Deloitte.
Digital

TÜSİAD

The Development of e-Commerce, the Crossing of Borders and New Norms

2019, Executive Summary
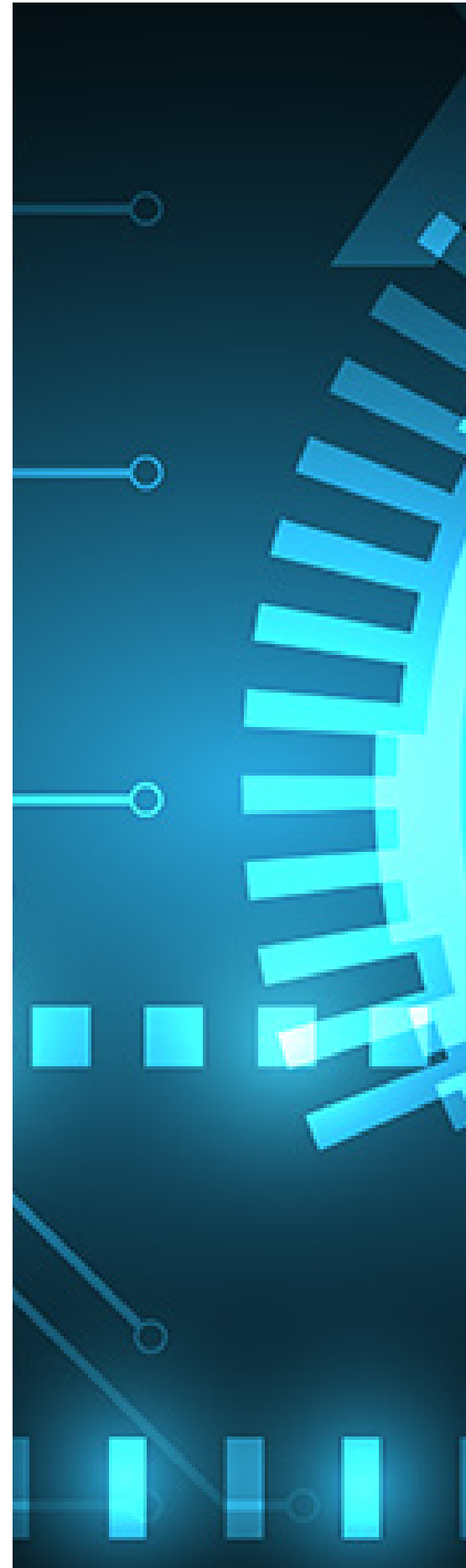
Executive Summary

The first report by the Turkish Industry and Business Association (TÜSİAD) on the importance and potential of e-commerce was published in 2014. This was followed by a report entitled "The New Growth Engine in the Digital World: e-Commerce," which was published in 2017 focusing on retail, identifying the points that should be supported to develop e-commerce, highlighting the growing importance of e-export and pointing out potential areas for improvement.

This third report, prepared jointly by TÜSİAD and Deloitte Digital, examines e-commerce from a B2C (Business-to-Consumer) retail perspective and analyzes developments with regard to B2B (Business-to-Business) retail, e-commerce and digital-borne services. The report evaluates developments throughout 2017–2018 in the global and local e-commerce markets in areas such as logistics, payment services and regulations. Additionally, the following special topics are also presented within the report:

- Digital-borne services

- Cross-border e-commerce

- B2B e-commerce models and how they differ from B2C

- e-commerce operations via social media

- Digital literacy in Small- and Medium-Sized Enterprises (SMEs)

- B2B e-commerce in Turkey

At the end of the report, an assessment about the current situation and development of the market is presented, depending on the analysis of two current issues:

- An assessment of the omni-channel e-retail

- The development and road map of e-export.

E-commerce in the World

Developments in Factors Affecting e-Commerce

Global Economic Trends

The total market size of the top three countries in the B2C market constitutes the majority of the global e-commerce market. The top five players in the global market, which is expected to reach some US$3.5 trillion as of 2019, are as follows, based on their 2018 estimated outcomes in US$: China (634 billion), the United States (504 billion), Japan (123 billion), the United Kingdom (103 billion) and Germany (70 billion).

According to the World Bank, global economic growth in 2018 remained below expectations. Although it would seem that the e-commerce sector in Turkey has also been affected by global developments in 2018, and influenced by the exchange rate fluctuations in the national economy, the growth of e-commerce transactions in Turkish liras continued with an increase of 42% over the previous year, while the increase in US dollar terms remained at 7%.

Demographic Factors

This section examines the positive impact of the young population on technology adaptation and e-commerce market size, as well as the influence of Millennials and Generation Z on the sector.

While value is important for Millennials, the most important feature this generation expects from e-commerce transactions is "experience". For this reason, companies targeting Millennials should prioritize content marketing, omni-channel customer experience, mobile capabilities, and the customer shopping experience during pre-sales and after-sales services. Generation Z, on the other hand, is more technology-oriented and uses social media more intensively than previous generations, having been born into the digital world. Another important factor for these generations is the issue of promotion. According to Deloitte's report entitled "Millennials and Beyond" examining the shopping habits of generations, 7 out of 10 consumers search for discounted goods when shopping. Contrary to expectations, the majority of these consumers are Millennials and Generation Z.

The influence of younger generations on B2B e-commerce is remarkable. According to research conducted by Google, half of all consumers are Millennials. This rate is increasing every day. The professional purchasing behaviors of Millennials, who have been referred to as "digital natives," are converging with their personal purchasing behaviors daily.
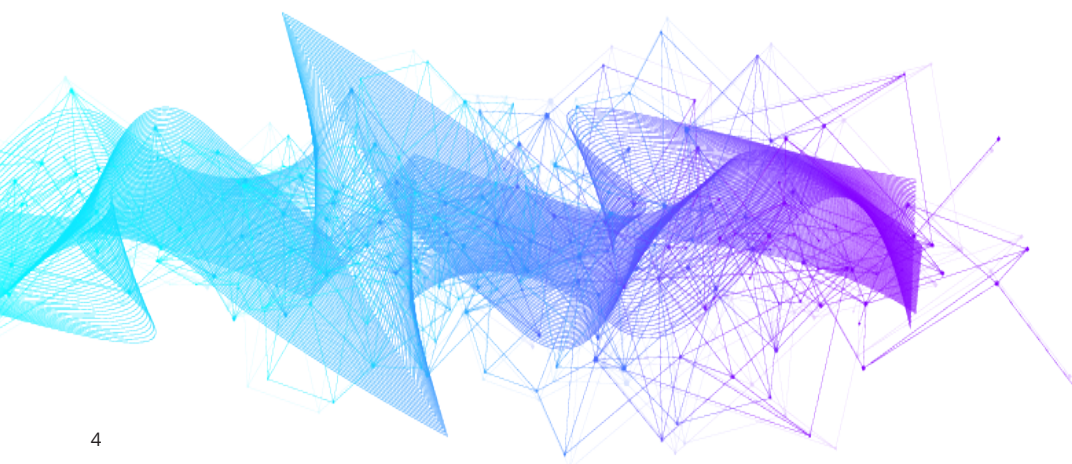
Internet Infrastructure and the Prevalence of the Internet

In 2018, the internet penetration rate increased from 48.6% to 51.2% from 2017. This growth came from developing countries that have not yet reached saturation point, and that have a large youth population. While the highest penetration rate is seen in Europe with 79.6%, significant potential is seen in African countries which can be utilized through appropriate investments.

Turkey's personal penetration rate was 72.9% in 2018. According to data released by the Information and Communication Technologies Authority, the number of mobile broadband subscribers in Turkey increased by 7% in 2018.

Mobile Usage

Web traffic and purchases via mobile devices are becoming the new norm. At the end of 2018, some 55% of people worldwide had made purchases via their smart phones in the last month.

The use of mobile phones for online shopping is extremely popular, especially among Asian consumers. For example, 74% of people in China made purchases via their mobile phones in the last month in 2018. One reason why shopping via mobile phones is so popular in China is that consumers can make payments quickly and efficiently using mobile software.

In Turkey, some 98% of adults have mobile phones and 77% of these are smart phones. According to data obtained from the most commonly used e-commerce platforms and marketplaces in Turkey, the vast majority of visitor traffic is via mobile devices regardless of the category. The ratio of visits to purchases through mobile devices has exceeded the 50% band, especially in the clothing and consumer electronics sectors.

Prevalence of Social Media

The ratio of social media users to total internet users is expected to reach nearly 75% by the end of 2019, corresponding to some 2.77 billion social media users.

Regarding the popularity of social media channels, the most active social media platform in Turkey is Youtube (accounting for 92% of all active social media users). Instagram and Facebook are after Youtube, with 84% and 82% respectively. Regarding user habits in Turkey, it is observed that users spend an average of 7 hours on the Internet, with 2 hours 46 minutes allocated to social media. Therefore, analyzing consumer behavior data on digital platforms and targeting consumers via social media bear significant potential for the e-commerce sector.

Prevalence of Financial Products

Across the world, 68.5% of the total population over the age of 15 have bank accounts, and 52% make/receive payments digitally. The ratio of credit card owners in the global population over the age of 15 is 18%. The two regions with the highest rate of credit card ownership in the world are North America and Europe, with 67% and 45% respectively. Contrary to popular belief, credit card ownership is not very high on the global scale, with different payment methods standing out regionally. Such payment methods include systems like iDEAL, based on direct transfers between bank accounts, and the social media platform-based mobile payment systems that are commonly used in Asia.

Next generation payment systems are becoming widespread also in Turkey, although not at the desired pace. The market share of mobile payments, as a method of payment preferred by the younger population, continues to increase. According to a study conducted by the Interbank Card Center (BKM), one in every three people shopping online in Turkey prefers mobile payment.

Impact of Logistic Performance

Logistics infrastructure is one of the key factors affecting the development of e-commerce. The top five countries in the 2018 Logistics Performance Index (LPI) are Germany, Sweden, Belgium, Austria and Japan. On this list of 160 countries, Turkey ranks 47th in terms of its logistical development. A brief analysis of Turkey's position on the list is provided in the "E-commerce in Turkey" section of this report.

The geographical regions in Turkey in which online shopping is most preferred are the Marmara Region (55.5%), Central Anatolia (16.4%) and the Aegean Region (12.2%).

Changes in the E-commerce Ecosystem

Payment Systems

According to the WorldPay Global Payment Report 2018, some 140 different online payment methods are in use in the 36 countries examined. Globally, more than half of all e-commerce payments are made through methods other than credit cards or debit cards. In the near future, it is expected that the use of digital bankbooks will surpass credit cards to become the most commonly used payment method in e-commerce. In addition, bank transfer-based payments are growing in popularity in certain regions due to their practicality, the advantages in terms of refunds and open banking transactions, as defined in the revised Payment Services Directive (PSD2).

The highlights of the most recent period in the field of payment services can be summarized as follows:

- The rate of credit card use is not the same in all regions of the world. The popularity of digital bankbooks in the Asia-Pacific Region and the direct banking systems of Western Europe are examples of this.

- The most influential factor behind the rise in popularity of digital payments seems to be the innovative mobile payment solutions. With the revised Payment Services Directive (PSD2) that came into force in the European Union in January 2018, third parties have been provided access to information on bank customers and infrastructures. This has paved the way for open banking and has served as a significant step toward the wider use of digital payments.

- By paving the way to allow FinTech companies to hold private banking licenses in places such as the United States, India, and several European countries, the generation of innovative solutions for individuals and SMEs and the promotion of open banking methods have been prioritized. In developing countries in particular (India, Vietnam, Indonesia, etc.), ensuring the inclusion of people who lack access to finance through financial expansion programs will be another accelerating factor that will play a role in the development of digital payment systems.

Logistics Services

With the greater spread of e-commerce around the world and the increasing expectations of consumers about product delivery, companies are seeking to differentiate themselves and gain a competitive advantage, especially in the field of logistics. Because same day delivery is almost an expectation in the developed markets of today's world, it directly affects the preferences of the consumer if this service cannot be offered at a certain level of quality. The solutions put forth by companies to meet customer expectations are designed to overcome these emerging challenges, both in terms of operation and profitability.

Companies are applying the following solutions in order to meet customer expectations on logistic services:

In order to cope with the operational costs resulting from increased expectations, additional fees or minimum shopping limits have been defined, and some companies have begun to focus on new package distribution models.

- In particular, the needs related to increasing the urban logistics dynamics are leading companies to implement different strategies for last-mile distribution. Both e-commerce companies and logistics companies take advantage of third-party city-focused transport services, and crowd-sourced services as UberRush to facilitate speedy delivery.

- In order to meet their customers' delivery expectations, companies like Amazon offer same day delivery to their customers by establishing wide distribution networks near cities. Methods such as smart-lockers, which allow customers to collect products from locations of their choice, are also being widely introduced in Europe.

The need for storage space is another important issue. It is expected that e-commerce distributors will need approximately 17 million square miles of storage space in 2020. It is predicted that the establishment of new storage areas in line with the growth of e-commerce will be an important area of investment in the coming years. This forecast has been confirmed by surveys of customer expectations. For example, Amazon provides this service to its nearly 100 million prime customers from some 330 warehouses of different sizes, located on a total area of 12 million square miles m2.

Regulations

The following issues have recently influenced global e-commerce and have been covered in legal regulations with the expectation that their impacts will continue:

- In India, local e-commerce players have stated that global e-commerce actors are undermining competitive conditions and have influenced the drafting of a law in this regard. If the law is implemented in 2019, restrictive measures are expected to be introduced that will affect key players in the marketplace such as Amazon and Flipkart.

- Significant legal regulations in the field of e-commerce were applied in 2018 as well as in China. Penal sanctions were introduced for monopolistic actions by e-commerce marketplace operators. Additionally, there are ongoing efforts in the field of user reviews, which serve as a deciding factor in the purchasing tendencies of Chinese consumers. Such efforts include the prevention of posting of positive reviews written by consumers in return for payment, as well as the prevention of the posting of fake reviews by outsourced agencies.

- Russia has introduced new VAT regulations for cross-border e-commerce, requiring foreign e-commerce companies to register and pay taxes in Russia and now charges compulsory additional VAT on the services provided.

- Within the scope of its digital single market strategy, the European Commission has introduced a regulation that enables all consumers receiving services offered within the EU to benefit from these services under the same conditions.

- In the United States, a regulation has been introduced levying a tax on online sales made by companies, even if they do not have a physical office or shop in the involved state.

- In the European Union (EU), the General Data Protection Regulation (GDPR) – a detailed piece of legislation regulating the use of personal data in all European markets – became law on May 25, 2018. In Article 3 of the GDPR, which sets forth the territorial scope of the regulation, it is stated that the GDPR applies to organizations established in the EU member states. It also applies to those not based in the EU but offer products or services to the EU market or that target the EU market. GDPR is also applicable to cases involving the processing of personal data by data controllers that are not based in the EU, but in places where the EU member countries' laws are in force. Accordingly, natural or legal persons falling under the scope of this provision shall comply with the GDPR rules when conducting commercial activities.

Executive Summary

E-commerce Trends and Looking to the Future

In this section of the report, topics including Cognitive Technologies, Digital Reality and Commerce of Things are presented, which are also covered in Deloitte's report titled "Tech Trends." The trends, which are already in use in Turkey but are expected to have a greater impact in the future, are featured with examples in the report. The main topics covered in each section of the Executive Summary are as follows:

API and Platform-based business models

- The API (Application Programming Interface) initiatives previously launched by major e-commerce players, such as eBay, Walmart and Amazon, as a discovery-oriented initiative, enabled them to share their data with the software ecosystem. These programs became an accelerating factor that allowed these companies to establish digital business partnerships and develop new products, businesses and revenue models.

- According to data obtained from ProgrammableWeb, more than 21,000 APIs available today are driving innovation in various sectors, including finance, telecoms, tourism, real estate and the public sector.

- The "Instagram Checkout" feature announced by Instagram this year is one of the best examples of a platform economy. The service, which allows users to complete a product purchase without leaving the Instagram screen, is a recent example of a new revenue model and user experience created by means of API-based business partnerships.

- It can be said that in Turkey, the development of API or platform-driven business models in the e-commerce marketplace and in financial services is higher than in other fields. The data services offered by marketplaces to sellers, and the APIs regarding the product and order data that form the basis of the integration, have laid the foundation for a new business model.

Subscription-based business models

Although the subscription system is not a new system or technology, in recent years it has emerged as an extremely important business model in terms of consumer habits, especially for digital media providers. According to Deloitte's report entitled "Media and Entertainment Industry Outlook," 55% of US households subscribed to streaming video services.

- It is estimated that by the end of 2020, more than 50% of consumers in developed countries will have monthly subscriptions to four online media channels, such as video, music or news platforms.

- The "Apple Channels" service recently launched by Apple, and the "Disney Plus" channel that is expected to be offered to consumers in the coming months, are seen as globally competitive services that will challenge such global market leaders as Netflix and Amazon.

- In addition to digital media-based subscriptions, the subscription model in consumer products is also becoming widespread. The featured services in this area include consumer product subscription packages (Amazon Subscribe & Save, Dollar Shave Club), meal packages (Blue Apron, Hello Fresh, Sun Basket), cosmetics packages (services that have started to be offered by retailers such as BirchBox, Ipsy, and Sephora Play!), and clothing and style combination packages (Trunk Club, Stitch Fix).

Cognitive technologies

- The term "cognitive technologies" is an overarching term that includes machine learning (ML), artificial neural networks, deep learning (DL), robotic process automation (RPA), natural language processing (NLP), and other application areas of artificial intelligence (AI).

- The Gartner Research Company estimates that by 2020, over 80% of communications with customers will be managed through artificial intelligence. Today, the leading e-commerce companies such as Amazon, Alibaba, eBay and Rakuten benefit from big data and cognitive technologies in detecting fake product reviews, processing product and content suggestions, and receiving support from smart assistants.

- The ability to collect and handle the increasing volume of data on online user behavior, through techniques such as machine learning and deep learning, have increased the success rate in many areas of application in recent years. This includes the formation of customer microsegments, retargeting, marketing mix modeling and the generation of emotional analysis outputs from user-generated content.

- Some of the most significant applications of cognitive technologies are in supply chain capabilities such as demand estimation, stock optimization and storage area optimization, all of which are carried out through techniques aimed at increasing sales, such as dynamic pricing and discount and promotion optimization. The optimizations made by JD.com, one of China's leading e-commerce platforms, for the categorization, sorting and packaging of products in the warehouse using intelligent robotic systems, are one of the reasons why JD is cited as a worldwide model for supply chains.

- In Turkey, the big data teams of companies with high user traffic such as Hepsiburada, Trendyol and GittiGidiyor, have been looking into ways to target customers and create personalized customer experiences based on customer behavior data.

- With the maturation of practical applications of machine learning techniques, and the improvement of natural language-processing competences, chatbots and smart assistants, which previously provided mediocre results, are now considered by many brands as important sales tools and efficiency-enhancing assistants. Examples include Alibaba's chatbot solution, which resolves 95% of customer requests at the first contact; eBay's Shopbot solution, which helps consumers find the product they need by means of natural language processing and photo-based visual recognition techniques; and Asos' solution, that allows consumers to find clothes in the catalogue that are similar to those they have taken photos of.

Digital reality

- The term "Digital Reality", also mentioned in Deloitte's Tech Trends 2019 report, is an umbrella term that covers many technologies, including Augmented Reality (AR), Virtual Reality (VR) and Internet of Things (IoT).

- Although these technologies have not yet reached the desired level of maturity, rapid developments in recent years have resulted in the more widespread use of practical applications. In particular, the use of AR applications is becoming more common, as they do not require additional equipment - requiring only a smart phone.

Commerce of Things

- Although not yet in wide use, there are some examples of connected equipment that are used for the purchase of products and services without a need for an interface or human interaction and this connected appliance ecosystem has rapidly improved.

- For example, Amazon incorporates appliances such as washing machines and printers, designed in connection with the Dash Replenishment service, into its own digital commerce ecosystem and can automatically receive orders from these appliances when detergent or print cartridges are about to run out. This is a good example of the efficiency of Commerce of Things in developing new approaches for business models.

Executive Summary
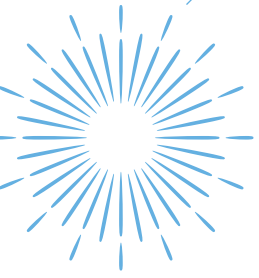
Subject review
Cross-border E-Commerce
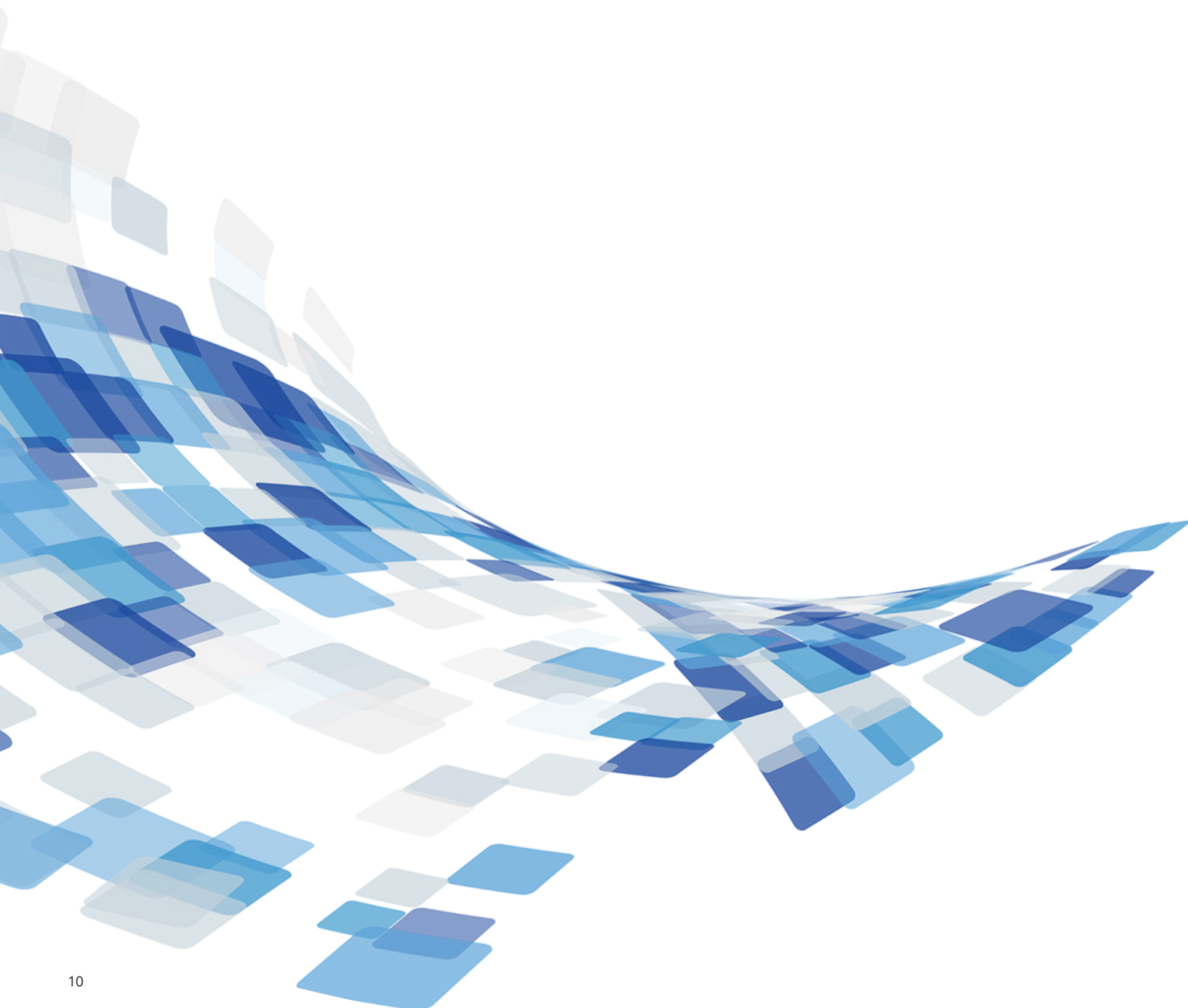
In line with the latest trends in global trade, companies have in recent years started to deliver their products to overseas markets through online channels. This offers sellers the opportunity to make sales abroad, in addition to their presence in the domestic market, while providing consumers with access to a wider product network, or to the same or similar products at more affordable prices.

In PayPal's 2018 Cross-Border Consumer Research, conducted with some 34,000 consumers aged 18 from thirty-one countries, the ratios of consumers who make purchases only from the local market, from both local and cross-border markets, and from only cross-border markets were identified. The featured findings of the research are as follows:

- Consumers who shop from both local and cross-border markets, or from only the cross-border market, are found mostly in the Middle East. The regions following the Middle East with regard to cross-border shopping are Africa and Europe. The main factor behind the prevalence of cross-border commerce in these regions may be the flexibility in customs regulations, the convenience of tax legislation, and the fact that the products demanded by customers are either not available in their respective local markets, or are sold at higher prices than those in cross-border markets.

- With respect to Europe, 19% of consumers in Ireland shop only from cross-border markets and 65% shop from both cross-border and local markets. These are some of the highest ratios around the world.

- A significant amount of cross-border shopping is made also by consumers in Austria, Belgium and Russia. Studies show that Austria and Belgium in particular import predominantly from their neighbors in Europe, while China ranks as the second largest market from which all these countries import.

- In both the Asia Pacific and North America, the ratio of consumers who prefer to shop from local and cross-border markets is 40%.

A survey conducted by IPC examining the countries with the highest cross-border e-commerce transactions revealed the following:

- China sources 42% of its cross-border import products from Japan, 14% from the United States and 12% from Hong Kong.

- Consumers in the United States order 57% of their products from China, 10% from the United Kingdom and 6% from Canada.

- Russia-based consumers make 83% of their purchases from China, 5% from the United States and 2% from Germany.

- UK-based consumers make 50% of their purchases from China, 19% from the United States and 7% from Germany.

When the categories with to the most transactions made by users are examined, categories of clothing and shoes rank highest, followed by consumer electronics, beauty and care, which constitute nearly 60% of the total.

A brief analysis of the cross-border e-commerce behaviors of consumers in Europe and the Middle East can be found in the main body of the report.

The subject review entitled "Dijital Borne Services" and "B2B E-commerce Models and Differences from B2C", which are presented in the report but not covered under the executive summary, are available within the main body of the report.

Executive Summary

E-commerce in Turkey

2018 Statistics about the E-Commerce Sector

The report "E-Commerce in Turkey, 2018 Market Size" prepared jointly by the Informatics Industry Association (TÜBİSAD) and Deloitte, states that the market size of non-retail transactions and retail transactions are ₺28.4 billion and ₺31.5 billion, respectively. Figures for 2018 show that the growth rate calculated in Turkish Liras was 42% while the growth rate calculated in US dollars remained at 7%.

Among the two types of online retail, multi-channel online retail generated revenues of ₺10.7 billion and pure online retail generated ₺20.8 billion, half of which was made online. The fact that marketplace platforms have been adopted by consumers and that the marketplace business model serves as an improvement area for suppliers, seems to be a positive outcome of the progress achieved in this field over the last two years.

In Turkey, the share of online retail in total retail, which was 4.1% in 2017, increased to 5.3% in 2018. This ratio is very close to the average for developing countries.

Featured Market Developments

Online Shopping Behaviors in Turkey

- Use of mobile devices: For many of the leading brands, especially those in online retail, more than 70% of consumer visits are carried out through mobile channels, and more than 60% of revenues come from mobile channels.

- Delivery expectation: As mentioned in the report's logistic services-related sections, services such as same-day delivery and next-day delivery have become a critical expectation for consumers in today's world.

- Changes with respect to categories: It was inferred from the interviews conducted for the report that shopping, which used to be focused on electronic appliances in previous years, has started to cover also other categories.

- Product discovery through social media: Another observed change relates to improvements in global social media platforms like Instagram, as consumers in Turkey are becoming more likely to examine and purchase different products through social media channels.

- According to a study of 2,085 consumers in Turkey, the users of e-commerce platforms carry out transactions mostly in the categories of clothing, electronics, meal order, travel/accommodation and books.

Impact of Special Days and Periods

- According to a report prepared by Iyzico charting the transactions carried out through 29,000 e-commerce platforms on Black Friday, November 23, 2018, the transactions made by consumers quadrupled when compared to regular days, mostly occurring between 9pm and midnight.

- The Black Friday report prepared by Inveon found that the revenue earned by e-commerce platforms on that day was 876% higher than on regular days, and that the e-commerce conversion ratio was 12.2%.

- In meetings held with sector representatives during the drafting of the report, it was said that there had been a decline in the sale of certain product groups prior to the special discount days. It was concluded that customers planning to make purchases in such categories waited for special discount days. In addition, it was stated that in the period following the special discount days, a shrinkage was again observed in the number of transactions in certain product groups and categories.

- Sellers operating in the e-commerce ecosystem in Turkey and other players in the ecosystem such as vendors providing storage, logistics and payment services, should continue their investments in periods when large numbers of transactions are made so that they can respond to the high transaction volumes that occur in their operational infrastructures.

Wider Use of the Marketplace Business Model

- The obstacles faced especially by SMEs and conventional retailers when launching e-commerce activities are lowered by marketplaces that are competent and have concluded joint agreements in the fields of logistics, distribution, digital marketing and content.

- Along with the advantages of e-export, marketplaces also play a critical role in supporting SMEs in opening up to foreign markets.

- The presence of such marketplaces in Turkey, which started with GittiGidiyor, has been enhanced as big players like N11 and Hepsiburada have also adopted the model. Trendyol, in which Alibaba invested in 2018 and transformed its business model from a shopping club to a marketplace model, has emerged as a significant player. Additionally, the fact that the N11 Pro platform, one of the few examples of a B2B open marketplace model, has started to offer services last year, shows that there is a high potential and demand in Turkey in this area.

Investments in the E-commerce Sector

Looking at the total investments made in the category of e-commerce and internet-mobile services, as defined in this section of the report, it can be observed that Turkey's strength in information technologies has potential for high commercial return. The findings and suggestions in this regard are as follows:

- Efforts should be made to enhance digital literacy and to increase the level of knowledge in software and application development by making the best use of the potential of the young population. In order to ensure the development of qualified manpower, cooperation between the private sector, public institutions and non-governmental organizations should be maintained.

- In order to prevent the brain drain that has increased in recent years, studies should be launched into how to present Turkey as an attractive option to those who are working in the field of information technologies.

- More support should be provided to SMEs with business plans that are based on solid foundations and that have the potential to provide regionally and globally competitive products and services.

- Access to accurate information should be facilitated by developing platforms aimed at providing the most comprehensive information to foreign investors about the legislation, laws and rules in Turkey; and complementary regulations should be enacted that ease the processes to be followed by these companies in investing in Turkey.

Executive Summary

Changes in the E-commerce Ecosystem

Payment Systems

- According to the 2018 year-end evaluation report issued by BKM, the total number of cards reached 66.3 million, with an increase of 6% when compared to 2017. Meanwhile, data released in October 2018 shows that the number of credit cards per capita has reached 2.2 in Turkey.

- Another outstanding development in recent years has been the increase in the number of bank cards. Having maintained a growth rate of around 11–12% since 2016, the number of bank cards reached 146.3 million as of the end of 2018. It is thought that this increase was triggered by the decrease in credit scores as a consequence of last year's economic conditions. Additionally, the usage rate of bank cards, which are more profitable as financial products for banks than credit cards, has increased as a result of various campaigns conducted by banks.

- The number of transactions that were carried out through commercial cards in 2018 increased over previous years, and their share in total expenditures reached 25%. When companies' card-based payments in previous years are analyzed, company owners used to carry out corporate purchases through their personal cards. In recent years, however, corporate accounts and personal accounts were separated.

- In line with the latest trends in payment services around the world, the use of card storage solutions has been increasing also in Turkey through such companies as İyzico and Mastercard. On the other hand, although they are being used by more and more people around the world as the fastest expanding online payment tool, the use of digital passbooks has not yet reached the desired level.

- According to the data provided by BKM, transactions made through QR codes using mobile devices in Turkey is generally preferred when the amounts involved are low. Banks operating their own QR code systems, as a common structure has not yet been established. A committee should be established to address this, and joint cooperation should be carried out.

Logistic Services

In the World Bank's evaluation report, Turkey's Logistics Performance Index (LPI) ranking for 2018 was 47th, with an LPI score of 3.15. Turkey's lowest score in the LPI rankings was in the field of "efficiency of customs and border crossing processes" (2.71), while its highest score was in the field of "timely delivery of shipments to buyers" (3.63).

Our main conclusions about the logistics performance affecting the e-commerce sector are as follows:

- There is an awareness of the fact that logistics companies play a significant role in the success of the e-commerce customer experience, although cooperation between logistics companies and e-commerce companies should be enhanced.

- While high idle capacity and old fleet problems stand out as significant areas for improvement in enterprises, the main problems have been identified as the fact that the economies of scale cannot be reached, and that competition is price rather than quality oriented.

- Organizations should carry out personnel training and certification studies, and should continue to invest in research and technology activities. By establishing logistics training and occupational standards, employees should be provided with the opportunity to gain the necessary knowledge, skills and behavioral competences required for the execution of their jobs, with particular focus on customer satisfaction and service quality.

- Due to the wide geography of Turkey, world-class logistics villages/centers should be established.

- As part of the regulatory works related to the legislative infrastructure, priority should be on the those related to "customs processes and legislation" and "transport legislation."

- For cross-border shipments, national coordination should be ensured in the field of logistics to allow for the joint actions of stakeholders operating in the fields of foreign trade, logistics and other areas, with joint works conducted with NGOs and public institutions.

The main problems related to storage, logistics and product delivery, as mentioned during the interviews conducted prior to the report, and possible solution approaches are summarized as follows:

- Transport systems should be improved to meet e-commerce shipping requirements and operational systems should be aligned accordingly. Operational improvements should be carried out in the transfer and distribution of e-commerce shipments and regular cargoes.

- Product delivery stands out as a significant factor in the e-commerce purchasing experiences of consumers. The awareness of this issue among cargo companies should be increased, and the existing cooperation between e-commerce companies and cargo companies should be improved.

- E-commerce companies and cargo companies should engage in joint business development efforts in order to develop delivery models for consumers living in metropolitan cities and who are mostly not at home to take deliveries.

- In order to avoid distribution-related problems in the cities, especially in metropolitan areas, investments should be made into storage solutions based on the use of hubs in the city.

- There is a need to employ qualified personnel in the fields of storage, logistics and distribution. In these fields, in which the staff turnover is high, operational costs should be reduced by setting standards aimed at ensuring a satisfactory customer experience, and by ensuring efficiency in the business processes.

Regulations

Under the EU Harmonization laws, the Personal Data Protection Law ("PDPL" or "Law") was published in the Official Gazette on April 7, 2016 and entered into force the same day. According to the Law, a "data controller" is a natural or legal person who determines the purposes and means of the processing of personal data, and who is responsible for the establishment and management of the filing system. The Law obliges data controllers to act in compliance with the relevant principles; to meet the conditions required for processing; to fulfill the obligation to inform; to delete/destroy/anonymize personal data; to register with the Data Controllers' Registry; to comply with the rules regarding the transfer of data to third parties, whether in the country or abroad; to address the requests of applicants; to take the relevant technical and administrative measures; to carry out audits; to obey the decisions of the Board; and to notify the Personal Data Protection Board (PDPB) in the event of a breach of data security.

Executive Summary

Subject review
Social Media
E-commerce Transactions
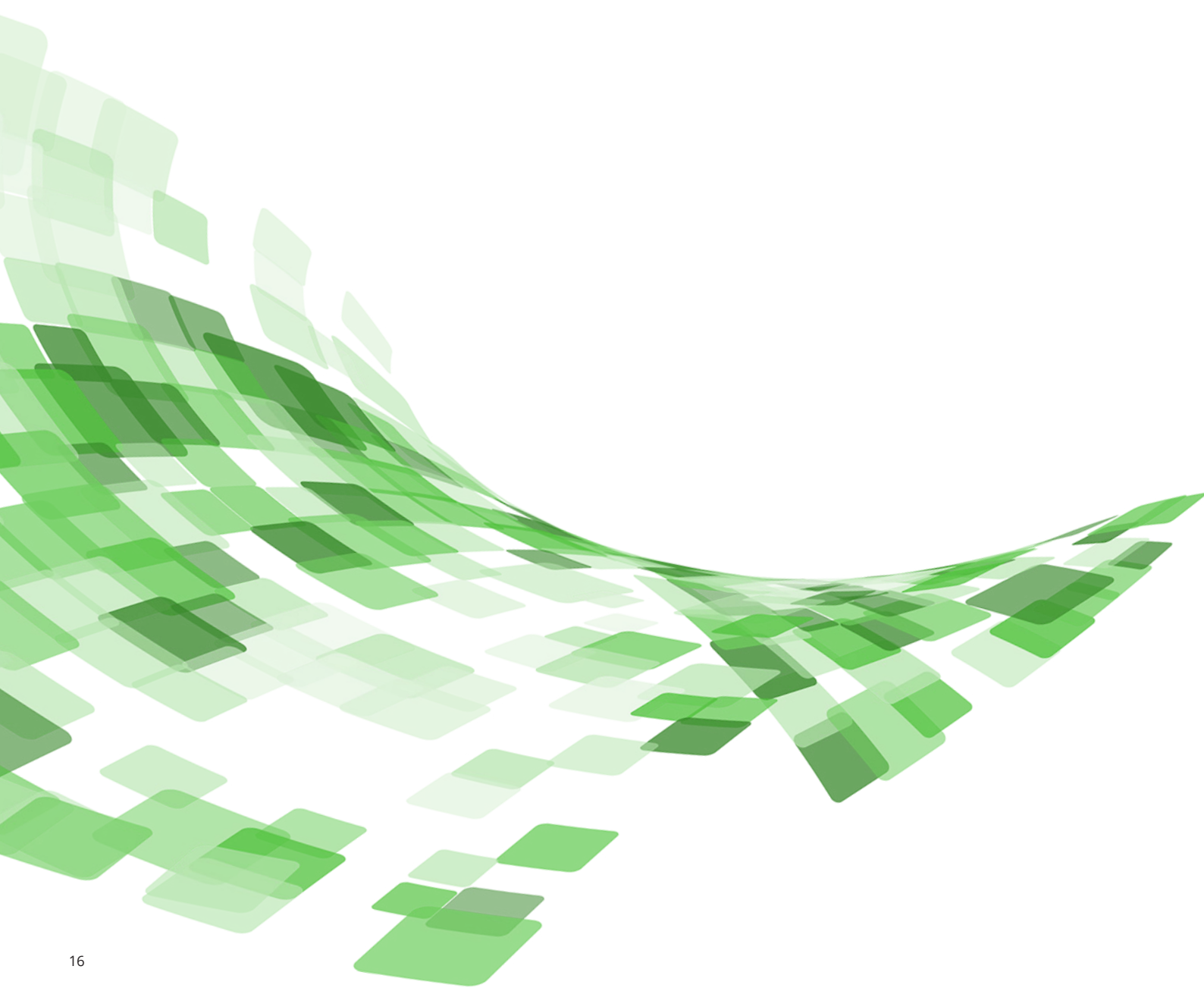
As mentioned under the section, "E-commerce transactions in the world and in Turkey", the time spent on social media and the number of interactions have a direct impact on user interaction with e-commerce platforms, leading brands to use social media to increase their brand awareness and to highlight their products. In addition, companies are also focused on advertising through social media influencers.

As stated in the report entitled "Digital Bridges: The shortest path to go beyond borders" prepared by Deloitte in 2018, 1.7 million enterprises, representing 55% of the total enterprises operating in Turkey (3.1 million), are users of the Facebook family of applications and services, including Facebook, Instagram, Whatsapp and Facebook Messenger. In the period covered by the research, the direct consumer spending triggered by Facebook platforms was estimated at ₺6.3 billion.

In recent years, meanwhile, various brands around the globe have started to make use of influencers in their marketing strategies. The successful outcomes of such strategies have led many brands to adopt this approach. In particular, brands that aim to make their name in the world, but that cannot allocate budget for large-scale marketing activities, have opted to turn to social media and to involve certain influencers in their campaigns. Influencers use products that are sent by companies with a discount, or free of charge, to produce content related to the product, sharing their posts via social media channels.

In addition to all these facilitating solutions, there is another type of commercial transaction that is triggered through social media that is based on interaction or mutual trust, and that is not subject to any regulations between the buyer and seller. It is highly probable that in the event of negative experiences in such commercial transactions, which are made without a distant sales agreement or equivalent contract, in which customer rights are not protected, and where there is no register of customer experience or purchase transactions, the customers' confidence in e-commerce transactions will be shaken. In such cases, advertisers run the risk of being negatively affected by the reduced trust and the loyalty of their targeted potential customers to e-commerce platforms.

Executive Summary

The subject reviews entitled "Digital Literacy of SMEs" and "B2B E-commerce in Turkey," which are presented in the report but not covered under the executive summary, are available within the main body of the report.

Status Assessment of
Omni-channel E-retail

In line with the digital transformation programs and omni-channel initiatives that have emerged in recent years, brands continue to put into practice projects that ensure interaction between, in particular, physical store businesses and e-commerce channels. As is the case with global examples, the initial investments in these initiatives are made generally in the field of order management, with focus on such processes as click&collect and shipment from the stocks of stores. Other areas of investment included cooperation with marketplaces, mobile e-commerce, measurement/optimization of multi-channel marketing, and such competences as in-store digital assistants.

At this point, it cannot be said that the desired level has been reached on the maturity curve of omni-channel retail, which requires organizations to make significant amendments to their technological infrastructures, organizational structures and process designs, and to establish new structures. In meetings/interviews conducted with sector representatives, the main areas in need of improvement were mentioned as follows: top management ownership, the forming of inter-departmental joint working models and the distribution of responsibilities, and the structuring of key performance indicators distributed among the business units.

The main challenges experienced in Turkey can be summarized under the following topics:

- Initiatives are generally taken individually, without the establishment of a company strategy or without top management ownership, or projects are handled at a department level, and therefore bring the desired business outcomes in the end.

- Rather than outside-in customer experience-oriented methodological approaches that are based on the field and the consumer, inside-out initiatives that focus on systems and internal processes have been launched.

- As required by the existing operational models of most brands, stores and internet channels have been structured as silo responsibility areas.

- Incentive and bonus mechanisms have not been set up to serve the desired business objectives (for example, the delivery of online orders from stores is managed by store staff, although this operational process is defined as the target of another department).

- Inclusive and common targets shared by all channels could not be defined to replace channel-based targets; and the related responsibilities of departments could not be clearly defined in terms of initiatives.

- The data structures required to correctly identify customers moving through different channels of the purchasing journey, such as online platforms, stores, mobile platforms and social media, and those required to reduce the data to individuals, could not be established.

- Retailers cannot access data on the behaviors of the customers that interact with their brands through marketplaces, and the impact of consumer behavior on the brand experience cannot be observed.

- The models required to correctly measure channel-based efficiency and its impact on the conversion ratio could not be established for purchasing journeys involving interactions in different channels.

- For most of the global retailers in Turkey, what proportion of their operations will be conducted through local processes and technologies, and what proportion will be performed by means of global processes and technologies could not be defined.

- As there are no clearly defined regulations relating to omni-channel retail, if the products ordered online are picked up from stores in shopping malls, the related revenues are considered as part of the sales volume of the store, and this constitutes a problem in the relationship between the shopping malls and the retailers.

- Previous generation technology infrastructures lack the necessary agility for the transformations that need to take place today (instant stock visibility, master data management, integration capabilities, etc.).

Details about this section, which covers the below-listed topics required for the development of omni-channel retail, as well as good practices and Turkey's competence level, can be found in the main body of the report.

- 360-Degree Customer View and Targeting

- Real-time Stock View

- Single Product View

- Corporate Content Management

- Cross-Channel Orders and Services

- Analytics, Key Performance Indicators and Reporting

Executive Summary

Analysis
Development of E-export and a Road Map

According to the data provided by the Ministry of Economy based on Electronic Trade Customs Declarations, the total value of export realized between January 1 and December 31, 2018 was $358 million. It is stated that the top ten countries to which e-export is made are the United States, Germany, Saudi Arabia, France, the United Kingdom, Italy, the Netherlands, Jordan, the United Arab Emirates and Spain, respectively. The product categories with the most export made through e-commerce are clothing and accessories, jewelry, shoes, carpets, herbal products and spare parts.

The following points came to the fore during the drafting of the report:

- E-export transactions are carried out also with the companies' own resources, or through marketplace platforms, based on the B2B business model.

- It is observed that while e-export is strongly related to the export of goods, they also have a significant impact on the export of such services as digital games, mobile applications, series and movies.

- E-export bears significant potential, especially for SMEs, and when these companies are supported as necessary, they will pave the way for the offering of Turkish products to foreign markets.

Some supportive solutions at the forefront of the sector for the growth of e-export, and for overcoming some existing barriers are summarized under the following headings:

1. E-export strategies should be developed for SMEs in Turkey; their existing competencies should be evaluated; and programs addressing areas with potential for improvement should be designed.
2. One of the most significant deficiencies is the low number of Turkish brands with global recognition. Accordingly, programs related to the development of brand strategies and brand awareness should be developed.
3. The product groups that are currently being exported by Turkey should be examined in detail, and the categories, sectors and markets in which Turkey is strong should be analyzed. Work on the country's e-export potential should be conducted, and efforts should be made to establish new points of demand, while improving those that already exist.
4. To allow SMEs to produce world-class products and to compete globally, their awareness on the dynamics of their target markets and on e-export operations should be increased. In line with this aim, joint working strategies may be developed with the involvement of representatives from NGOs, public institutions and the private sector.
5. Experienced staff with the ability to produce solutions in different languages in the field of pre-sales and after-sales customer services should be trained, or the investments of SMEs into the outsourcing of such services should be supported.
6. The support provided to export works should be customized in line with the requirements of the transactions carried subject to the Electronic Trade Customs Declarations.
7. E-export data should be monitored by independent institutions, and any information that may contribute to enterprises and government support should be synthesized.
8. In order to find out Turkey's e-export potential with other countries, areas with potential opportunities should be defined for the medium and long term; and work on developing concrete action plans addressing these opportunities should be carried out.
9. For small shipments up to a certain volume and weight, special areas for storage should be established in different locations in the country. In addition, it will also be useful to establish international logistics hubs at certain points.
10. To transforming Turkey into a regional e-commerce hub, policies should be developed to support the execution of logistics operations to facilitate cross-border sales that have been conducted through global and regional e-commerce platforms, via Turkey.

Executive Summary

11. Considering the geographical position of Turkey, the transport costs for shipments to countries within four hours of an air transport, especially those in the immediate neighborhood, should be reduced to reasonable levels. Support should be provided to allow competition with the other countries in the market.

12. In line with the expectation that the newly opened Istanbul Airport will lead to a serious increase in Turkey's logistics capacity, offering advantages of speed in transportation operations and reducing costs, storage investments, customs clearance, packaging, etc. These services should be provided at this airport, which serves as a regional logistics hub in the field of e-export.

13. More investments should be made in collaborative efforts between local and private transport companies offering solutions in Turkey and other various countries, while the public and private sectors should develop joint working approaches in this respect.

14. Improvements in the customs clearance procedures for products returned to Turkey for refunds following a sale, or following the cancellation of orders, as well as those related to the processing of VAT amounts, should continue.

15. Solutions should be developed to reduce the commission rates applied to the transfer of payments to Turkey through foreign payment providers or via banks operating abroad to reasonable levels.
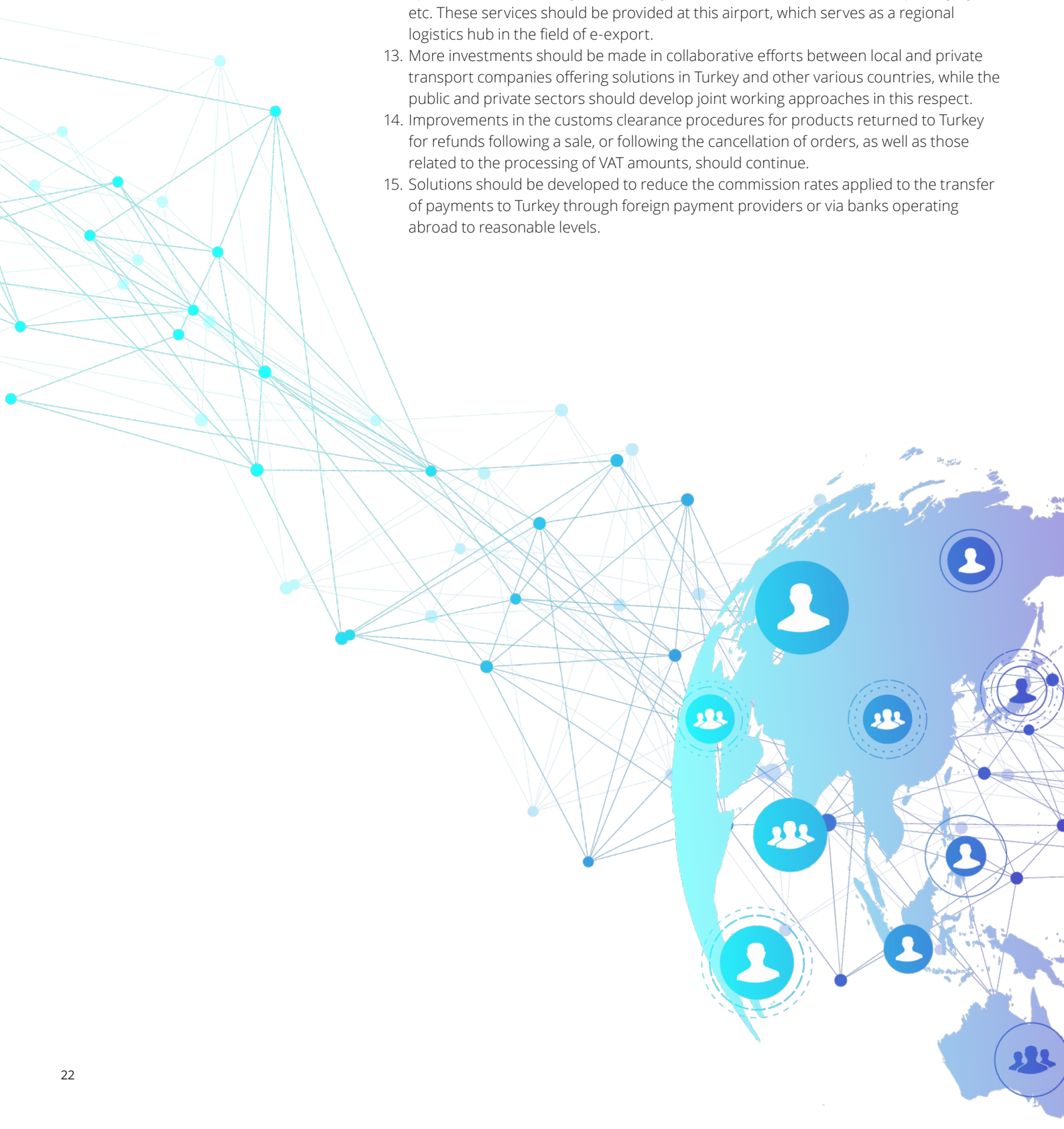
16. To replace the method based on separate integrations to be made by SMEs with the prevalent payment service providers in the markets to which they have opened up, more investments should be made into developing single-point integrated methods to be applied via payment service providers in Turkey.
17. The actions stipulated in the E-Export Strategy and the Action Plan prepared by the Ministry of Trade should be monitored on a regular basis and the progress should be evaluated.
18. State-supported cooperation to be implemented through the Turkish Post Office (PTT) should be established in order to ensure integration with the national distribution services of various countries, and to enhance the existing collaboration between Turkish operations and global operations of companies that offer worldwide solutions.

The investments of marketplaces in Turkey in the field of e-export were examined in this section of the report, which also lists the supports provided by NGOs and the government. The points that need to be taken into account when launching e-export activities, and the criteria that need to be taken into consideration when entering new markets, are also covered. Detailed information is available in the related section of the main body of the report.

Conclusion

This report, which examines developments in B2C e-commerce and digital retail, as well as those in B2B e-commerce and digital-borne services, covers the main issues on the agenda of the sector, the approaches that are gaining popularity, areas for improvement, issues that need to be resolved and findings about the future of e-commerce.

In line with the increasing role of experience-based e-commerce, and the fact that such channels as social media and mobile platforms have become the new norm, companies should prioritize developing data-based business models and approaches related to customer behaviors when planning their investments. To adopt the good practices mentioned in the report related to omni-channel e-commerce, all dimensions related to the organization, processes and technology should be evaluated and appropriate solutions should be developed accordingly.

In order to accelerate the development of solutions in such fields as e-export, PDPL, cloud informatics, sectoral players, public institutions and NGOs involved in e-commerce should all act in unison. We believe that the findings of the report will once again draw the attention of the sector to these topics and hope that the momentum of growth will continue.

Deloitte.
Digital

İstanbul Office
Deloitte Values House
Eski Büyükdere
Caddesi Maslak No:1
Sarıyer, İstanbul
+90 (212) 366 60 00

www.deloitte.com.tr

📷 **@deloittedigitaltr**   🔗 **@deloittedigitalturkey**   🐦 **@deloitteDIGI_tr**