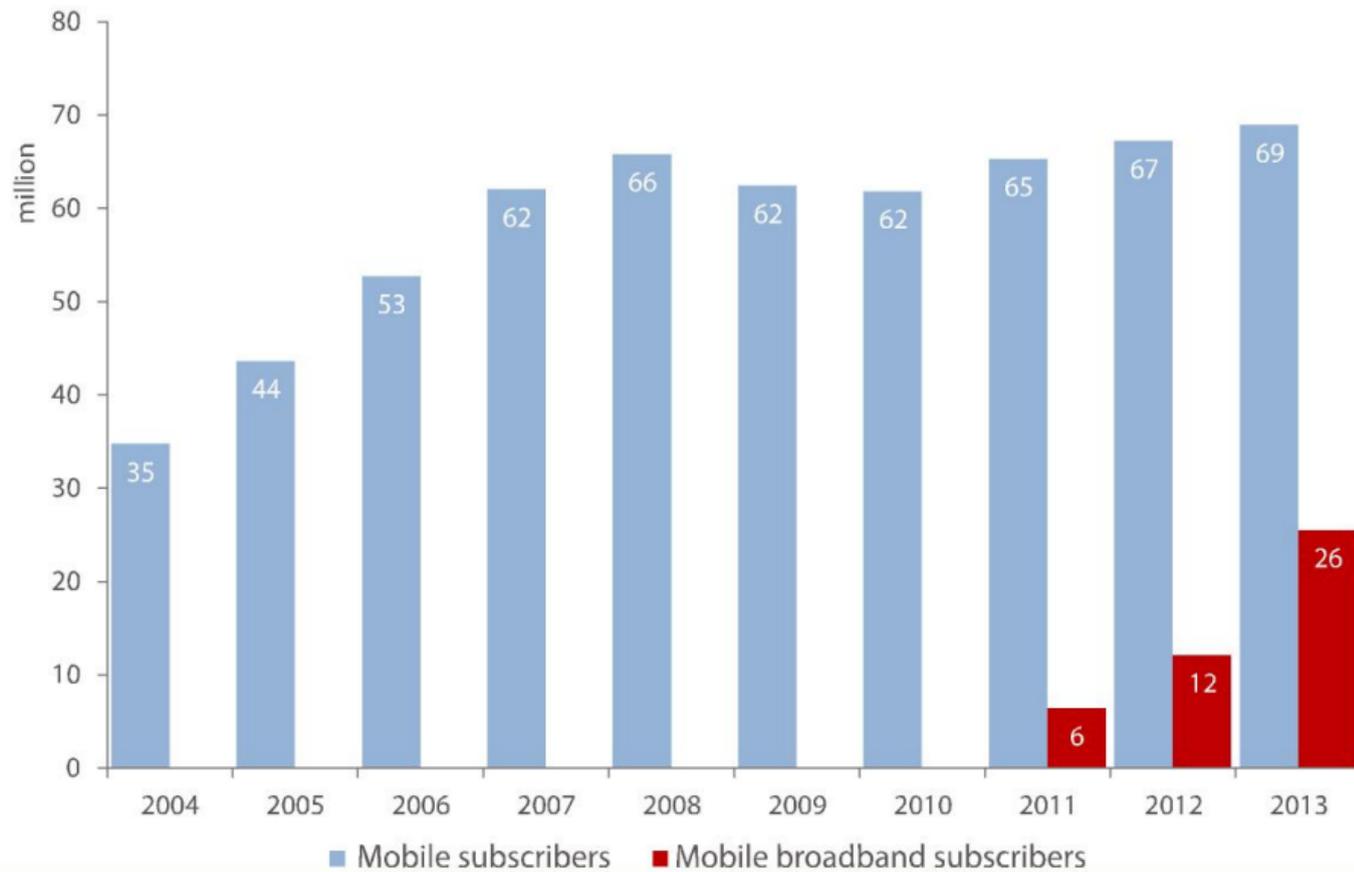


# Turkey's B2B E-Commerce Market (Billion USD)



Source: McKinsey & Company, Renovation of Information Society Strategy Project, Internet Entrepreneurship and E-Commerce Status Report, 2013

# Number of Mobile and Mobile Broadband Subscribers in Turkey



Source: Webrazzi, Turkish Internet Ecosystem Report, 2013