TURKISH E-DELIGHTS: THE NEXT BIG THING?

HOW TO ESTABLISH A SUCCESSFUL E-COMMERCE STRATEGY IN TURKEY

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Turkish e-delights: the next big thing?
Our insights on how to establish a
successful e-commerce strategy in Turkey

VALUE PARTNERS

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In the past years, the main focus of online ventures has been that of getting the customer to buy today, with online platforms and marketing strategies being designed to capture online traffic and convert it to sales before the competition had a chance to.
However, the days of easy and cheap customer acquisition (even in Turkey) are ending and the focus is consequently shifting towards getting customers, especially high-value ones, to buy today, come back tomorrow and advocate the company in the process.

INTRODUCTION

TURKEY IS ONE OF THE SEVEN LARGEST EMERGING ECONOMIES AND IS HOME TO A YOUNG AND VIBRANT POPULATION OF AROUND 75 MILLION PEOPLE. INTERNET IS WIDELY ACCESSED AND THE NUMBER OF INTERNET USERS IS RAPIDLY GROWING, EVEN THOUGH ONLINE ACTIVITY IS, FOR NOW, MAINLY FOCUSED ON SOCIAL NETWORKS AND INSTANT MESSAGING. HOWEVER, THERE ARE PLENTY OF INTRIGUING SUCCESS STORIES IN THE DOMESTIC E-COMMERCE LANDSCAPE, MAKING IT WORTHWHILE TO BETTER UNDERSTAND THE PHENOMENON.

THIS PAPER GIVES A BRIEF OVERVIEW OF THE SURGE OF LARGE-SCALE E-COMMERCE PLATFORMS THAT THE COUNTRY IS WITNESSING AND PROVIDES GUIDELINES TO MAKE THE MOST OF THIS OPPORTUNITY.

TURKEY'S STRONGLY GROWING ONLINE LANDSCAPE DEFINITELY PROVIDES PLENTY OF ROOM FOR NEW ENTRANTS, WHICH WILL HOWEVER HAVE TO SET-UP EFFECTIVE BUSINESS MODELS AND COMPELLING VALUE PROPOSITIONS TO STRIVE IN A COMPETITIVE ARENA THAT IS QUICKLY ADAPTING TO CUTTING-EDGE STANDARDS.

THE KEY SUCCESS FACTORS TO THRIVE IN ANY ADVANCED E-COMMERCE ARENA ARE COMPLEX AND CONTINUOUSLY EVOLVING. DRAWING ON LESSONS FROM MORE MATURE ONLINE MARKETS, WE HAVE PINPOINTED THE FOUR CORNERSTONES THAT ONLINE VENTURES SHOULD TAKE INTO ACCOUNT WHEN CONSIDERING A FORAY INTO TURKEY'S YET UNTAPPED POTENTIAL CUSTOMERS.

EXHIBIT 1
Estimated share of online retail goods sales by country, 2013

16%

UK

7%

USA

6%

FRANCE

4%

BRAZIL

3%

SPAIN

3%

POLAND

2%

TURKEY

1%

ITALY

1%

MEXICO
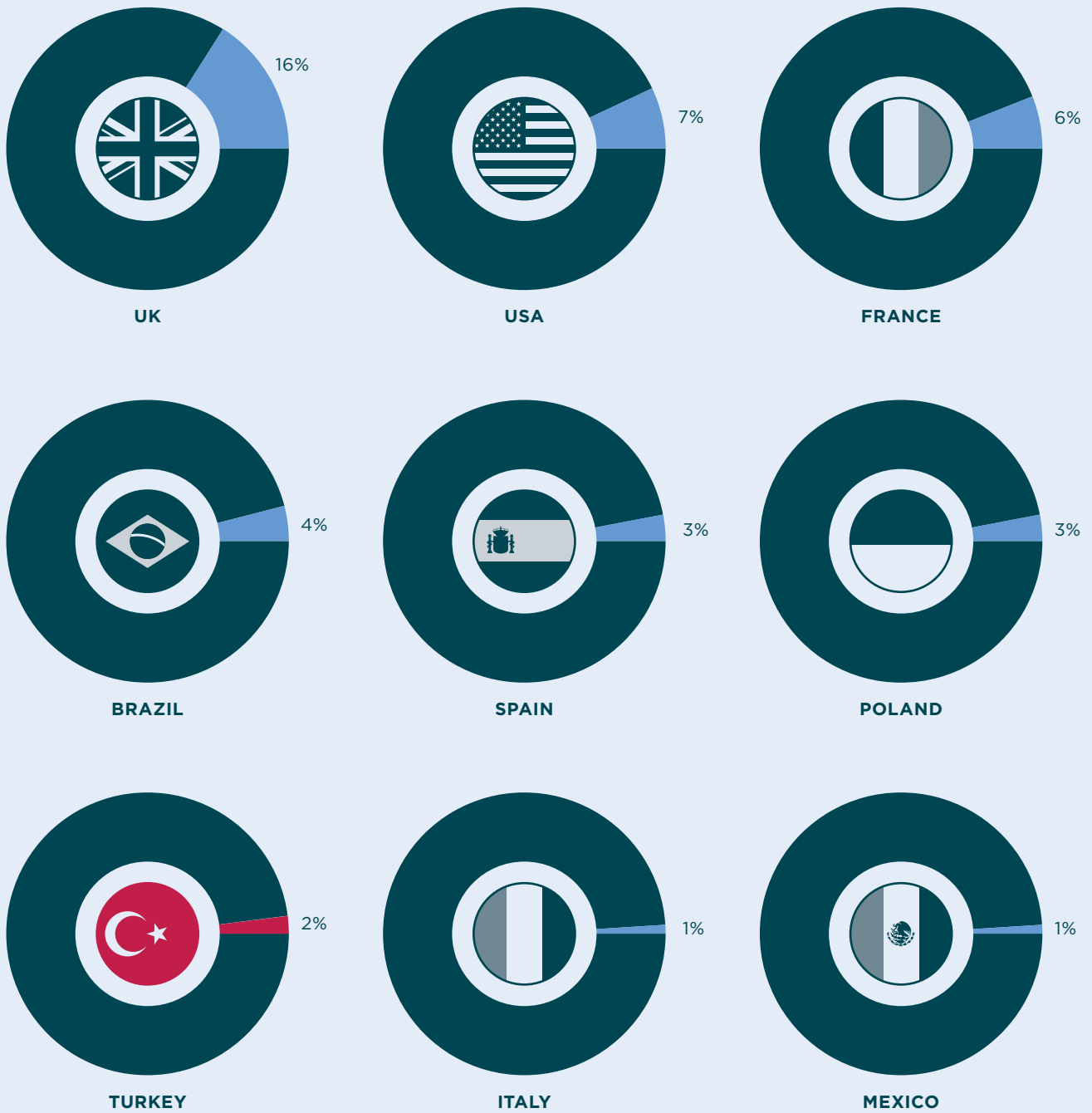
Source: Ecommerce Europe

GROWING UP FAST. WHY AND HOW TURKEY'S E-COMMERCE SECTOR IS ON THE RISE

1 Other uncommon / emerging ecommerce models include: C2B (Consumer to Business), G2G (Government to Government), G2C (Government to Consumer), C2G (Consumer to Government), G2B (Government to Business), B2G (Business to Government)

2 Turkish Interbank Card Center (BKM)

3 Is Bank

4 Tusiad

Connecting Europe and Asia through the Bosphorus Strait, Turkey is home to a young and vibrant population of ~75 mln people. Turkey is the 17th largest economy in the world and one of the 7 largest emerging economies. Enduring political and economic stability in the last decade, along with favourable macro fundamentals are expected to further nurture the economic growth of the country.

Turkey is experiencing a bubbling surge of authentic, large-scale e-commerce platforms, even if it is still under-penetrated compared to other emerging countries (Exhibit 1).

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 (among these, Hepsiburada, Yemeksepeti, Sahibinden, Gittigidiyor, Markafoni).

Depending on who is buying and selling, it is possible to identify many different business models in the e-commerce universe[1], most of which are also present in the emerging Turkish e-commerce landscape:

- **B2B (Business to Business):** online platforms that bring corporate buyers and sellers together for the exchange of goods and services. Transaction value per order is much higher than in B2C and C2C transactions. Typically, the large business marketplaces fall into this category (i.e.: Alibaba)

- **B2C (Business to Consumer):** where businesses directly sell their products and services to consumers through catalogs and shopping carts. The large retail platforms belong to this group. Examples include Amazon, Yoox and Hepsiburada in Turkey

- **C2C (Consumer to Consumer):** this category includes various types of peer-to-peer transactions, sometimes based on auctions. Typical examples include Ebay and Gittigidiyor in Turkey

The worth of retail goods transacted on-line exceeded TRY 34.5 billion in 2013, up from TRY 14.1 bln in 2010 with an annual CAGR of 34.7%[2] (Exhibit 2). The Turkish e-commerce market is estimated to count ~12k e-commerce sites[3], supporting the online purchases of over 10 mln users[4] (~15% of the population).

EXHIBIT 2
E-commerce market size in Turkey, Try Bln

34.7%

2010	2011	2012	2013
14.1	22.1	29.9	34.5
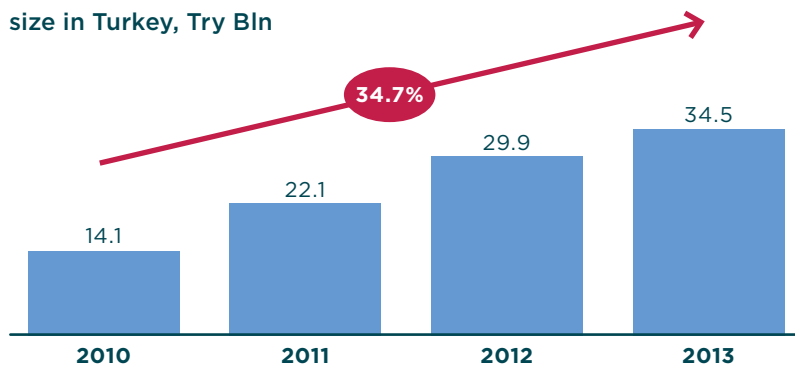
EXHIBIT 3
Prominent deals in Turkish e-commerce sector since 2011

YEAR	ACUIRER	ORIGIN	SECTOR	TARGET	STAKE	DEAL VALUE (US$ MLN)
2015	Delivery Hero	Germany	Food	Yemeksepeti	100%	589
	Abraaj	UAE	Electronic	Hepsiburada	25%	n/a
2014	EBRD	USA	Apparel	Trendyol	n/a	n/a
	Naspers	South Africa	Apparel	Markafoni	n/a	n/a
	Aslanoba	Turkey	Gift	Buldumbuldum	n/a	2.5
2013	Bancroft	UK	Hotels & tours	Tatilsepeti	n/a	n/a
	Hubert Burda Media	Germany	Apparel	Lidyana	22%	5.9
	Aslanoba	Turkey	Gift	Buldumbuldum	20%	2.5
	Aslanoba	Turkey	Taxi services	Bitaksi	n/a	2
2012	Ru-Net Holdings	Russia	Apparel	Lidyana	25%	3.3
	Perform Group	UK	Sports	Maçkolik	51%	22.5
	Kleiner PC&B, Tiger Global management	USA	Apparel	Trendyol	5.53%	15.7
	General Atlantic	USA	Food	Yemeksepeti	36.69%	44
2011	Kleiner PC&B, Tiger Global management	USA	Apparel	Trendyol	12.07%	26
	Amazon	USA	Flower	Çiçeksepeti	n/a	n/a
	eBay	USA	Marketplace	Gittigidiyor	72%	182.1
	Intel Capital	USA	Group discount	Grupanya	13.48%	n/a
	NASPERS	South Africa	Apparel	Markafoni	n/a	n/a

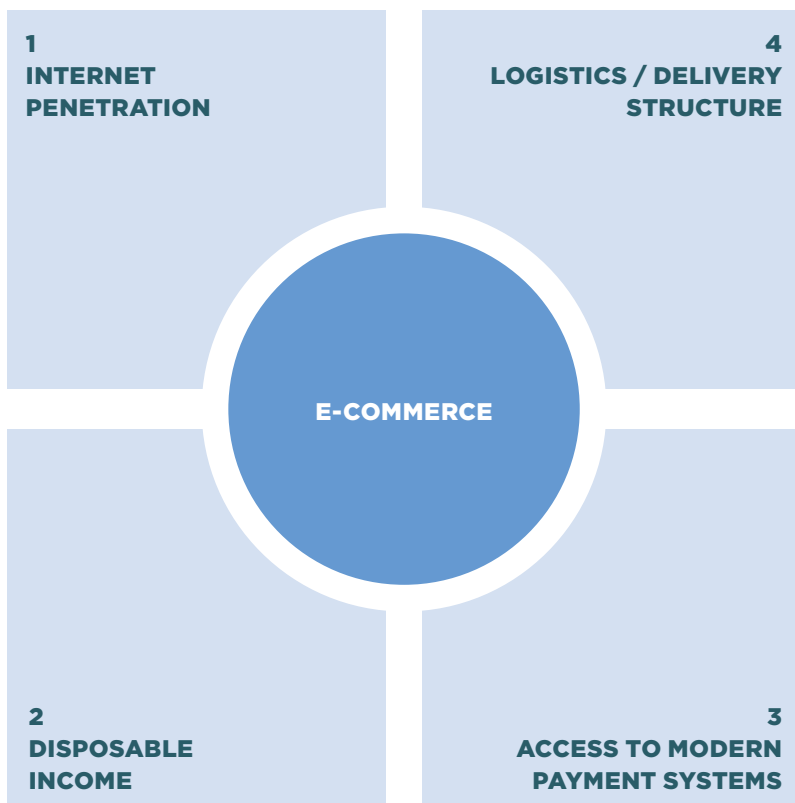Source: EY, Deloitte Turkish M&A reports, desktop research

In Turkey, travelling and plane ticket purchases represent roughly 30%[5] of total online spending, followed by insurance products and consumer products. As in any other comparable market, the main consumer product categories sold on-line are clothing and sports equipment, followed by electronic devices and furniture.

The dynamism of the e-commerce sector is also proven by the numerous M&A transactions (Exhibit 3), mostly triggered by institutional investors (PE, VC,...). The disclosed deal size varies from USD 1 mln to as much as USD ~600 mln.

The market is still extremely fragmented; many companies and individual entrepreneurs are rushing into the arena, often without clear strategies and a solid background. In this context, a "Darwinian" natural selection is ongoing:

- Germany's Rocket Internet only stayed in Turkey one year, shutting down all operations and laying-off hundreds of employees in 2012

- Online apparel site Limango exited Turkey in 2015, after being acquired by Dogan Online in 2013

- Turkey's first mobile real estate e-commerce app Metrekare was disposed in 2014 despite the support by VC firm Earlybird and local angel investor Aslanoba

As in any other country with similar characteristics, the key drivers of the e-commerce industry in Turkey are (Exhibit 4):

- Internet penetration

- The average spending power of the population

- Access to modern payment systems

- Mature and competitive logistics market

EXHIBIT 4
The drivers of e-commerce penetration

1
INTERNET PENETRATION

4
LOGISTICS / DELIVERY STRUCTURE

E-COMMERCE

2
DISPOSABLE INCOME

3
ACCESS TO MODERN PAYMENT SYSTEMS

EXHIBIT 5

Internet access by country, 2013 (% of total households)

UK — 87%

FRANCE — 80%

USA — 72%

POLAND — 70%

SPAIN — 68%

ITALY — 63%

TURKEY — 47%

BRAZIL — 45%

MEXICO — 26%
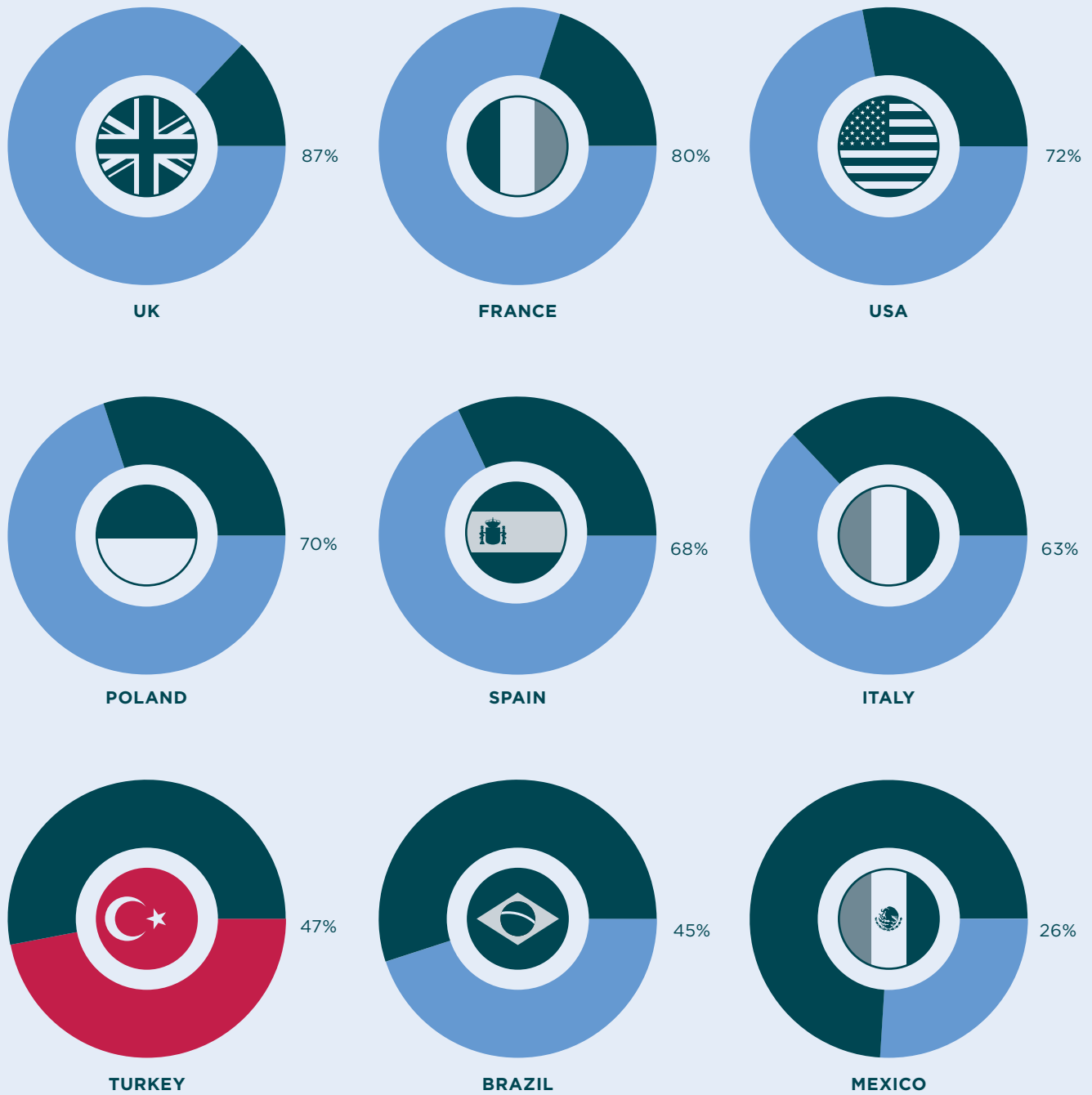
Source: OECD, Internet World Stat, VP analysis

6 Euromonitor
7 Techcrunch.com
8 Euromonitor
9 TurkStat
10 Euromonitor

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 (Exhibit 5). 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[6].

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[7].
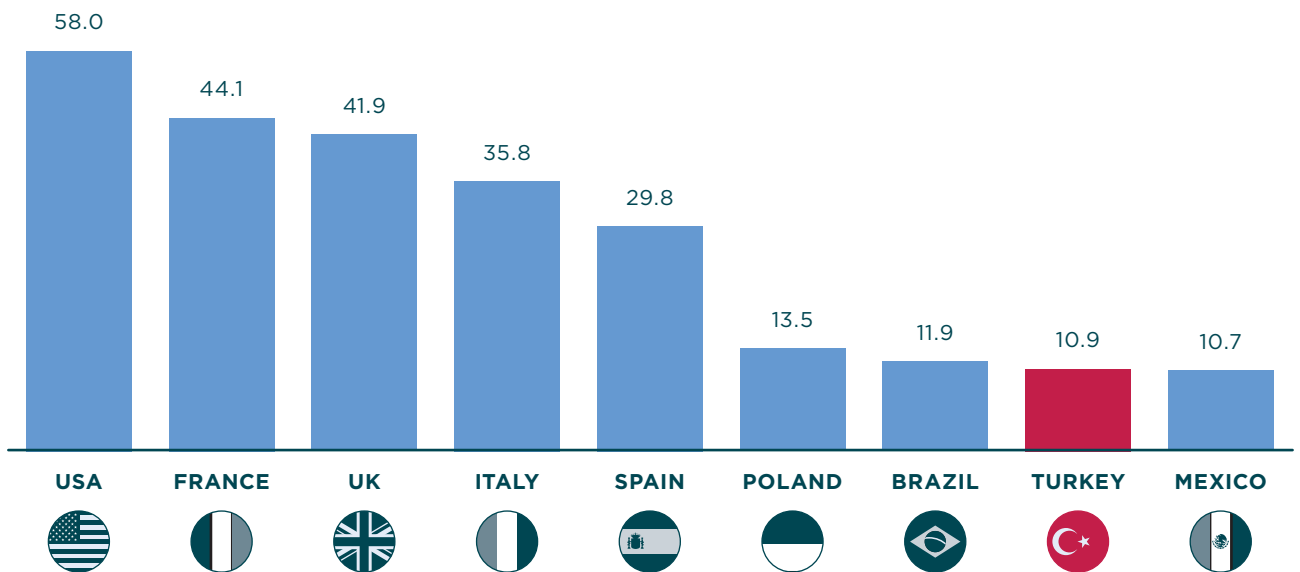
Over USD 3.3 bln were invested in telecommunications in 2013[8], mainly on 3G upgrades, expansion of the fixed-broadband infrastructure and fiber-optic networks. With affordable devices and ubiquitous access, internet adoption is expected to improve, paving the way for e-commerce growth.

Disposable income

Turkish GDP increased with a CAGR of ~10% from 2008 to 2013, reaching 1.56 bln TRY by 2013[9], 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)[10] (Exhibit 6).

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 on-line.

EXHIBIT 6
GDP per capita by country, 2013 (000s US$)

USA	FRANCE	UK	ITALY	SPAIN	POLAND	BRAZIL	TURKEY	MEXICO
58.0	44.1	41.9	35.8	29.8	13.5	11.9	10.9	10.7

Source: Euromonitor

EXHIBIT 7
Share of debit card and credit card on total consumer spending by country, 2013

47%

UK

34%

TURKEY

34%

USA

28%

FRANCE

25%

BRAZIL

14%

POLAND

11%

SPAIN

10%

MEXICO

9%

ITALY
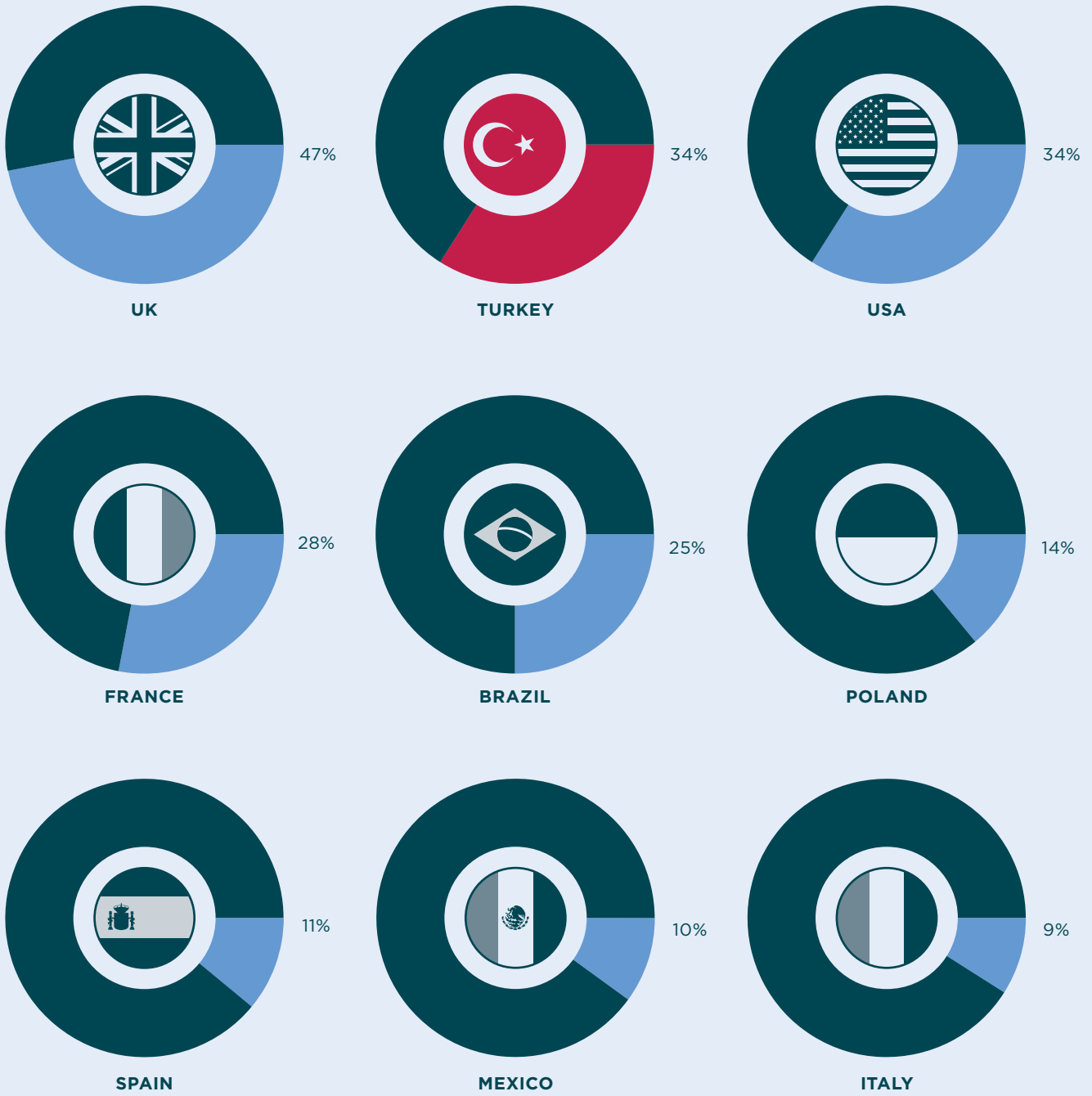
Source: Euromonitor, World Bank

[11] Turkish Interbank Card Center (BKM)
[12] Worldbank
[13] Invest.gov.tr

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 '14[11], which positions the country among the largest in Europe in terms of card volumes (Exhibit 7). 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.

Logistics / delivery infrastructure

Constituting 10-15% of the Turkish GDP, the logistics industry is of paramount importance for the country. Turkey has moved up from 39th place in 2010 to 30th in 2014[12] in the World Bank Logistics Performance Index, above India, Brazil, Russia, Mexico, Poland, Indonesia and South Africa.

Turkey's transportation infrastructures have been undergoing substantial transformation in the last decade. Many investment projects are still ongoing:

- The country is building international highway and rail coastal freight corridors to become an efficient, attractive logistic hub, especially for nearby countries with no coast

- Furthermore, the State Railways are building logistics villages/centers (integrating railway and highway links across Turkey) to lower the costs of transportation

- Major projects include the 3rd Bosphorus Bridge, North Marmara Highway, Canakkale Bridge and Istanbul-Izmir Highway[13].

Many players are vying in the B2C logistic 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 on-line giants such as Markafoni and Hepsiburada are even promising same-day deliveries, especially in major Western cities where large warehouses are typically located (Exhibit 8).

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.

EXHIBIT 8
Major Warehouses in Turkey
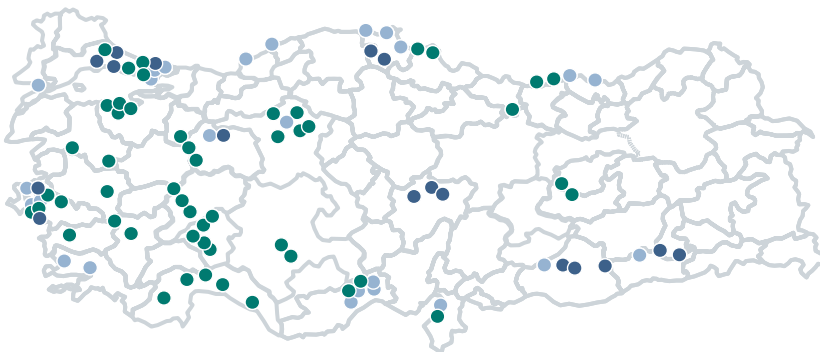
● CUSTOMS BOUNDED WAREHOUSES ● COLD STORAGE ● OPEN AIR WAREHOUSE

Source: Invest.gov.tr

EXHIBIT 9
Online buying intentions in the next 6 months, Europe* 2014
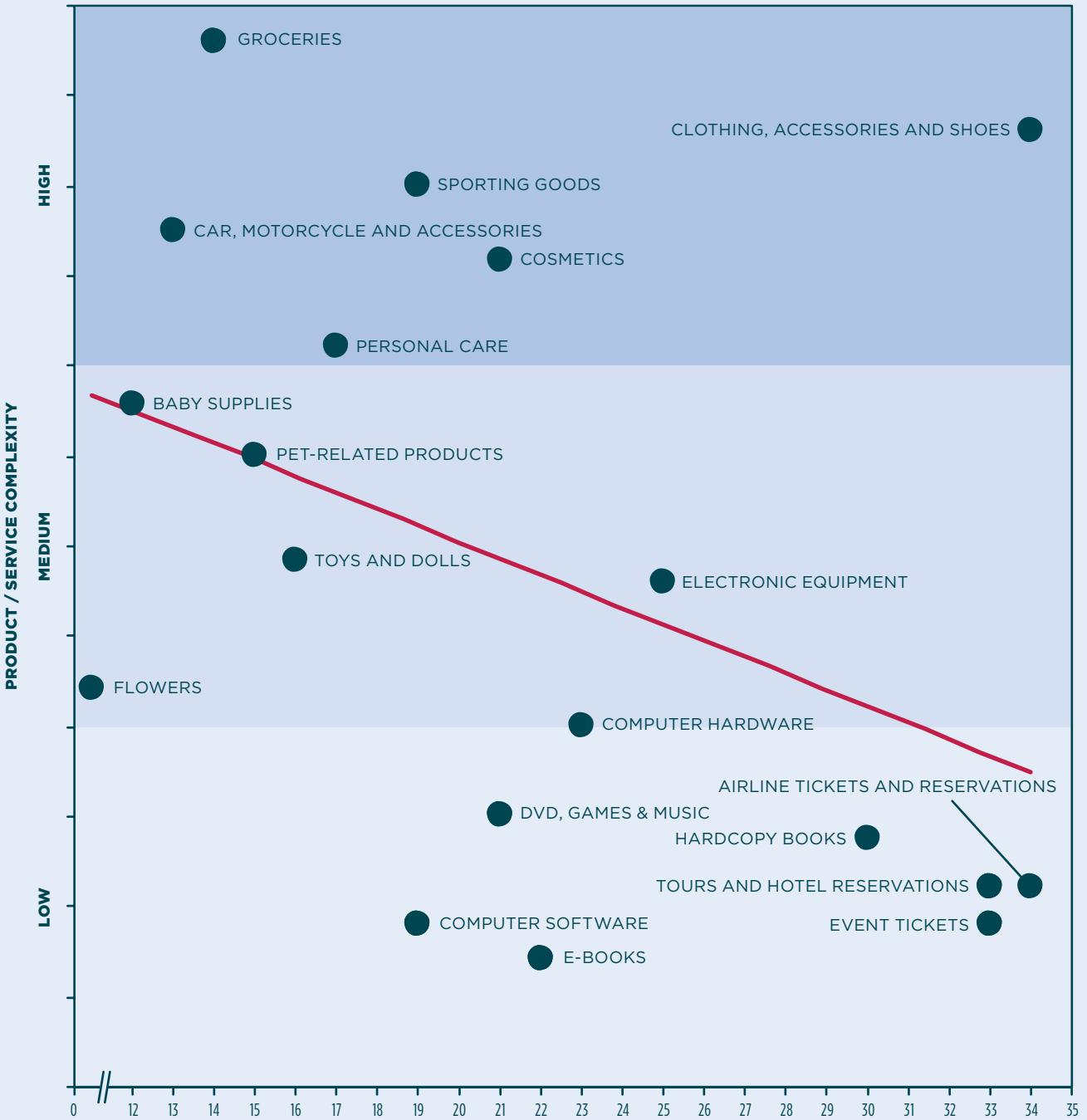
PRODUCT / SERVICE COMPLEXITY

HIGH

GROCERIES

CLOTHING, ACCESSORIES AND SHOES

SPORTING GOODS

CAR, MOTORCYCLE AND ACCESSORIES

COSMETICS

PERSONAL CARE

MEDIUM

BABY SUPPLIES

PET-RELATED PRODUCTS

TOYS AND DOLLS

ELECTRONIC EQUIPMENT

FLOWERS

COMPUTER HARDWARE

AIRLINE TICKETS AND RESERVATIONS

DVD, GAMES & MUSIC

HARDCOPY BOOKS

TOURS AND HOTEL RESERVATIONS

LOW

COMPUTER SOFTWARE

EVENT TICKETS

E-BOOKS

0   12   13   14   15   16   17   18   19   20   21   22   23   24   25   26   27   28   29   30   31   32   33   34   35

JUST THE USUAL SUSPECTS?
WHICH BUSINESSES ARE DRIVING
THE E-COMMERCE BOOM?

Typically, the speed of adoption of e-tailing in a given sector is very much dependent on the complexity of the product/service it provides (Exhibit 9).

Naturally, the first businesses to exploit the e-commerce channel were the ones with simpler product/service range like DVDs, books, games & music, airline tickets and hotel reservations; today in most developed markets, e-commerce sales in these sectors have almost reached "saturation" levels.

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, on-line purchases are still midway along the growth pattern experienced in more advanced countries. As an example:

• D&R acquired the major online book seller Idefix in 2013 and expanded its product range from books to consumer electronics on dr.com.tr.

• Teknosa differentiated itself by launching two different websites to sell electronics: Kliksa and Teknosa.

On the other hand, more complex supplies often lack the convenience factor that appeals to on-line customers (e.g.: insurance policies), making the suitability of the e-commerce channel less evident. Thus, companies planning to move online should be fully aware of these realities, and adjust their propositions accordingly.
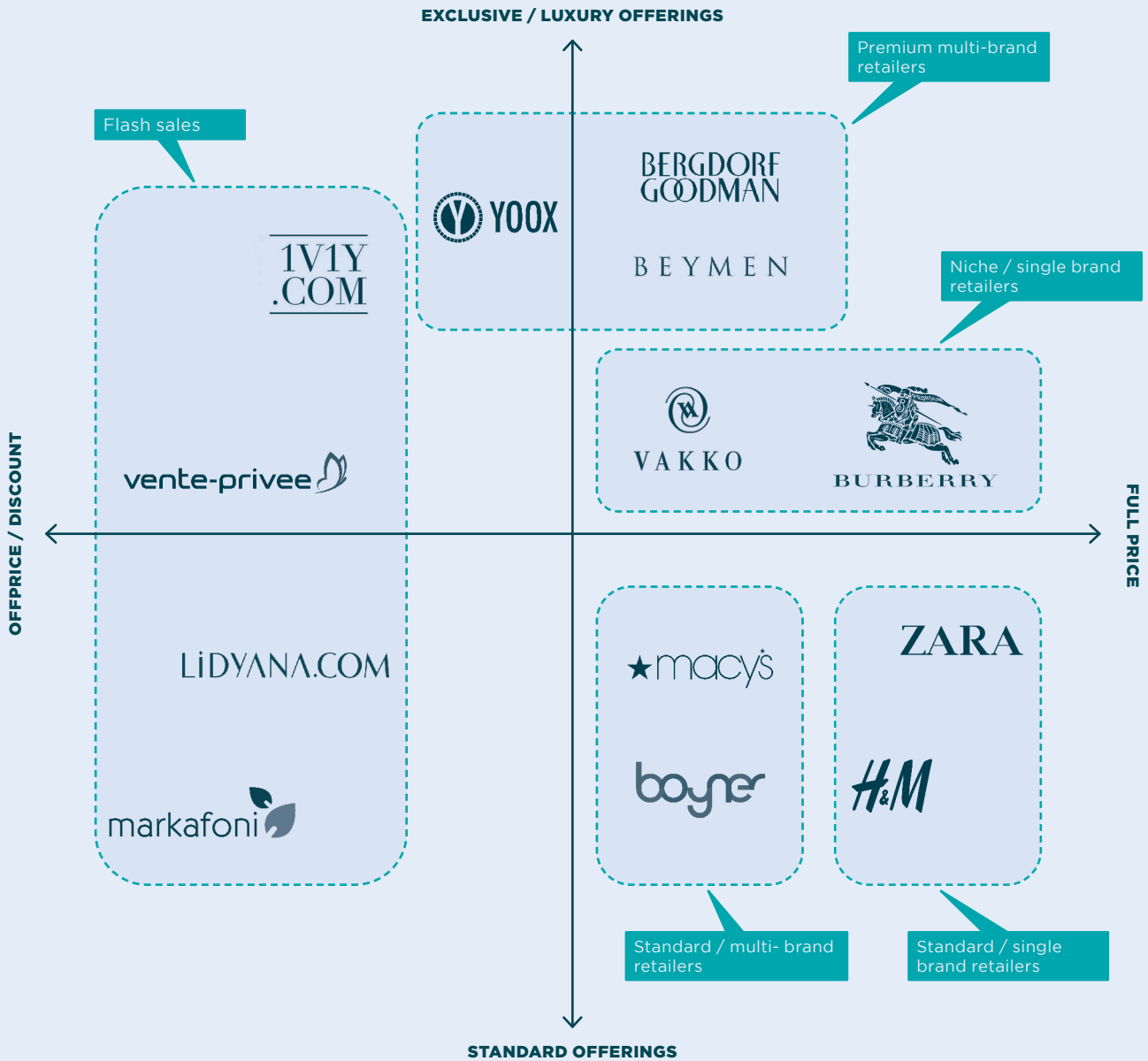
One notable exception in this group is represented by the apparel industry. Apparel has showed a great on-line success, although many factors might discourage people from buying clothes with a "click"; for example, most buyers would like to try on clothes in order to be sure about size, color and fabric before finalizing their purchasing-decisions. On-line sales started to quickly pick-up once the industry introduced well-designed return policies.
There is no "one size fits all" strategy in the e-commerce world, as testified by tons of different cases. In this respect, let's give a closer look at a few sectors in Turkey where e-commerce strategies have been successfully applied.

Apparel

Apparel is one of the leading on-line 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.

• **Return Policies:** As mentioned, one of the main challenges of clothing e-commerce was to convince people to buy clothes without trying them. Industry players solved this problem by providing an easy return policy to reassure customers during the process, offering them a "way out" in case of unsatisfactory purchases.

EXHIBIT 10
Emerging business models in apparel e-commerce

EXCLUSIVE / LUXURY OFFERINGS

Premium multi-brand retailers

Flash sales

1V1Y.COM

YOOX

BERGDORF GOODMAN

BEYMEN

Niche / single brand retailers

OFFPRICE / DISCOUNT

FULL PRICE

vente-privee

VAKKO

BURBERRY

LiDYANA.COM

macy's

ZARA

boyner

H&M

markafoni

Standard / multi-brand retailers

Standard / single brand retailers

STANDARD OFFERINGS

14 Markafoni web site

To deploy such a compelling strategy at operational level, partnering with large, well-established logistic providers was a must. One of the major online apparel companies, Trendyol cooperates with two leading courier companies, Yurtiçi and MNG Kargo, and allows its customers to return a product within 15 days from delivery. The return delivery service is free of charge and most importantly the pick-up point is chosen by the customer. This smooth return process increases customers' willingness to shop on-line without any fear of having to pay for or being left with any unwanted products.

- **Extended product range:** Physical retail stores have clear constraints in terms of inventory size and mix, sometimes incurring on lost-sales when customers cannot find what they are looking for on the shelf. On flash sales websites like Markafoni and Trendyol, multiple categories are offered to customers (e.g. from shoes to underwear). This product variety helps boosting cross-selling and increases overall revenues. Markafoni, the first and leading player, established in 2008 with 6% market share in the total domestic e-commerce sales, offers ~10 different categories with an average of 20 apparel brands and manages 50 thousands transactions daily[14].

- **Pricing:** Affordability has been a key boost-factor for on-line retail. To some extent, this is also due to the implicit risk associated with on-line transactions, where products cannot be touched or verified. Many different business models can be observed here (Exhibit 10), and companies need to carefully manage potential channel conflicts, the risk of pricing arbitrage across channels, overall lower margins triggered by an increased competition.

- **Destocking:** On-line business models also help reduce store retail operation costs by using the online channel for destocking, just as outlets do in the physical world. Traditional outlet stores, typically located outside the city centers, are being replaced by on-line sales through specific discounts/campaigns, or flash-sales. To accomplish this goal, companies are both pushing products through their own websites and partnering with other online platforms to deliver daily/weekly sell-off campaigns. 1V1Y represents a good example of an innovative strategy. The website was founded by 16 investors (mainly well-known local apparel brands) with the intention of using the platform to sell their on/off-season products and timely manage their inventories. At the same time, it turned out that online apparel websites with a substantial subscriber base like 1V1Y could serve as an advertising platform, to increase the visibility of new brands with low recognition. This simple yet powerful intuition dramatically increased 1V1Y's appeal to brands and users.

Grocery e-tailing

[15] Deloitte Retail sector update
[16] Parekende.org
[17] Eurostat
[18] CIA World Factbook
[19] Webrazzi
[20] Groupe Auchan
[21] RR Kantar Worldpanel

Food retailing in Turkey grew by 4% in 2014, reaching TRY 265 mln[15], with an online share estimated at only 1%[16]. Even though belonging to the "complex-to-sell-online" group of goods/services, online grocery is silently taking-off, despite consumer skepticism and reluctance by some main players to embrace new customers' needs.

Solid societal drivers are pushing this phenomenon towards significant growth in the near future. Firstly, compared to past years, more females are joining the working population in Turkey. The traditional house-wife role, where women are the only responsible for providing grocery supplies to families, is progressively losing ground, as the economically active female population is expected to increase by almost 40% between 2013 and 2020[17]. Secondly, the rising urbanization (~73% in Turkey as of 2014[18]), with the burden of increasing complexity it brings along (e.g.: traffic congestion, longer supermarket queues, etc.) will make it harder and harder for women to balance their roles of workers and family care-takers.

Here, the complex logistic structure needed to manage perishable products requires substantial investments. Online grocery retailing requires advanced logistics to keep products fresh. In order to ensure high-quality food delivery operations, companies tend to establish their own logistic infrastructure instead of using existing truck fleets (especially in the case of organic / fresh food providers). Leading angel investor Aslanoba recently announced its new start-up Tazedirekt to offer organic vegetables, fruits and meat grown out of strictly controlled farms and plantations.

The delivery chain of Tazedirekt consists of 250 fully air-conditioned trucks. The company, additionally, uses an advanced software infrastructure to manage inventory and closely align it to order intakes, in order to never exceed products' expiring dates[19].

Choosing the right delivery model makes the difference. To meet rapidly-changing customer needs, companies can play with click-and-collect, home-delivery services, or mixed solutions. Whereas "home delivery" typically targets those customers who consider the purchasing experience annoying per se, "click & collect" models serve those customers who instead enjoy it to some extent, and by doing so also try to increase traffic within the retail shops.

A best-in-class example of click & collect strategies is provided by Auchan Drive, introduced in France at the beginning of 2000s[20]. Drive is a simple click & collect service that allows shoppers to order spontaneously or in advance. The customer drives to a pick-up point and products are delivered to his vehicle in less than five minutes. Auchan has 81 drive stores; a typical establishment sells 12,000 products and serves 350 customers daily.
The click-and collect business reached a 25% penetration and took 4.2% share of the French grocery market in February 2014[21]. 68% of French consumers claim they use Drive because it saves time, while 34% say it helps them to control their budget. Furthermore, Auchan has extended the click & collect model also to other formats including Auchan's general merchandise store GrosBill and Arcimbo, a new fresh foods store.

22 Freshdirect
23 UKessays
24 Fortune
25 Yemeksepeti
26 Deliveryhero

FreshDirect (USA) established a successful business model in the home-delivery grocery segment. Founded in 1999, FreshDirect, is an online grocer offering next-day delivery, sells fresh food, offers popular grocery brands for up to 25% less than supermarket prices and delivers right to customer's door from its warehouses. The target customers of FreshDirect are well described as urbanized people, typically busy, short on time and annoyed by daily pressures[22]. The CEO Richard Braddock underlines that the success of the company is based on well-designed customer-oriented IT systems, since "a loyal customer in online grocery is more important than a new one"[23]. FreshDirect provides discounts to its loyal customers and identifies the shopping patterns of customers to understand consumer-specific habits and tap cross-selling opportunities. In addition to this, FreshDirect was successful in solving some typical online grocery "pain points" (e.g. food solutions & perishable products). For the hectic, single urbanized customers who lack the time for cooking the company started offering 50 heat-and-eat meals; similarly, for customers who are obsessed with product freshness and want to "touch" before buying, FreshDirect introduced a rating service carried out by a team of professional inspectors in order to increase trust over products. The innovative and customer-oriented approach made the company the 1st player in the New York area and granted it a 7% market share in the whole USA on-line grocery market, even if the company only operates in 3 states[24].

Food delivery

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. New platforms connecting a large number of restaurants and menu types through a single web-tool have emerged.

The player that first entered this arena, Yemeksepeti (literal translation: Food Basket), still holds the market leadership, ensured by an extensive coverage of urban areas. The company was founded in 2001, as internet just started to emerge in Turkey, and dominates the on-line food delivery market with over 90% market share. Yemeksepeti gives small restaurants access to potential customers beyond their facilities' neighborhood. Early partnering with large restaurant chains, offering "at the door" payment solutions and providing high service quality have been the key success factors behind Yemeksepeti's expansion.

Today, the company provides services in 62 cities with over 10 thousand restaurants and acquires 3 million orders monthly. Apart from Turkey, Yemeksepeti operates in 9 other countries in Middle East and Eastern Europe: UAE, Qatar, Oman, Lebanon, Jordan, Saudi Arabia, Greece, Serbia and Romania[25]. Transaction volumes of Yemeksepeti in 2014 reached USD 137 mln. Delivery Hero, the large German food network with more than 100k restaurants and operations in 25 countries, acquired full stakes of Yemeksepeti for USD 589 mln in the first quarter of 2015[26].

27 Pandodaily
28 Euromonitor
29 Euromonitor
30 Hepsiburada
31 Akaçe annual evaluation report
32 CEO statements

The business model is based on providing a platform to connect all sorts of customers and restaurant types. The customer's order taken on-line is forwarded to the restaurant for preparation and the delivery is provided by the restaurant itself. Customers can monitor delivery status and then rate their full experience on the website. Payment can be completed on-line or at the door by cash or credit card. Yemeksepeti gets a 10% commission for each transaction.

The other reason behind Yemeksepeti's success is the decision to continuously invest in customer satisfaction. A dedicated call center employing 80 out of Yemeksepeti's 400 employees is responsible for communicating with customers and solving their issues. Yemeksepeti also maintains high-service quality by monitoring restaurants and removing low-performing ones from its network. Thanks to these efforts, the company has a customer base with an over 60% loyalty rate[27].

Consumer electronics

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[28].

Customer feedbacks are a strong enabler of e-commerce as most users nowadays start their journeys on-line 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[29], conducted a successful campaign to improve customer feedback, promoting a bonus system by which customers can earn vouchers to spend on next purchases[30] 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[31]. The web portal shows price offers from both vertical and other on-line retailers and builds comprehensive 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 off-line options. Teknosa, the local leading electronic retailer, found that the highest traffic and volume of on-line transactions was coming from the relatively underdeveloped eastern regions in Turkey (e.g. Sırnak, Hakkari, Mardin and Tunceli)[32], 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 southeast regions up by 50% in 2014.

THE WAY WE SEE IT.
THE KEY PILLARS FOR SUCCESSFUL
E-COMMERCE IN TURKEY

33 RJMetrics
34 RJMetric

Whichever the industry, developing a successful online business is far from being a straightforward and mechanic task, especially in today's highly dynamic online environment. Key success factors are rapidly changing, driven by the evolution in consumers' behaviours and expectations, along with an increasingly competitive online landscape distinguished by high market entrance rates, also from adjacent industries, emerging business models and overall high pressures on margins.

Since the e-commerce landscape is to many extents still to be discovered in full, companies need to be very cautious and thoughtful before embarking on the online journey. Without the right strategy, this would put at risk significant financial resources, their current brand image and the clarity of their positioning in their customers' eyes.
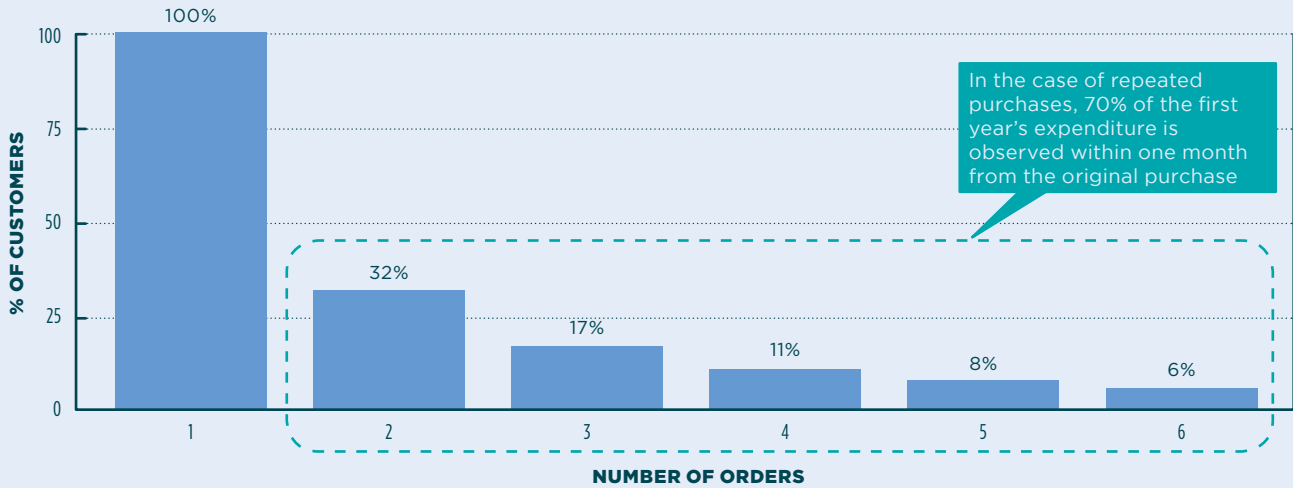
The good news for companies aiming at increasing their presence in the on-line world is that successful e-commerce players don't fall into a single, standard category. Their product strategy can be niche or more horizontal while their prices can be set between affordable and premium. To enjoy a strong positioning and a sustainable growth in the online arena, companies must however excel at turning one-time buyers into loyal customers.

In the past years, the main focus of online ventures has been that of getting the customer to buy today, with online platforms and marketing strategies being designed to capture online traffic and convert it to sales before the competition had a chance to. However, the days of easy and cheap customer acquisition are ending and the focus is consequently shifting towards getting customers, especially high-value ones, to buy today, come back tomorrow and advocate the company in the process.
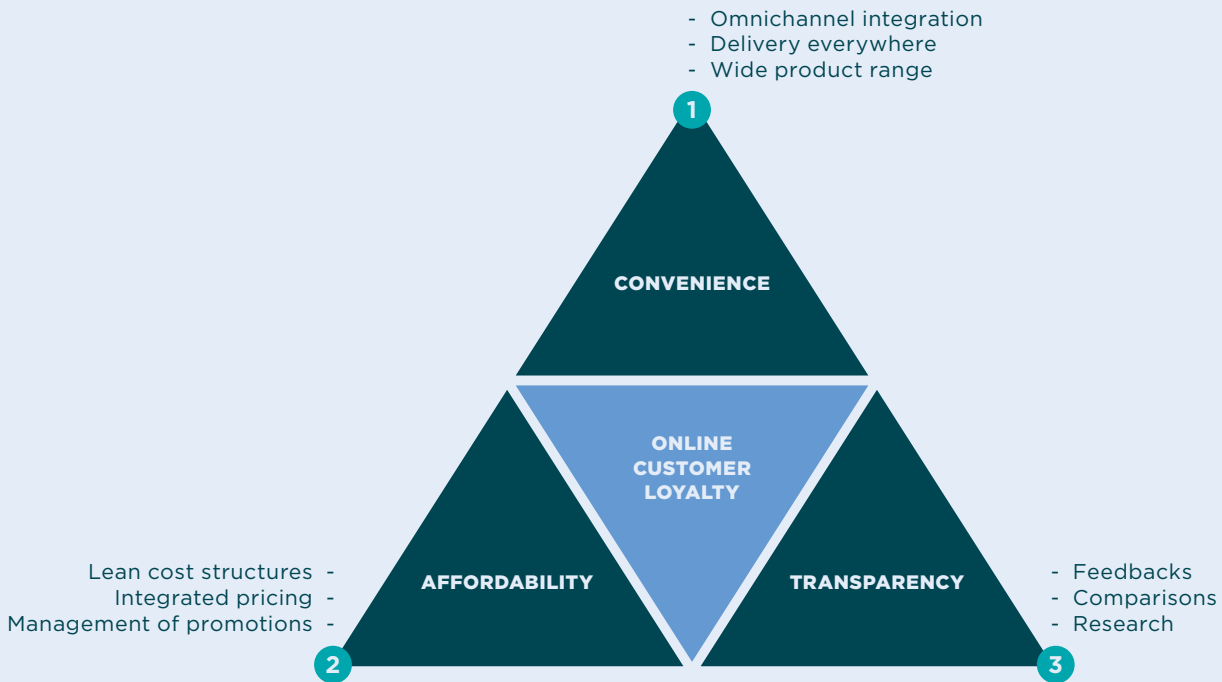
Research indicates that, on average, only ~30% of customers actually place a second order over the course of the first year, and even those who do typically spend ~70% of the year's total within the first 30 days from the original order[33], often for complementary items (Exhibit 11). Companies therefore have a very limited window of opportunity for transforming "hit and run" customers into loyal ones, with which to establish long-term profitable relationships.

Moreover, in the online environment value is far less evenly distributed than in the physical world, and the familiar "80/20" rule under which, no matter what the business, about 80% of the value typically comes from about 20% of the customers, is brought to an extreme. It is in fact estimated that, on average, the top one percent of online customers are worth 18[34] times the average one, often driving nearly all of a company's revenues.

EXHIBIT 11
Percentage of customers placing at least n orders in their first year

% OF CUSTOMERS

- 100%
- 32%
- 17%
- 11%
- 8%
- 6%

In the case of repeated purchases, 70% of the first year's expenditure is observed within one month from the original purchase

NUMBER OF ORDERS

EXHIBIT 12
Key pillars in e-commerce strategies

- Omnichannel integration
- Delivery everywhere
- Wide product range

1

CONVENIENCE

ONLINE CUSTOMER LOYALTY

Lean cost structures -
Integrated pricing -
Management of promotions -

AFFORDABILITY

TRANSPARENCY

- Feedbacks
- Comparisons
- Research

2

3

Source: RJMetrics

35 Forrester research web-influenced retail sales
36 Telegraph.co.uk

The success of an online business can therefore no longer be measured by acquisition rates alone but rather by successful customer engagement and loyalty, especially of high-value customers, enabled by effective and consistent on-line propositions built around 3 strategic pillars: convenience, affordability and transparency (Exhibit 12).

Convenience

Convenience to on-line customers usually takes the form of an easy access to on-line platforms, the simplicity of hassle-free purchasing processes and a large availability of products and services. With reference to the first one, in any sector there is a strong evidence that customers are building more and more solid expectations about a seamless shopping experience across multiple channels.

However, although multichannel approaches help companies to tap new customers, they often lack a coherent, holistic view. In this perspective, companies need to ask the following questions:

- How to address and meet new customers' expectations when designing e-commerce propositions?

- How to seamlessly integrate the customer management across different channels?

- What is the most suited delivery model to our customers?

- How to ride the surging mobile revolution?

The shift in customer expectations

Customer journeys are no longer confined to a single channel today. They might start in one channel (e.g. web) and proceed through numerous others (e.g. social media, email and phone). In advanced retail markets like the USA, even though 4 out of 5 purchases occur in stores, half of them are influenced by the online activities & online brand equity of the retailer[35]. Customers no longer accept not having instant information and control over the whole process. Uber, seamlessly connecting riders to drivers, provides data to its users in real-time. The app enables customers to track / cancel cars at any moment, and delivers "live" information to customers, from distances and waiting times to car types. Likewise, Apple Genius Bar's seamless and convenient customer service responds to the need for full control over the process. Customers make an appointment on-line and then meet at a given store with a specialist, who can investigate the problem by accessing the device history beforehand.

Physical / digital retail integration

Shoppers want to walk across different channels with no troubles. The luxury fashion retailer Burberry[36] has a flagship store equipped with multimedia technologies providing customers a seamless in-store shopping experience. By entering the store, customers can see audio-visual contents on full-length screens, mirrors and banners located on section walls. When a customer approaches a product, RFID tags attached to the items activate and display the article of clothing. Customers can place products on RFID platforms and can see how those products look like in the projected images. Also, sales reps have portable PoS machines for faster checkout processes.

[37] vibrantgfx
[38] Arcadian group
[39] Google traffic data
[40] Aberdeen group omnichannel customer care research
[41] Nielsen

Augmented reality is becoming popular as well. With these technologies, USPS, the American postal office, allows users to choose online which box size is appropriate to ship their parcels. When the object is located in front of the webcam, the augmented reality program provides 3D image of the best-fitted box[37].

Similarly, companies can redefine their omni-channel approach in line with their physical expansion strategies. In the case of Topshop, flagship stores in exclusive city locations are designed as showrooms to display the latest products, while pushing for the majority of its sales to take place on-line. The data gathered from online sales enables Topshop to decide where to open new stores or establish synergies with large international retailers. In line with this strategy, Topshop opened 2 flagship stores in Hong Kong and Australia and partnered with a retailer-chain in Germany. This move helped increase Topshop's international revenue by 33% in 2013[38].

Taking advantage of the mobile revolution

Connected mobile devices are taking over the planet and mobile traffic is expected to surpass desktop traffic in 2015[39]. The upcoming mobile revolution requires all businesses to increase their focus on the mobility of customers.

Walgreens has created a 'Scan-to-Refill' feature in its pharmacy service and observed remarkable adoption rates[40]. With the scanning feature embedded into their mobile app, customers can scan drug labels and pick-up their prescription refills in an hour.

Another well-known case is represented by the virtual shelves introduced by Tesco in South Korea. Commuters use their smartphones to scan for items on an interactive billboard using the retailer's free mobile app[41]. They can then choose a delivery time-window, thereby "making the most" of their commutes.

Reshaping logistics models

Myriads of different delivery combinations, together with their back-end logistic set-ups, have been tried in this area. Of course, the optimal solution differs from business to business, and customers have different needs.

Three distribution models are basically observed in the market: free delivery and returns, click-and-collect and charged deliveries.

42 Telegraph.co.uk
43 360pi

UK's Zara and Asos, with relatively higher prices, offer deliveries for free, absorbing part of their delivery expenses into nominal prices of goods sold. The practice has also spread to emerging markets, as Turkey's Boyner and online-giant Hepsiburada offer free deliveries. Yoox, a high margin e-tailer, is trying to differentiate from competitors by introducing a "butler service", where the delivery-man waits for 15 minutes while customers try on their clothes[42].

However, free of charge delivery and returns are hard to sustain for low price, low margin retailers. H&M for example charges for shipping. Amazon instead has a specific offer for loyal customers: Amazon Prime, an expedited-shipping offer where deliveries are free for two day-shipping. For retailers with an established footprint, click-and-collect seems to be a viable, albeit less effective option. UK's Next and Marks&Spencer have introduced click-and-collect systems to leverage on their wide-spread store network to keep costs as low as possible.

Affordability

Thanks to the transparency of on-line transactions, companies are now able to track each other's pricing and promotion strategies and react very quickly. This has led to an increasing adoption of dynamic pricing approaches by companies. The average on-line price updating cycle in many sectors is now in the range of 2-5 days, and varies mainly with the product type and company's strategy[43]. This new reality poses serious challenges to traditional pricing habits (especially in B2B); in fact, does it still make sense to work with rigid, quarterly or semiannually updated price lists, if on-line price level change every day?

Even if these dynamics might push competitive rivalry and set an industry into a commoditization spiral, there are many ways to move away from the swamps of solely-price-based competition. Consumers do not only search for the lowest price and often the hidden service components allow companies to distance themselves from a "lowest-price-kills-all" scenario.

Looking at Black Friday sales of the largest global e-commerce players in 2013, Amazon had the lowest price in most of the categories yet it didn't offer the lowest price in all of them. Similarly, Walmart had the largest product range in low-end products but didn't have the lowest price in all of them. A closer look at these pricing patterns shows that categories with limited price elasticity (e.g. stationary, home essentials, car care products) do not undergo "inevitable" down-pricing.

Also, global retailers are not always able / interested in reducing prices at the lowest levels, especially when the related products come available to them with limited quantities / assortment, or can be easily managed by the companies or brands they belong to (e.g. luxury brands, eyewear, watches…).

A finer segmentation of customer needs and product characteristics will often give companies the elements to devise the right pricing strategies. For instance, Turkey's Hizlial ("Get Fast"), was a late comer into mass-market e-commerce, but was able to leverage on faster delivery times to appeal to customers and differentiate itself. As a result, Hizlial managed to consistently chip-away market share from the leader, Hepsiburada.

Similarly, the local on-line home decoration portal Evmanya was able to differentiate itself in an industry which is often subject to commoditization pressures, with an astonishing variety of products (75k SKUs), offered together with suggestions on their combinations. The leading on-line travel agency in Turkey, Bavul, maintains its customers' attention span by projecting the total cost of a trip for customers on different destinations, for easier comparisons.

Transparency

Together with e-commerce possibilities, internet also made available to consumers pervasive tools to compare prices or gain deeper knowledge about sellers and products. As a consequence, on-line players are naturally forced to increase their transparency on the market since millions of followers, through review websites, blogs and social media accounts, are ready to support or destroy their businesses.

The social media and reviews' effect on e-commerce

Today, Facebook has 1.44 billion, Twitter 300 million and Instagram over 300 million active subscribers, which make the use of these platforms inevitable for marketing, PR and sales activities, even for the smallest enterprises.

Customers are also stimulated by a flurry of independent influencers like celebrities, bloggers, and "gurus". These accounts usually build a more personal relationship with their followers and customers are more likely to listen to their advice. Consider Nike as an example: the brand has adapted itself to this new way of subtly supporting its brand and products by endorsing popular fitness figures on Instagram which are followed by millions of people.

Besides utilizing social media to advertise their products, companies should be responsive to feedbacks and pro-actively engage into the thousands of conversations that constantly take place on the web. Statistically, 61% of people rely on consumer reviews for product information or research before making a buying decision, while customers use different platforms to share their experiences with other friends/consumers (e.g. company websites, text messaging, social media and consumer review websites).

The limits of customized recommendations and personal data requests

In Turkey, customers are becoming more and more sensitive about providing their personal information on the web due to both restricting governmental policies and increasing number of annoying commercial ads they are being exposed to every day.

Even though on-line players need their customers' information in order to learn about their preferences and manage their relationships with them, customers are often reluctant to fulfil these requests. The best strategy here is to clearly explain what the company is planning to do with the provided information. This may prevent regrettable misunderstandings even though it may not fully solve the problem.

77%[44] of on-line buyers state that they have higher trust in those businesses who are fully transparent about why the data is being collected and how they plan to use it.

The same holds true for customized recommendations. On-line retailers tend to track customers' purchasing patterns and search histories and tailor their product/service recommendations accordingly. Although this may sound like an easy, no-brain practice, players unfortunately often fail in this process. In the U.S., Target sent promotional emails about specific products to customers identified as pregnant based on their previous searches.
As a result, a teen girl's family was informed about their daughter's pregnancy by the company[45]. On the other hand, Netflix, the world's largest online movie rental platform, has been successfully offering customized recommendations to its users. Netflix gives personal advice to its customers and builds trust through transparency.

The recommendations are based on past preferences or average ratings of the movies and presented with short explanations (e.g.: "since you've watched that movie…").

Thus, the players should pay more attention to understanding the importance of transparency and rising power of social media, and should acknowledge the limits and risks embedded in direct approaches towards customers. To this regard, consulting with social media agencies and market research firms would help them develop more successful and transparent online strategies.

OUR EXPERIENCE
IN E-COMMERCE STRATEGY

Value Partners has developed competencies with a 360° strategic view in the e-commerce business and completed successful engagements with its clients from finance, telecom and media industries, located across Asia, Middle East and Europe.

We supported our clients in market entry strategies, opportunity assessment / sizing and platform / portal design & developments and delivered calibrated projects to address best-fit solutions and strategies.

Selected engagements in market entry strategies

Automotive

• For a global component manufacturer, we assessed the current European B2C e-commerce market, identified target customer segments and evaluated strategic options for an entry into the e-commerce channel.

Telecom

• For a leading telecom operator in Malaysia, we assessed the opportunity of entering the local e-commerce market, identified market opportunities, developed a market entry strategy for the operator and screened potential partnership targets

• For a leading Mobile operator in Taiwan, we developed a market entry strategy in the Chinese e-commerce market and concluded the study with a comprehensive market entry business plan, business cases and financial models

Companies need to ask the following questions: how to address and meet new customers' expectations when designing e-commerce propositions? How to seamlessly integrate customer management across different channels? What is the most suited delivery model to customers?

VALUE PARTNERS

Media

- For a leading Asian Media group, we assisted the market entry in the e-commerce business, both home and abroad. We prioritized selected country markets then developed operating models and designed a multi-platform integration scheme, overall business plan and financial model

- For a European on-line media company, we produced a market strategy and in-depth financial business plan to analyze the opportunity in the acquisition of a Russia-based music download site

- For a world-renewed news and multimedia company, we forecasted the revenues of its new media businesses, including an e-commerce venture and focused on e-commerce market sizing and evolution

- For a major UK cable provider and content creator, we evaluated the viability of launching a multi-platform e-commerce proposition. Following approval of the proposed business and strategic plan, we also successfully supported the implementation phase of the project

Finance

- For a global banking and financial services company based in Italy, we redefined and designed the e-banking system, in order to improve its E-bank usage and customer experience

- For the leading Italian bank, we supported the design of a new retail web portal, with focus on single-screen user interface and web 2.0

- For a global leading France-based finance company, we set up a unified e-banking system, and enhanced the brand image and customer experience delivery

In line with our previous project experience and dedicated knowledge from many years of collaboration with clients across different industries, Value Partners is eager to keep formulating and developing new synergies for the worlds' rapidly changing e-commerce ecosystem.

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ABOUT
VALUE PARTNERS

Value Partners is a global management consulting firm that works with multinational corporations and high-potential entrepreneurial businesses to identify and pursue value enhancement initiatives across innovation, international expansion, and operational effectiveness.

Founded in Milan in 1993, over the years, Value Partners has grown to over 30 global partners and more than 250 professional consultants from 23 countries. It has offices in Milan, London, Istanbul, Dubai, São Paulo, Buenos Aires, Beijing, Shanghai, Hong Kong and Singapore. Value Partners has built a portfolio of more than 350 international clients – from the original 10 in 1993 – with a worldwide revenue mix, as over 60 percent of the management consulting revenues are generated outside Europe.

Value Partners combines methodological approaches, analytical frameworks and professional tools with a practical hands-on attitude and a wealth of industry knowledge and executive capacity within many sectors, such as telecommunications, new media, financial services, energy, manufacturing and hi-tech.

For more information on the issues raised in this note please contact the authors. Find all the contact details on valuepartners.com.

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