

Market Monitor

Turkish domestic Freight and Distribution market

Highlights

- Macroeconomic indicators moderately positive on major short-term growth Turkish economy
- The market for Turkish domestic distribution is improving and rated notably higher than the BRIC countries
- Inbound freight and outbound distribution services have the highest rate of outsourcing in the logistics process
- 46% of all outsourced logistics services are so called 'dedicated' suppliers. Only 30% of outsourced logistics services is performed by a regular 3PL
- Warehouse management is expected to be increasingly outsourced notably by companies in the industrial sector. Management of distribution providers and value added services also ranked high in potential out-sourced services.
- Very few companies are using B2C distribution. Especially the Consumer Products sector recognises the importance of this service for the longer term but currently the brick and mortar retail model dominates
- Domestic delivery costs of parcels into urban areas are favourable compared to Europe. This makes direct-to-consumer delivery extra attractive in Turkey.
- Vendor Managed Inventory is ranked highest in future importance together with cross-docking these services will play an important future role in Turkish supply chains
- Overall Turkish supply chains are rated as moderately complex and costs are rated low to average. The distribution cost comparison against European cost levels confirms this at least for distribution services.
- The majority of logistics purchase decisions is made on price and further cost reduction ranks highest on the agenda as priority goal for the next 5 years.
- Turkish users are overall satisfied with domestic distribution service. On-time performance is considered most important and rated as good. Proactive reporting, track & trace and flexibility score lower on satisfaction but are not considered priorities.

The heydays of 2009 to 2011 may be over but Turkey is still a very attractive market for European manufacturers. After years of 9% GDP growth followed by strong job creation and a 10% inflation rate, 2012 and 2013 have seen more modest but stable continuous growth. Dun & Bradstreet studies suggest that Turkish growth will slow down over the period of 2013-2017. The year 2013 shows a 2.7% increase in private spending compared to 2012 and imports are up 7% for the same period. The Purchase Managers' Index in October 2013 was 53.3, down slightly from September's eight-month high of 54. Although exports are increasing, Turkey remains a net importing country specifically for energy, high tech, industrial and consumer goods. In the absence of energy resources of its own, the Turkish economy has been hit hard by the current rise in oil prices due to the Syrian conflict. The oil price fluctuations are heavily impacting logistics costs in Turkey.

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Methodology

During and after the last International Supply Chain Summit in Istanbul (<http://iscsi2013.com/>), attendees with senior logistics management or general management positions were asked their opinion on the current state of the domestic freight and parcel distribution market in Turkey. Additionally a questionnaire was sent to executives at major Turkish firms and international companies with sizeable Turkish subsidiaries. The association of Turkish logistics professionals (LODER) as well as Yıldıztekin Logistics Consulting contributed to the preparation of the questionnaire and conducted the survey. In total, 126 respondents holding executive-level logistics positions in a variety of industries participated in the study.

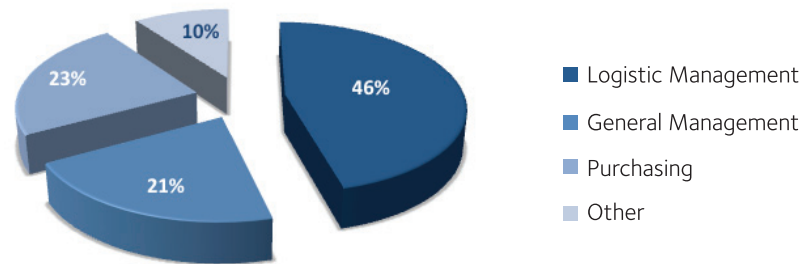


Fig. 1 Respondents by role

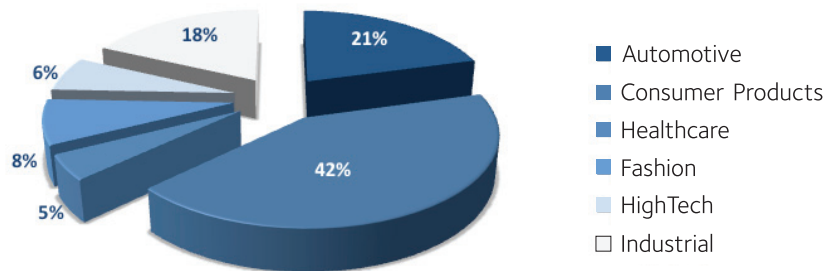


Fig. 2 Respondents by industry

Logistics environment

Compared to the BRIC countries, for example, Turkey is slightly more accessible to notably European exporters because of its proximity to Europe and the long-term perspective of closer ties between the European Union and Turkey. From a logistics perspective, when entering the Turkish market new players face a wide array of challenges. Despite rising 3 places on the World Bank's Ease of Doing Business Index to rank 69th, the country still has relatively complex and lengthy import procedures compared to its European neighbours. However, in the World Bank's Logistics Performance Index Turkey currently holds a favourable 27th position, putting it in the same league as countries such as China. According to a study by Transport Intelligence on the logistics infrastructure in emerging markets, Turkey has moved up the ranks to the 10th position, just below Mexico but ahead of Chile. Compared to other BRIC markets, the logistics infrastructure in Turkey has a notably better rating and is still improving.

Typical logistics services that are outsourced

Overall, the penetration of 3PLs into Turkish supply chains lags slightly behind Europe. This represents opportunities to deepen business relations and expand the cooperation between logistics providers and shippers to cover additional services. Note the low rate of home deliveries. Even when we only include companies in fashion, high tech and consumer products, home deliveries are only used by 20% of the companies interviewed. Despite the favourable parcel distribution costs compared to Europe, still only a relatively small amount of companies deliver directly to end consumers. Traditional distributor-retailer business models remain the dominating supply chain structure.

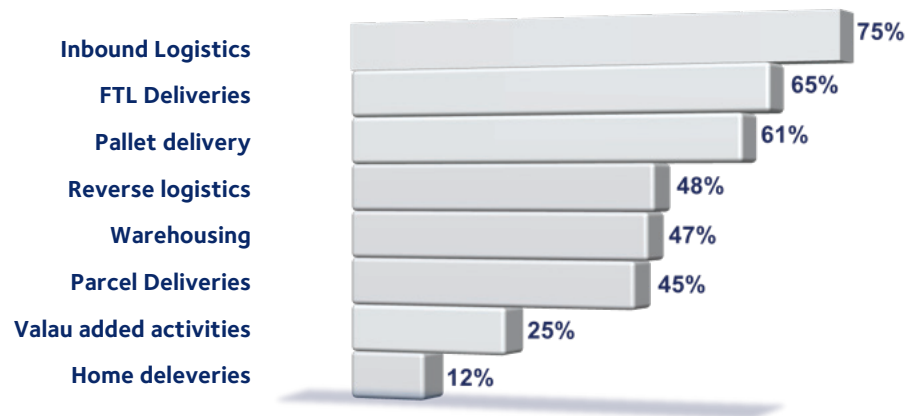


Fig. 3 Percentage of respondents who indicate that they currently outsource a logistics service

It is important to bear in mind that, of the above distribution services, only 30% are outsourced to one or more large 3PL. In fact, 46% of outsourced logistics activities are being operated by so-called 'dedicated' providers. These local logistics companies often have a very small customer base, and sometimes only work for one client.

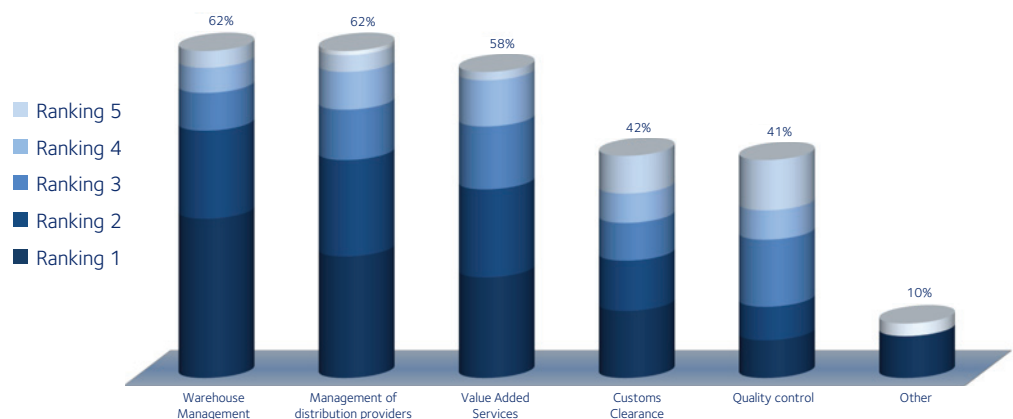


Fig. 4 Percentage of respondents who indicate that they expect to outsource a logistics activity in the near future, ranked by importance (1 = most important)

Logistics executives in Turkey expect that above all warehouse management will be increasingly outsourced. Industrial companies notably being the most likely to consider outsourcing warehousing activities. Growing volumes for manufacturers and wholesalers are an important reason behind the expected rise in outsourced warehousing: as such companies increase their scale, their on-site warehouses become too small. Manufacturers increasingly want to optimise the use of their space for production activities. On top of the above, by outsourcing warehousing activities companies often avoid the need for capital investments, long-term lease contracts or having to relocate the entire company to a larger facility. Consumer products companies are particularly interested in outsourcing the management of distribution providers.

**Logistics services
that will become
increasingly
important for
Turkish businesses**

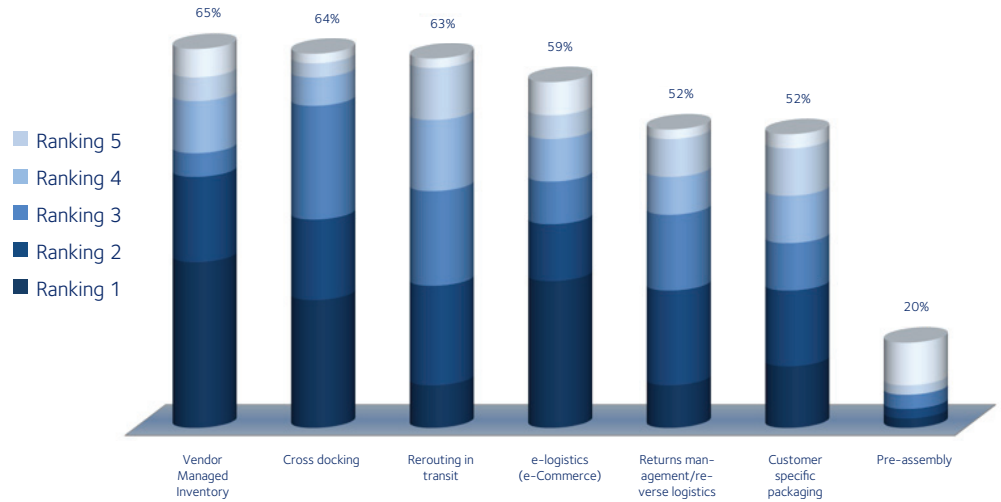


Fig. 5 Percentage of respondents who indicate that a logistics service will become increasingly important in the near future, ranked by importance (1 = most important)

Vendor managed inventory services are being considered across the board to become a priority in further optimizing the supply chain but notably in the automotive sector. Cross docking is a good second but was nevertheless not considered as important by industrial companies. Not surprisingly the consumer products industry is the largest contributor to the rank 1 classification for e-Logistics. Despite the traditional retail models that are currently still in place, this confirms that Consumer Products companies expect a growing market for Business to Consumer deliveries.



Complexity and cost of Turkish supply chains

Overall only 15% of respondents rates its supply chain as a simple and straightforward process, 60% indicates to deal with some degree of complexity and regular exceptions to the process and 25% reports high complexity and frequent major exceptions to their logistics operation. It is remarkable that from the people that indicated to have a supply chain with frequent major exceptions 85% of respondents were in General Management versus 15% in logistics, whereas the group reporting to experience only minor exceptions to an otherwise standard process consisted of 80% logistics functions. This could suggest that the supply chain function is not always optimally communicated to and/or understood by General Management. From a sector perspective, 39% of automotive respondents classified their supply chain as highly complex compared to only 15% for industrial supply chains.

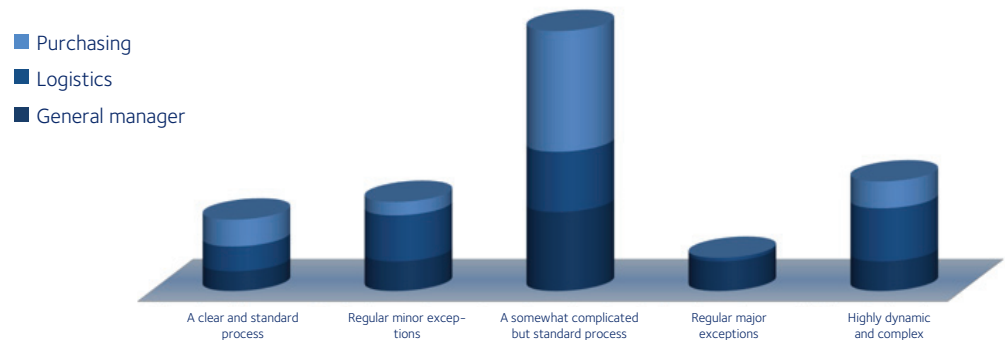


Fig. 6 Described complexity of supply chain by function

Logistics costs as a % of revenue is predominantly considered very low to average. General Management usually estimates these costs to be lower than the other functions. Purchasing roles more often state logistics to be higher than the other functions.

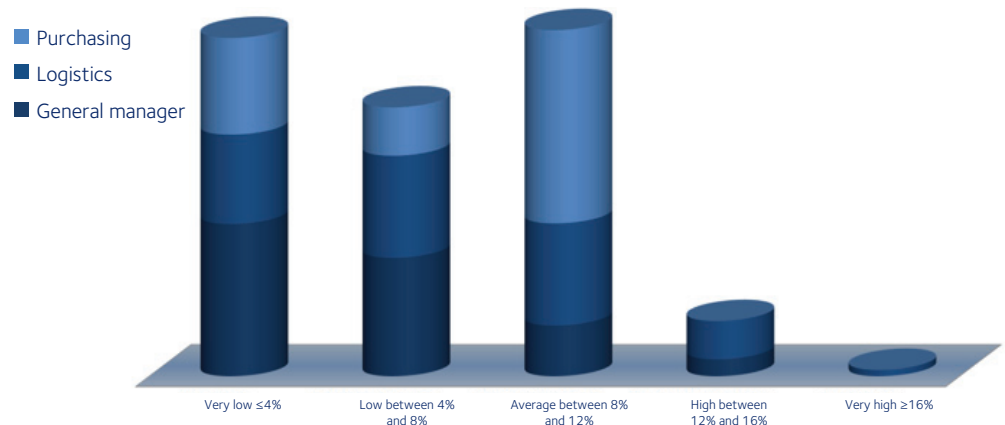


Fig. 7 Supply chain costs as a percentage of revenue

Automotive respondents relatively rated their supply chains costs lower than consumer products and industrial respondents their respective supply chain costs. In combination with the rated complexity of automotive supply chains this would indicate this sector to have a more mature purchasing function.

Priorities when choosing a distribution provider

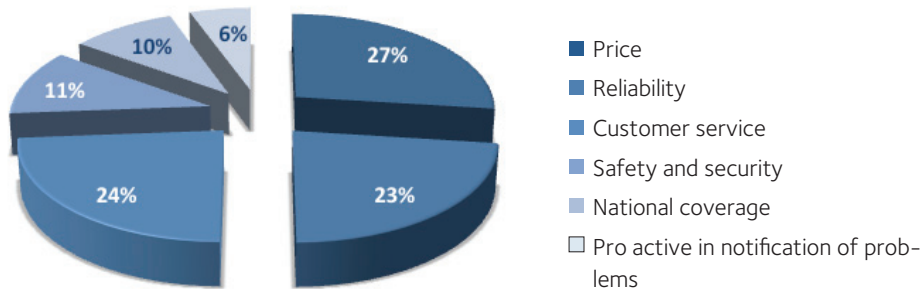


Fig. 8 Percentage of respondents who regard a 3PL selection criterion as 'most important'

In terms of highest ranking criterium for selection of a service provider there is an even balance between price, reliability and customer service. Differences in purchasing priorities get more pronounced when zooming in on the different industries. In automotive the focus on price is double the average with 60% of respondent stating it to be their main decision criterion. The consumer products industry seems to be more focussed on quality ranking reliability and customer service higher than price.

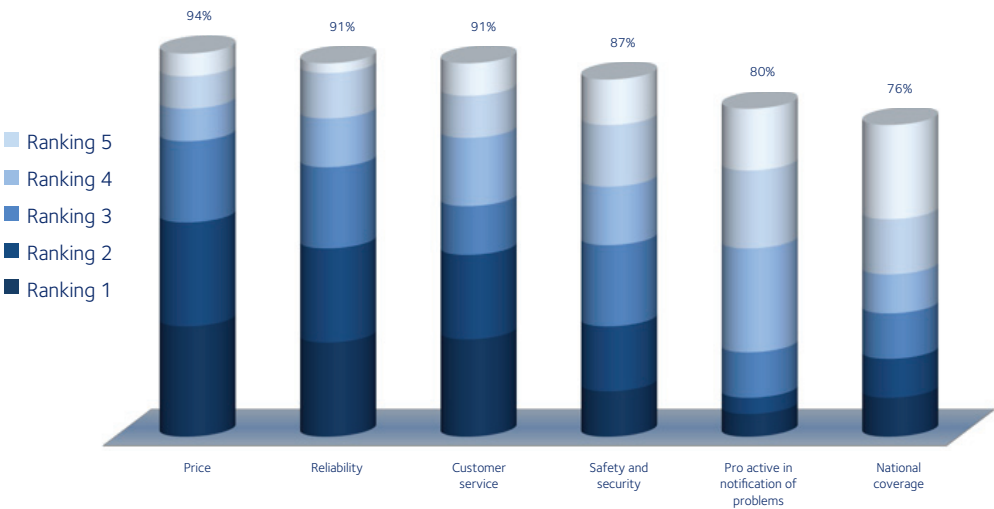


Fig. 9 Percentage of respondents who mention a 3PL selection criterion, ranked by importance (1 = most important)

Distribution service attributes

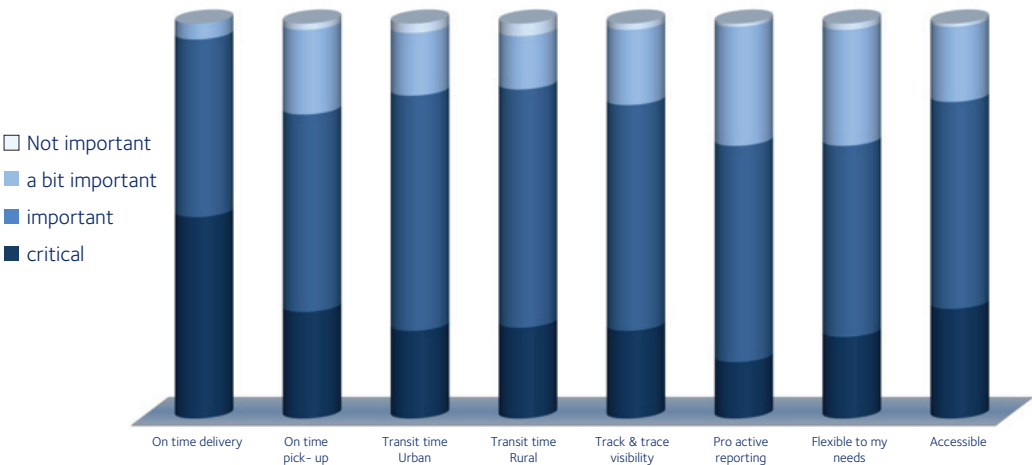


Fig. 10 Percentage of respondents who mention a service attribute, ranked by importance

Overall, on-time delivery is being regarded as the most critical service attribute for distribution service. Notably for Automotive companies this item is predominantly marked as critical, whereas respondents from other industries rate on-time delivery in between important and critical. As Transit time ranks significantly lower, we can assume that the total time in transit of goods is considered to be less important than the delivery of the goods at the agreed time. Rural ranks equal to urban in terms of transit time which could indicate that there are no significant problems to deliver into more remote areas.

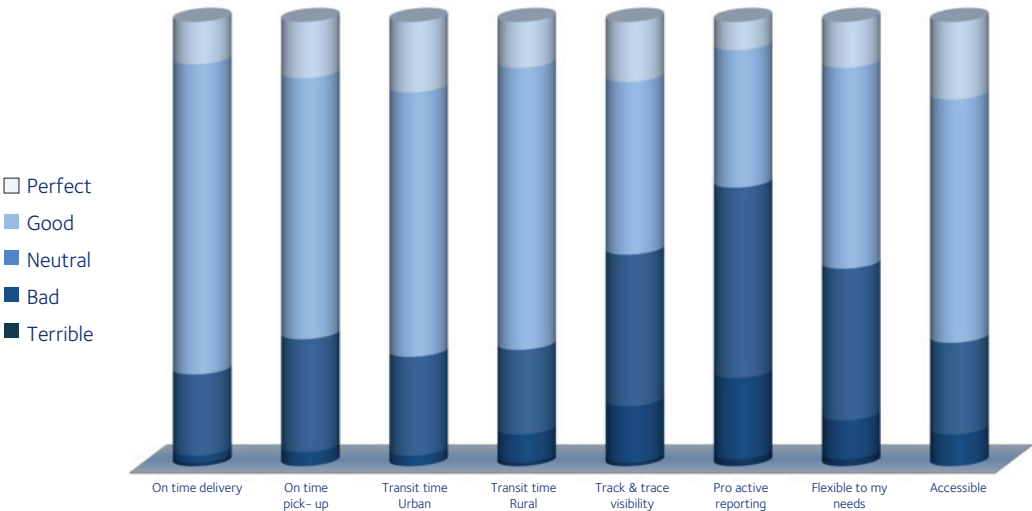


Fig. 11 Respondent rating of current distribution provider by service attribute

The overview shows that Turkish customers are relatively satisfied with the distribution service attributes. Specifically on priority aspects that are deemed critical, the perceived performance of distribution providers is good. Quality of reporting, track & trace and flexibility are rated lower but the importance assigned to these attributes is lower too.

Distribution costs

Comparing Turkish distribution cost to European price level on similar distances there is a distinct difference between lightweight parcel shipments and relatively heavier shipments. Where parcel shipment costs are approximately 60–70%% lower, heavier weight shipments tend to be relatively more expensive on similar lanes. Due to lower labour costs the more labour intensive distribution is relatively cheap. This relative cost advantage becomes less important in more capital intensive forms of distribution.

	Regional - Urban		Regional - Rural (65KM)		Interregional - Urban		Interregional - Rural	
	Amsterdam	Istanbul	Amsterdam	Istanbul	Amsterdam	Istanbul	Amsterdam	Istanbul
	Amsterdam - NL	Istanbul - TR	Enkhuizen - NL	Suba 1- TR	Berlin- DE	Izmir- TR	Belfort- FR	Isparta- TR
Parcel 5 kg	-72%		-69%		-72%		-72%	
Parcel 25 kg	-61%		-55%		-64%		-48%	
Pallet 800 kg	5%		35%		61%		11%	
Pallet 800-15000 kg	-4%		12%		6%		0%	

Fig. 12 Comparison of distribution costs on similar lanes

Challenges in the Turkish distribution market

When asked what the main logistics challenges will be in the next 5 years 96% mentions reduction of logistics costs, of which 71% sees this as their top priority. Customer service, Inventory and delivery options were mentioned but seem to be considered considerably less of a priority.

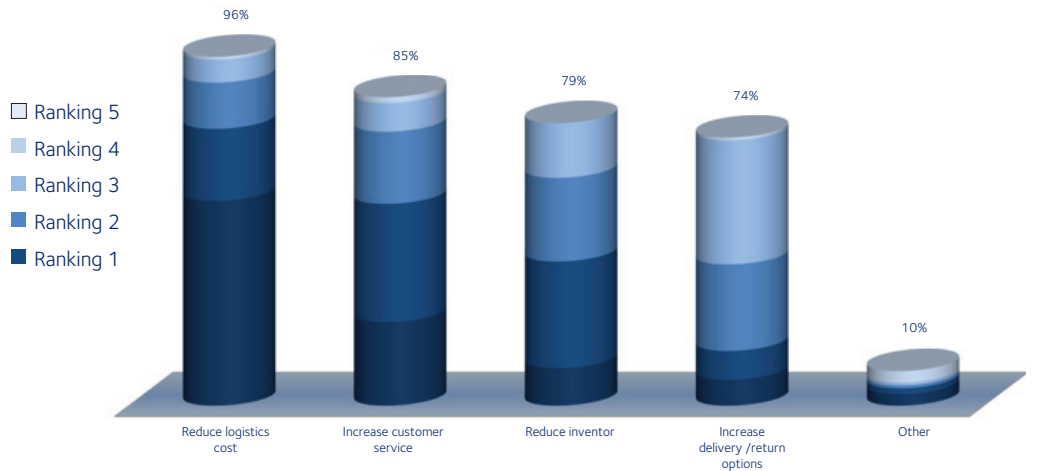


Fig. 13 Main challenges in managing Turkish supply chains over the next 5 years

Looking at industry level the Automotive industry seems to be significantly less concerned with customer services being mentioned as a priority by only 7% of the executives from this industry. This area is being mentioned more than 4x more frequent by the other industries. On the contrary, the automotive industry is almost solely responsible for the 10% of ‘other challenges’ warranting further investigation into the specific distribution requirements of this sector in Turkey. Lastly, the Consumer Products industry showed a below average concern for inventory levels which could be correlated to the relatively high rate of in-house warehousing and distribution in this industry.

Sources

Market HSBC Purchase Managers’ Index, OECD Economic Indicators, World Bank’s Ease of Doing Business, World Bank’s Logistics Performance Index, DSV Netherlands and DSV Turkey distribution cost data.