

# E-COMMERCE IN TURKEY: RISING UP FAST

*Connecting Europe and Asia through the Bosphorus Strait, Turkey is home to a young and vibrant population of ~75 million people. Turkey is the 17<sup>th</sup> largest economy in the world and one of the 7 largest emerging economies. The country is experiencing a strong surge in large-scale e-commerce platforms, even if it is still under-penetrated compared to other emerging countries.*



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**About Alberto Calvo**  
Alberto Calvo is the Principal of the Turkish Office Manager at Value Partners since 2002. He has developed his international expertise by following projects in the consumer goods, energy, healthcare and utilities sectors. He has recently determined the development of the automotive and industrial goods practices, by assisting major groups in Europe, Asia, Middle East and Latin America. Alberto has focused on innovation in business strategies, turnaround programs and commercial enhancement. He holds a degree in Nuclear Engineering from the Politecnico of Turin.

Internet usage remains focused on social networks and instant messaging. However, many success stories in the domestic e-commerce market have been hitting the spotlight over the last 10 years (Hepsiburada, Yemeksepeti, Sahibinden, Gittigidiyor, and Markafoni to name but a few).

The worth of retail goods transacted online exceeded TRY 34.5 billion in 2013, up from TRY 14.1 bln in 2010, with an annual

CAGR of 34.7%. The Turkish e-commerce market is estimated to count ~12k e-commerce sites, supporting the online purchases of over 10 mln users (~15% of the population).

In Turkey, traveling and plane ticket purchases represent roughly 30% of total online spending, followed by insurance products and consumer products. As in any other comparable market, the main consumer product categories sold online are clothing and sports equipment, followed by electronic devices and furniture.

The key drivers of the e-commerce industry in Turkey are Internet penetration, the average spending power of the population, access to modern payment systems, and a mature and competitive logistics market.

Regarding Internet penetration, Turkey had 32.2 million Internet users in 2013, an increase by ~45% since 2008, making it the fifth largest online population in Europe. The number of Internet users is expected to increase by 53.9%, reaching 52.2 million by 2030. Total mobile Internet subscriptions stood at 24.2 mln users, corresponding to a 35% penetration in 2013, compared to merely 1.2% in 2008.

Turkey has an active, young online user base, with 70% of online users being younger than 34. Moreover, this population is highly engaged in social media, bringing the country to rank No. 7 on Facebook, No. 10 on Twitter and No. 14 on YouTube in terms of activity.

Over USD 3.3 bln were invested in telecommunications in 2013, mainly on 3G upgrades, expansion of the fixed-broadband infrastructure and fiber-optic networks. With affordable devices and ubiquitous access, Internet adoption is expected to improve, paving the way for e-commerce growth. Turkish GDP increased with a CAGR of ~10% from 2008 to 2013, reaching 1.56 bln TRY by 2013, keeping Turkey in the club of the top-20 economies, as one of the largest middle-income countries in the world. During the same period, Turkish GDP per capita expanded with an annual CAGR of 8.8% and reached 20.4k TRY per capita (USD 10.7k).

Even if Turkey is forecasted to experience a slower growth in the coming years (~5%), with increasing disposable incomes and individual surpluses, more and more leisure money is expected to be spent online.

Regarding access to modern payment systems, with its advanced banking industry, Turkey is home to ~57.3 million credit cards and ~100 million debit cards as of June 2014, which positions the country among the largest in Europe in terms of card volumes. However, concerns over online payments still remain across various layers of the population, and alternative payment methods (e.g. Paypal) are considered risky in Turkey. Although the high credit card penetration is an e-commerce facilitator, a more solid consumer trust has to be built by properly informing people about online security systems and fraud prevention. On the logistics front, the logistics industry accounts for 10-15% of the Turkish GDP and is of paramount importance for the country. Turkey has moved up from 39th place in 2010 to 30th in 2014 in the World Bank Logistics Performance Index, above India, Brazil, Russia, Mexico, Poland, Indonesia and South Africa.

Many players are vying in the B2C logistics industry, increasing the level of internal competition and bringing the overall service level to higher standards. The 48-hour delivery to anywhere in Turkey has already become the rule of the game. Few local online giants such as Markafoni and Hepsiburada are even promising same-day deliveries, especially in major Western cities where large warehouses are typically located.

Specialized logistics / distribution networks have also entered the market. Chilled and frozen distribution service providers have been partnering with logistics players, producers and retailers for delivery of low-temperature, perishable products (+4°). Polarxp, Turkey's leading chilled and frozen distribution service provider, even provides both warehousing and delivery services. With regard to e-commerce verticals, the speed of adoption of e-tailing in a given sector is very much dependent on the complexity of the product/service it provides.

The first businesses to exploit the e-commerce channel were the ones with simpler product/service range like DVD, books, games & music, airline tickets and hotel reservations.

In Turkey, the integration of physical and online channels within sectors with low products/services complexity is still an ongoing process. In most of these verticals, where e-commerce offers a natural advantage, online purchases are still midway along the growth pattern experienced in more advanced countries. On the other hand, more complex supplies often lack the convenience factor that appeals to online customers (e.g.: insurance policies), making the suitability of the e-commerce channel clearly less evident.

There are a few sectors in Turkey where e-commerce strategies have been successfully applied.

Apparel has shown a great online success. It is one of the leading online sectors in Turkey reaching sales of over TRY 1 bln in 2014 by growing at 16.2% YoY. The prominent factors behind this success can be identified in easy return policies, affordable pricing and larger availability of products offered to customers. Moreover, retailers tend to use e-commerce for destocking.

As for grocery e-tailing, food retailing in Turkey grew by 4% in 2014, reaching TRY 265 mln, with an online share estimated at only 1%. Online grocery is silently taking off, despite consumer skepticism and reluctance by some main players to embrace new customer needs. Solid societal drivers are pushing this phenomenon towards significant growth in the near future.

The food delivery business in Turkey is one of the most consolidated e-commerce sectors. It has become an attractive option for those who don't want to spend their time on cooking and who find eating at home more comfortable than going out. The player that first entered this arena - Yemeksepeti - still holds the market leadership, ensured by an extensive coverage of urban areas.

Consumer electronics and appliances are by far the largest e-commerce market in Turkey. The sector accounted for almost TRY 2.9 bln in 2014 and grew by 31.7% annually from 2009 to 2014.

Customer feedbacks are a strong enabler of e-commerce as most users nowadays start their journeys online to check prices, better understand product features and "listen" to other users' opinions about brands and their propositions. This has been a key success factor also in Turkey, as it represents a great opportunity to establish a direct relationship with consumers, strengthen brand loyalty and reinforce the customer experience.

Hepsiburada, a leading marketplace with ~15% market share in the Turkey e-commerce industry, conducted a successful campaign to improve customer feedback, promoting a bonus system by which customers can earn vouchers to spend on next purchases as they give feedbacks about the products.

Price comparison engines are also getting popular. Akakçe stands out as it gets over 5 million customer clicks monthly. The web portal shows price offers from both vertical and other online retailers and builds comprehensive summary overviews for the most price-sensitive customers.

E-commerce platforms have demonstrated how this channel can "enlarge" the traditional value pool of a sector, if consistently integrated with existing offline options. Teknosa, the local leading electronic retailer, found that the highest traffic and volume of online transactions was coming from the relatively underdeveloped eastern regions in Turkey characterized by a limited number of stores, typically offering limited assortments. By acknowledging this fact, the company responded with tailored offers and drove sales in south-east regions up by 50% in 2014.