

THE NEW GROWTH ENGINE IN THE DIGITAL WORLD: E-COMMERCE

EXECUTIVE SUMMARY

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APRIL 2017

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In 2014, TUSIAD released the report “E-Commerce as a focus on the Digital Market: Turkey's Place in the World, Present Status and Steps for the Future” to act as a reference guide for the industry.

TUSIAD report entitled “The New Growth Engine in the Digital World: E-Commerce” prepared in collaboration with GittiGidiyor and the Boston Consulting Group (BCG), written three years after its predecessor, aims to understand the changes in the factors that had an impact on the online retail industry in Turkey and the world in the period following the release of the 2014 report, to identify the development areas that might affect Turkey’s online retail growth from new perspectives, and to present to key stakeholders the steps that need be taken.

The first TÜSIAD e-commerce report released in 2014 addressed three key areas for action:

- (I) Lack of communication in the industry,
- (II) Problems of perception, and
- (III) Deficient infrastructure.

Regarding the area (issue) of lack of communication in the industry, the establishment of the TOBB E-commerce Assembly in 2016 has been a very sound start, and the industry representatives have begun to unite around a common discourse and action plan. On the administrative organization side, even though there is a Retail and E-Commerce Department under the Ministry of Customs and Trade, given the fact that the Department’s scope and responsibilities have been limited to the new E-commerce Act, there is still the need for an organization to enable lateral coordination among the ministries. Regarding the perception and infrastructure problems, certain steps have been taken within the last three years, and yet there are still significant development areas.

While topics such as perception, infrastructure and communication, which were key focus areas in the 2014 report, will be addressed in this report as well, the most important message that emerges in the 2017 report is that the mega and large-scale retailers and SMEs in Turkey should launch and improve their e-commerce activities so that e-commerce can reach its potential in growth.

The 2017 TÜSIAD E-Commerce Report is a source of information, and a reference for the Turkish online retail industry. The report is expected to contribute to the endeavors of sector representatives to prepare a comprehensive roadmap to lead the industry and policy makers in taking the necessary actions to ensure Turkey reaches its e-commerce potential.

In the preparation of the report, round table meetings and workshops led by GittiGidiyor and the Boston Consulting Group (BCG) were held with several individuals and organizations operating in the industry and other sectors providing services to the industry, and the views of the industry representatives have been reflected in the report.

The report essentially consists of three main sections:

(1) The Past and the Present of E-commerce in the World

The global growth of e-commerce and the factors affecting growth have been examined on a regional basis, focusing on the new industry trends as well as the present and future of the industry.

- **Internet Population:** Like in the world population, the developed countries now lend the biggest contribution to the Internet population. The Internet penetration has reached a certain level of maturity in developed countries. In the underdeveloped and developing countries on the other hand, factors such as the increasing young population, and low Internet and e-commerce penetration make these geographies important markets. As developed countries along with China set new standards in Internet economy, developing countries are the main catalysts for growth.
- **Online Retail Volume:** Global online retail volume reached \$1.6 trillion as of 2016. While developing countries accounted for 32% of the total volume in 2011, today this ratio has reached 59%. By 2020, developing countries are expected to create 64% of the total volume. China, which now has the world's largest e-commerce market, will have great impact on this change.
- **Online Retail Penetration:** The share of e-commerce in total retail has risen from 3.6% in 2011 to 8.5%ⁱ in 2016, and by 2021 this ratio is expected to reach 13%.
- **Mobile:** With increasing smartphone penetration, mobile has become one of the key elements shaping the next generation of commerce. As of 2016, 44% of e-commerce transactions are made on mobile devices. The prevalence of lower priced smartphones is one of the most important factors in smart phone penetration, and therefore in the growth of mobile commerce.
- **Omni-Channel:** The traditional single channel shopping experience is now evolving to an omni-channel experience as the borders between channels are disappearing. The growth of mobile is one of the main factors triggering the transition to omni-channel. Therefore, it is necessary for traditional retailers to invest in online and digitalization to achieve sustainable success.
- **Major themes:** Marketplaces and cross-border trading, as the highlights in the new era of e-commerce, have started to change ways of doing trade, creating opportunities for SMEs (small-to-mid-sized enterprises) in particular to reach new customers and markets.
- **Technology Influencers:** Technology trends that eliminate the borders between offline and online, and enhance consumer experience and knowledge in numerous areas are also reshaping commerce. Starting now, technological trends such as chatbots, personalized offers, and delivery by drones will affect the near future of commerce significantly.

(2) E-commerce in Turkey

The change in the Turkish Internet and online retail market up to the present, especially since the release of the first report in 2014 has been examined, and the key elements in this period have been assessed. The highlights of the second section are briefly as follows:

- **Internet Population:** With 46 million Internet users and 58% Internet penetration, Turkey is among the world's important players. Although lagging behind developed countries in terms of Internet penetration, Turkey is at similar levels to developing countries such as BRICs.
- **Online Retail Volume:** According to the latest publication by TUBISAD and ETID, online retail volume, which grew by an average 34% between 2013 and 2016, reached a volume of TL 17.5 billion TL by 2016.
- **Online Retail Penetration:** Despite the momentum captured, online's share in total retail sales was 3.5% in 2016. Compared to the world average of 8.5%, Turkey still has a long way to go.
- **Mobile:** With smartphone penetration reaching 65% in 2016, Turkey is above the world average of 60%. The share of mobile e-commerce in Turkey, where smart phone penetration continues to increase rapidly, is still at 19% levels. Considering that the world average is 44%, there is serious potential in our country, especially since Turkey's smartphone penetration is above world average.
- **Traditional Retailers and SMEs:** So far, Turkey's e-commerce growth has been mostly triggered by pure-online players. Currently, traditional retailers, who make up for 97% of the total retail volume and more than 99% of employment, make up for only 30% of the online retail volume. For the next leap in Turkish online retail to happen, it is imperative that these traditional retailers and accelerate their online retailer and digitalization activities.
- **Consumer Behavior:** From the consumer point of view, the most important value proposition of e-commerce for Turkish consumers is still its price advantage. In developed e-commerce markets, convenience stands out more prominently.
Only one out of three customers who use the Internet in Turkey shop online. One out of four customers who shop online state that they have had problems in the post-purchase, fulfillment and return processes.

(3) Key Issues That Should be Addressed for the Growth of E-commerce in Turkey

Five main topics that we think can accelerate the growth of e-commerce in Turkey have been identified, and sample initiatives have been proposed under the following headings:

a) Effective Communication Between the Industry and the Administrative Organization:

- In order for e-commerce activities in Turkey to gain momentum, a common action plan needs to be drawn up between the industry and the groups supporting the industry. For the purpose of achieving coordination within the industry, an E-Commerce Assembly was established and started operating under the Union of Chambers and Commodity Exchanges of Turkey (TOBB) umbrella with a committee

consisting of Turkey's leading e-commerce companies, public institutions regulating e-commerce and representatives of e-commerce associations.

- On the administrative side, although the Retail and E-Commerce Department under the Ministry of Customs and Trade's Internal Trade Directorate continues to work, there is still need for an organization to enable lateral coordination among all ministries.
- The fact that industry reporting is not available in the desired depth and detail, and that the industry performance cannot be regularly monitored is another important issue that needs to be addressed since access to data is restricted. The aim should be to have the industry and administrative organization representatives take ownership of the reporting issue and support the industry with reports that would provide guidance for the investors and entrepreneurs.

b) Improving Perception and Digital Literacy:

- According to the most recent survey conducted by TÜİK (Turkish Statistical Institute), 39% of Turkish people have stated that they have never used the Internet yet. Of the segment using the Internet, only one out of three has shopped online.
- The study of this consumer group reveals trust as the most important factor in shopping online. There are also studies that support the notion that when consumers' first online shopping experience is positive, their perception of trust can change rapidly.
- Therefore, conducting wide-scale campaigns to promote online shopping, communicating that the payment and return processes are designed in a manner not to harm the consumers, and running public announcements can lead to improving the perception of consumers who do not shop online.
- In the long term, people who have never used the Internet can be encouraged to start using the Internet through actions such as wide-scale campaigns, tax reductions, trainings, etc., and get acquainted with online shopping.
- In addition to the consumers, the e-commerce perception of the industry players and the public can be improved by focusing on its contribution to themselves and the economy. It is particularly important for the state institutions that regulate and control e-commerce to be more informed about e-commerce and its dynamics to be able to make rapid decisions that meet the industry's needs.

c) Including Retailers More in the E-commerce Ecosystem:

In Turkey, online retail has achieved most of its growth to date through the growth of pure online players. And, traditional retailers and SMEs, who still make up for 97% of the total retail revenue and employ more than 99% of the total retail workforce, have very limited presence in online retail. For Turkey to reach its online potential, it is imperative to engage traditional retailers and SMEs, and encourage them to adopt this new vision of commerce where the lines between offline and online channels disappear.

(I) Mega and Large-Scale Retailers:

- Mega and large-scale retailers in Turkey have recently started to realize the importance of being in the online market. However, 35 of the top 100 retailers do not engage in online retailer directly.

- Retailers should position e-commerce as a complement to their existing channels, not as a separate channel by itself. Therefore, it is essential that they adopt an omni-channel vision and start their transition.
- Companies might quite possibly experience difficulty accessing qualified technical workforce in this process because the growth of the e-commerce industry in Turkey has started rather late, and the technical work force experienced in e-commerce has not grown sufficiently.
- One of the most important barriers that digital transformation in Turkey faces is the limited access to the employment of expert teams and technical staff with the technical know-how to launch necessary projects. Therefore, a program similar to Turquality can be launched to encourage retailers to take the necessary steps to digitalize, and to guide the companies in the process from designing to implementing the projects to be carried out. Depending on the scale and needs of the companies that will apply, solutions such as contracted service providers, and incentive packages, etc., can ensure retailers to achieve faster and more effective digital transformation.

(II) SMEs:

- SMEs, which provide a very large portion of employment in Turkey, are still quite far from e-commerce activities.
- In addition to existing support programs and platforms, SMEs can also benefit from the launch of a program similar to Turquality. SMEs can be offered ready-to-use and easily applicable solutions to technical infrastructure issues such as UI/UX design, application development, and integration with payment systems, etc.
- A mentoring system can be set up to learn from the successful players in the industry, and long-term training programs can be organized to improve digital competencies.
- Furthermore, taxes may be deferred for a certain period of time for the revenues to be earned from e-commerce.

d) Improving Technical Infrastructure: For the e-commerce industry to grow, it is essential that the Internet, logistics, and payment infrastructures are also developed.

(I) Internet

The study of the Internet infrastructure in Turkey reveals that 75% of the permanent Internet subscribers are DSL subscribers. On the mobile side, mobile Internet usage has increased with 3G and 4.5G technologies. However, 35% of mobile subscribers still do not have Internet subscriptions. Accelerating fiber infrastructure work, facilitating installation processes, reducing financial liabilities in the processes, offering incentives in areas with low Internet usage, and reducing the tax burden on the Internet and smartphones for certain segments can lead to the development and use of the Internet infrastructure.

(II) Logistics

In the logistics aspect, e-commerce requires different logistical competencies than traditional retail due to changing demand, and the necessity of delivering to thousands of points in short delivery times.

In the transition to e-commerce, it is essential for traditional retailers to understand and implement the necessary supply-chain competencies required for processes such as planning demand, inventory, procurement, distribution, and product tracking, etc. Fulfillment is a process greatly valued by the consumers, and one that influences their purchasing decisions. While important trends such as free delivery, same-day delivery, and synchronized tracking of the shipment should be followed, it is also necessary to deliver the customers' products completely and without damage. As the return processes are simplified, the introduction of standards to processes for instilling trust will increase satisfaction and confidence.

(III) Payment

The payment infrastructure is one of Turkey's strengths. High levels of credit card penetration, as well as mobile and Internet banking usage are important dynamics of e-commerce. And yet, consumers are still concerned about the security of using credit cards in online shopping. By promoting alternative methods of payment, and explaining the rules of challenging the credit card charges applied by the banks more clearly to the consumer is believed to improve the perception of trust. To support e-exports, the integration of the existing payment systems into global payment gateways should be enhanced.

e) Regulating the Legislation to Support the Industry:

- On May 1, 2015, Turkey's first E-Commerce Act entered into force, and began to respond to some needs of the industry. However, due to the nature of e-commerce, it continues to fall within the purview of many different regulatory areas.
- Decisions made under different regulatory domains and laws can sometimes lead to confusion and conflicts.
- Various actions can be taken to prevent these situations. For instance, in order to better represent the interests of consumers and industry representatives, the views of the TOBB E-Commerce Assembly (which aims to achieve consensus on the industry side) on the matter can be obtained before different institutions take action. Adoption of the TOBB E-Commerce Assembly, TUSIAD and other major NGOs as regular points of contact by the administrative organization in the communication and information gathering processes can ensure a clearer understanding of the industry's needs and taking faster steps by the administrative organization structure.
- Conflicts in different laws can be reported by the TOBB E-Commerce Assembly to the organization enabling lateral coordination and then the relevant Ministries, respectively.
- As a member of BUSINESSEUROPE, the views of TÜSİAD that closely monitors the EU's Digital Single Market Initiative can be obtained by the administration during policy making sessions for e-commerce and digitalization.
- As the e-commerce industry matures, the scope of the E-Commerce Act enacted to regulate the industry can be expanded in a manner not to accommodate conflicting and contradicting provisions. Accordingly, the E-Commerce Act can become the first and only reference source for all legal matters.
- Regulatory support can be provided to keep the industry alive in a manner to support new initiatives.

- The chargeback burden on the industry players due to fraudulent transactions is quite high. The industry players can be allowed access to BKM's blacklist data. Furthermore, a platform can be created where players can exchange their blacklists with one other.
- In addition, it is also important that the Personal Data Protection Board, which began its operations in 2017, make decisions that meet the needs of the industry, and not to make decisions that restrict e-commerce while protecting consumers.

Next Stage: Cross Border Trading / e-Export

- If the industry takes all of these steps in e-commerce, the next step will be to grow in e-exports. The launch of the E-exports Strategy and Action Plan, which the Ministry of Economy is about to complete, is crucial in supporting exports with legislation that conforms to e-commerce, processes, and incentives.
- Cross-border commerce has reached a volume of \$400 billion globally as of 2016.
- Issues such as logistical costs, arrival of goods from markets that the consumer is not familiar with, customs taxes, and transportation time, etc. are barriers against cross-border commerce in the world.
- In addition, there are also issues in Turkey such as difficulties experienced during the customs clearance and return processes, and high logistical costs, which could be resolved by:
 - Facilitating the return and customs clearance processes in a manner to support cross-border commerce and reducing costs,
 - supporting the e-export activities of retailers with incentive packages,
 - reducing international shipping charges,
 - eliminating the service charges on universal postal services,
 - expanding ETGB (electronic commerce customs declaration) to cover land transport,
 - and reporting e-export figures in a manner to allow country and company-based actions.

ⁱ Euromonitor