

strategy&

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Turkish Retail Sector Overview

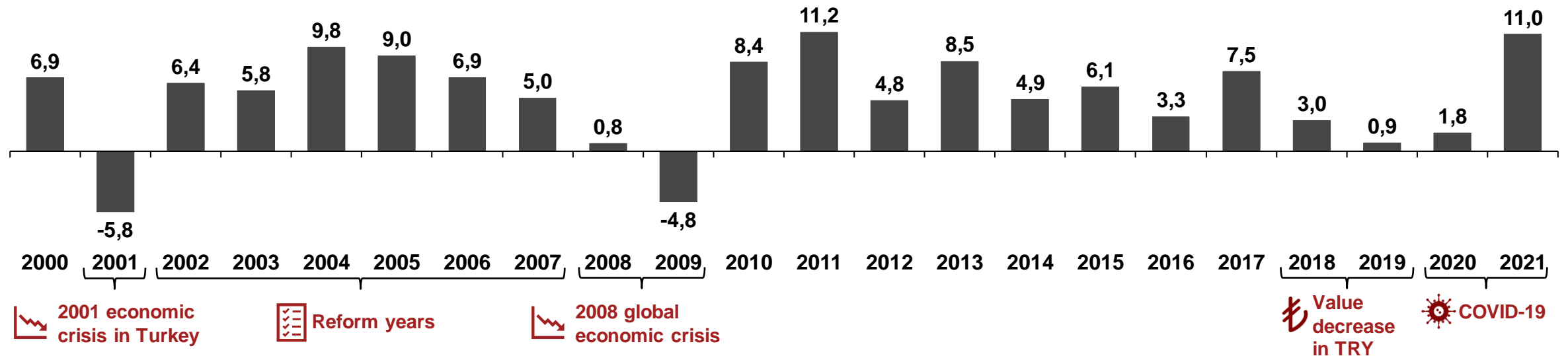
March 2022



Despite the exchange rate fluctuations and the pandemic, Turkey experienced constant growth in GDP following the 2008 crisis

Overview of Turkey's economic performance in recent years

Real GDP change (2000-2021, TRY %)



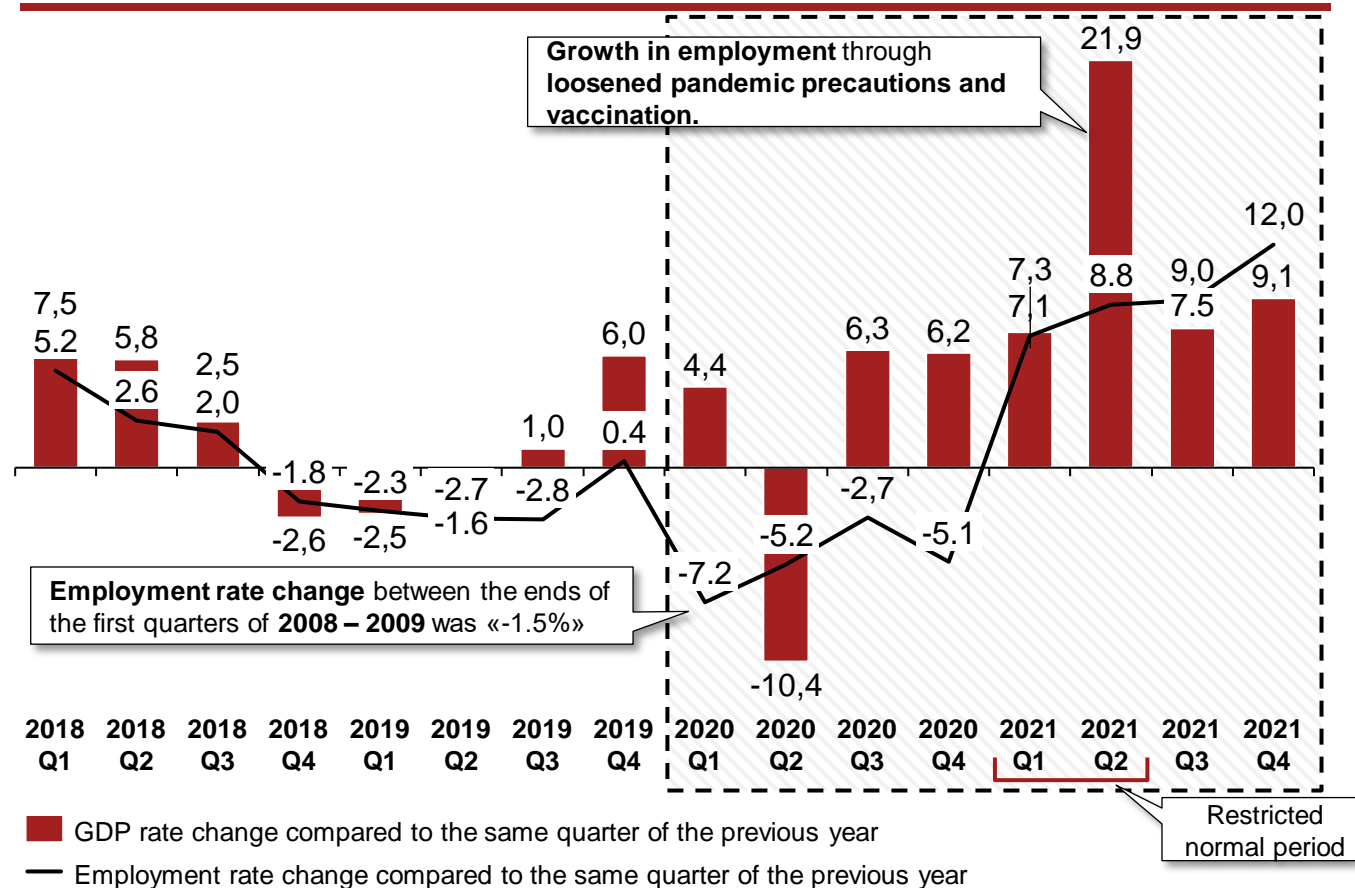
As in the rest of the world, **economic activity slowed in Turkey during COVID-19**. However, unlike the rest of the world, its **real GDP grew** with the effect of policies (decreased borrowing costs and a significant increase in credit growth rates) aiming to mitigate the economic effects of COVID-19.

The main reasons for the increase in 2021 are i) low base effect from 2020, ii) recovery in domestic and foreign demand and in the service industry after the vaccine, iii) strong position in foreign demand and continuous increase in the export and import industry.

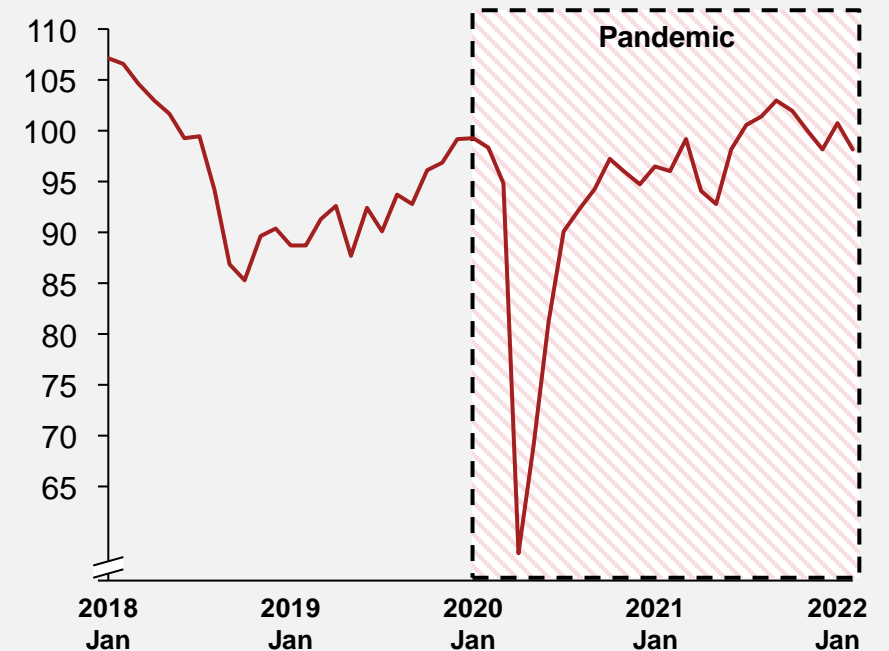
Macro indicators such as employment and economic confidence index have recovered with the normalization process

The effect of the pandemic on Turkey

Real GDP and employment change (2018-2021, %)



Economic confidence index¹ (2018-Feb 2022)

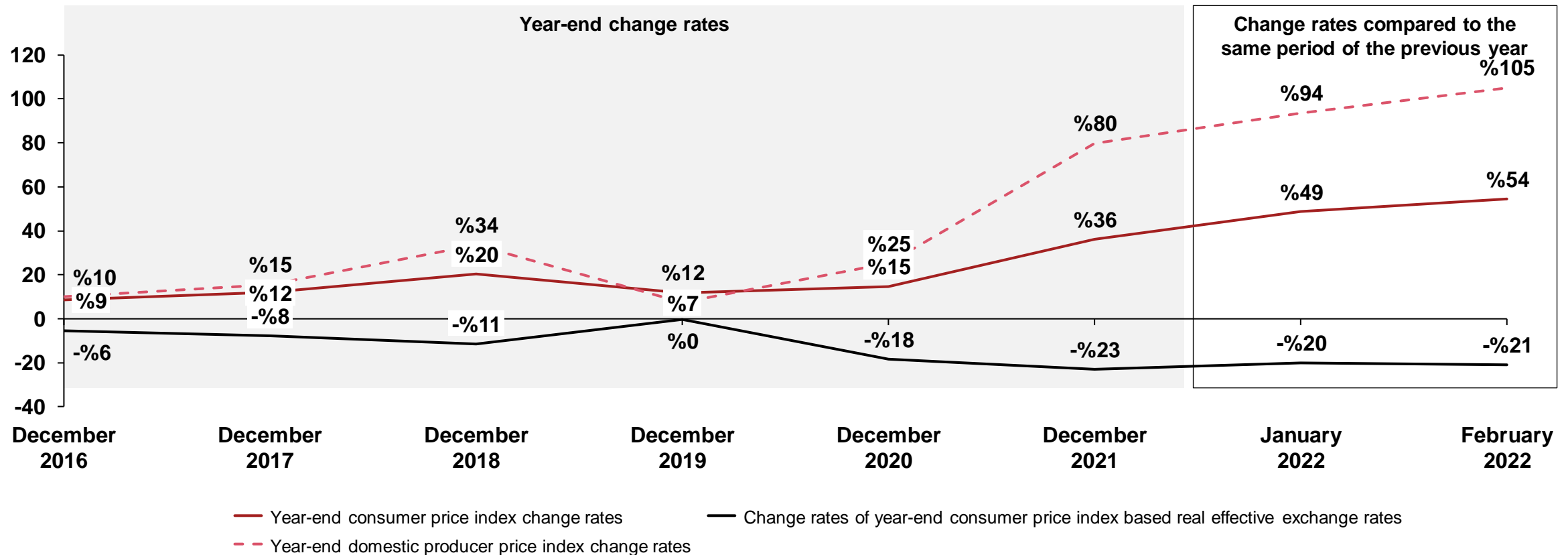


1) The economic confidence index includes the sub-indexes of the consumer confidence index, the sub-indexes of the real industry (production industry) confidence index, the bottom indexes of the service industry confidence index, the bottom indexes of the retail trade industry confidence index and the bottom indexes of the construction industry confidence index.
Source: TSI, Strategy& analysis

However, the decline in the value of the TRY and increasing inflation affected the industry recently

The effect of the pandemic on inflation

Year-end CPI, domestic producer price index and real effective exchange rate (2016-Feb 2022, %)



1) According to the CBRT's definition, the nominal effective exchange rate is the Turkish lira's weighted average value based on the currencies of countries that have significant shares in Turkey's foreign trade. The weights are identified using binary trade trends. Real effective exchange rate is identified by adjusting the relative price effects in the nominal effective exchange rate.
 Source: CBRT, TSI, Strategy& analysis

Under these conditions, the retail sector saw changes in 5 main fields

Main fields of change for consumers and retailers



1

Stricter COVID-19 precautions restricted mobility and affected daily consumer behaviours



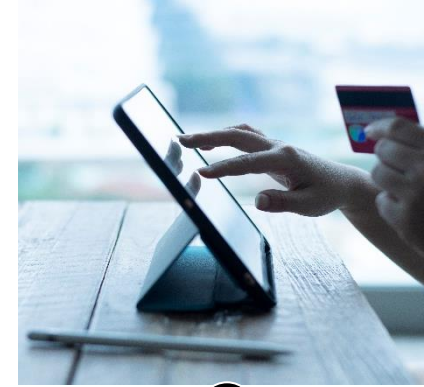
2

E-commerce contributed significantly to retail industry volume



3

Mobile devices were the most frequently used online shopping channel during the pandemic



4

Increase in e-commerce and online shopping habits have shown a tendency to spread throughout the population



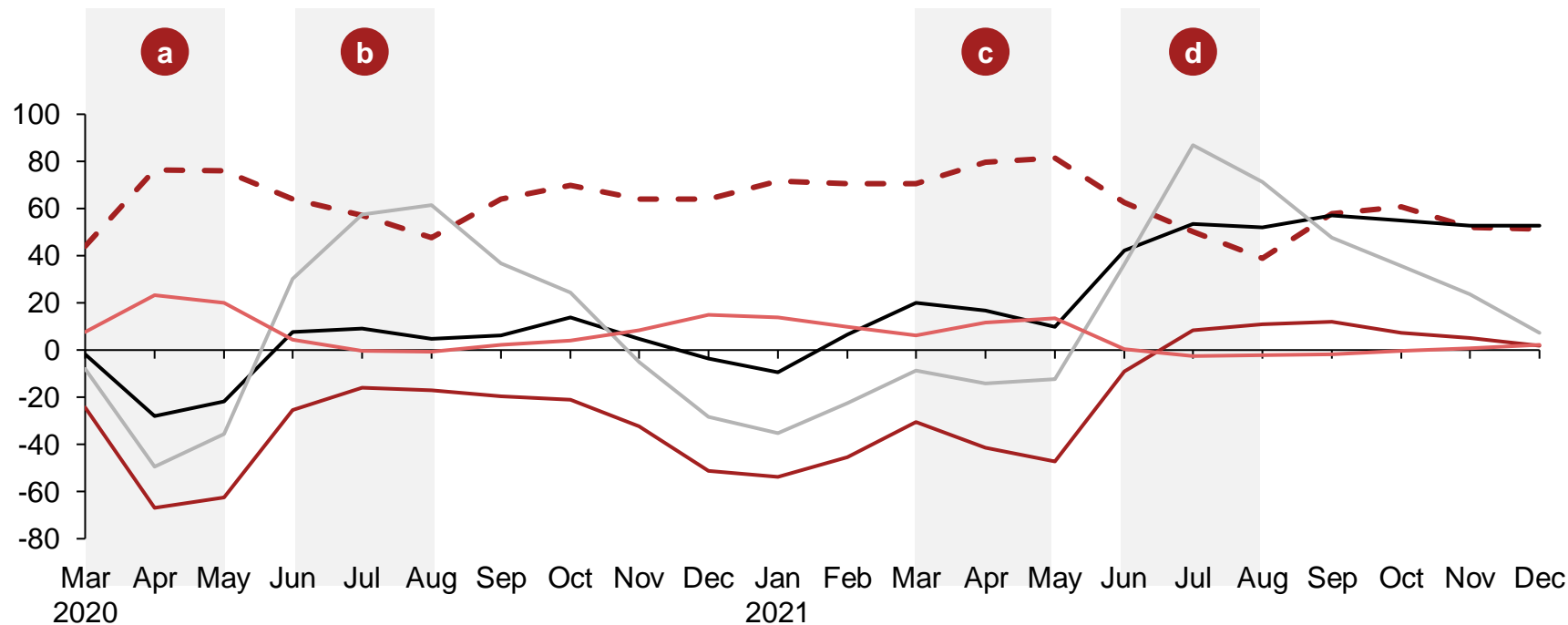
5

The number of businesses engaged in e-commerce activities and the share of online channel in total sales have increased

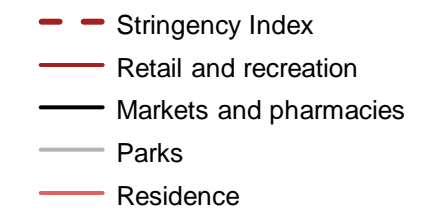
Stricter COVID-19 precautions restricted mobility and affected daily consumer behaviours

Mobility and retail industry in Turkey

COVID-19 Stringency Index¹ and Mobility Trends² (March 2020 - December 2021)



- a** The most affected areas after the first lockdown precautions were **retail and recreation**
- b** **Parks** were one of the most in-demand locations in this period
- c** Decrease in **retail mobility** in the periods when restrictions increased
- d** **Increase in mobility** trends for non-residence areas with the **decrease in restrictions**

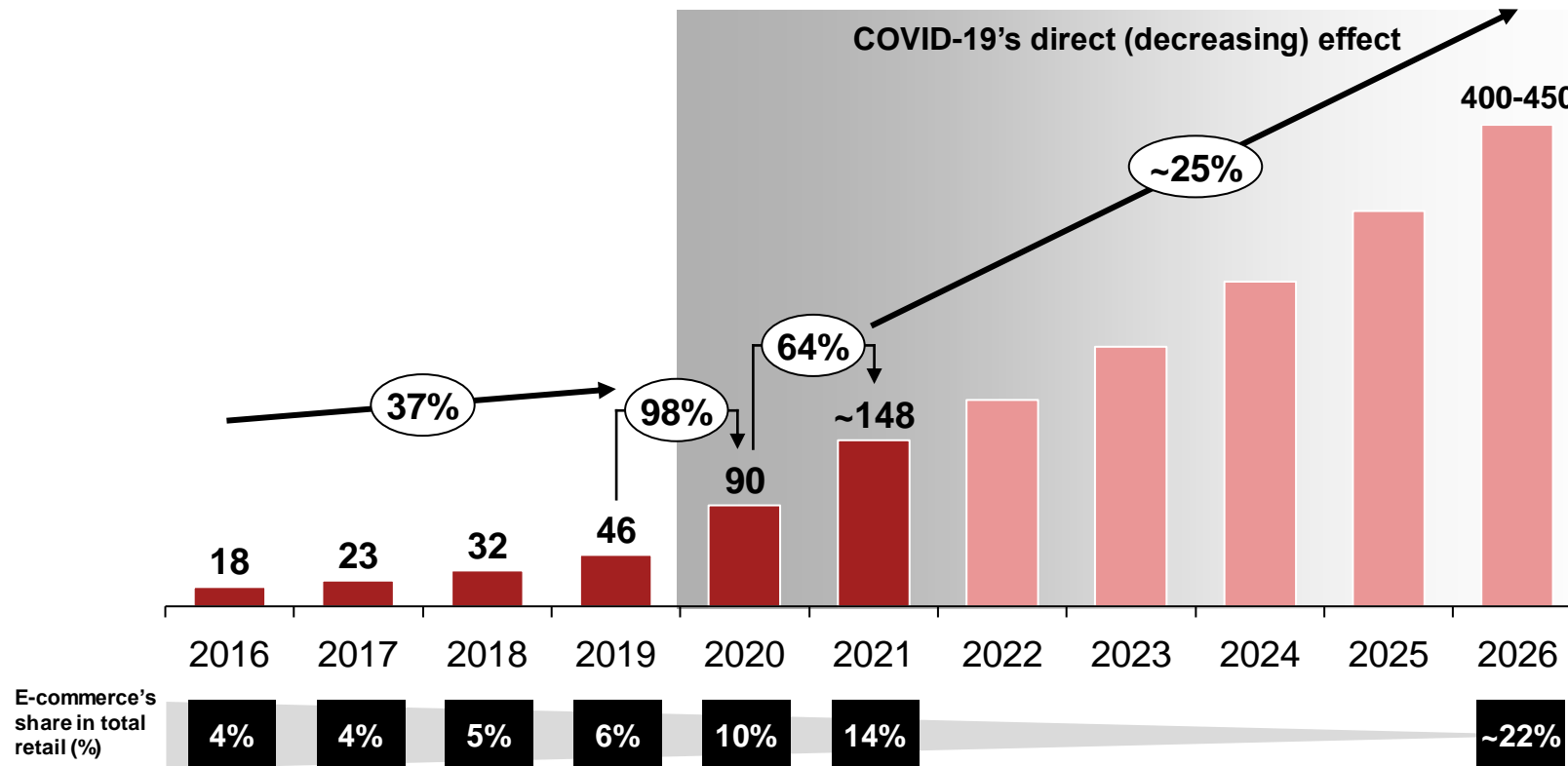


Note: Index and trend values consider monthly averages.
1) The stringency index is a composite measure based on many indicators including school closures, workplace closures, and travel bans, rescaled to a value from 0 to 100 (100 = strictest). If policies vary at the sub national level, the index shows the level of the strictest subregion. 2) Mobility trends reflect visits to different places and the percentage change of the time spent in these places compared to the reference value. The reference value is the relevant weekday's median value for 5 weeks between 3 January and 6 February 2020. Source: Oxford University, Google COVID-19 Community Mobility Report, Strategy& analysis

E-commerce contributed significantly to retail industry volume

Retail e-commerce volume increase during COVID-19 and e-commerce share in retail

E-commerce volume¹ and its share in total retail (2016-2026, billion TRY)

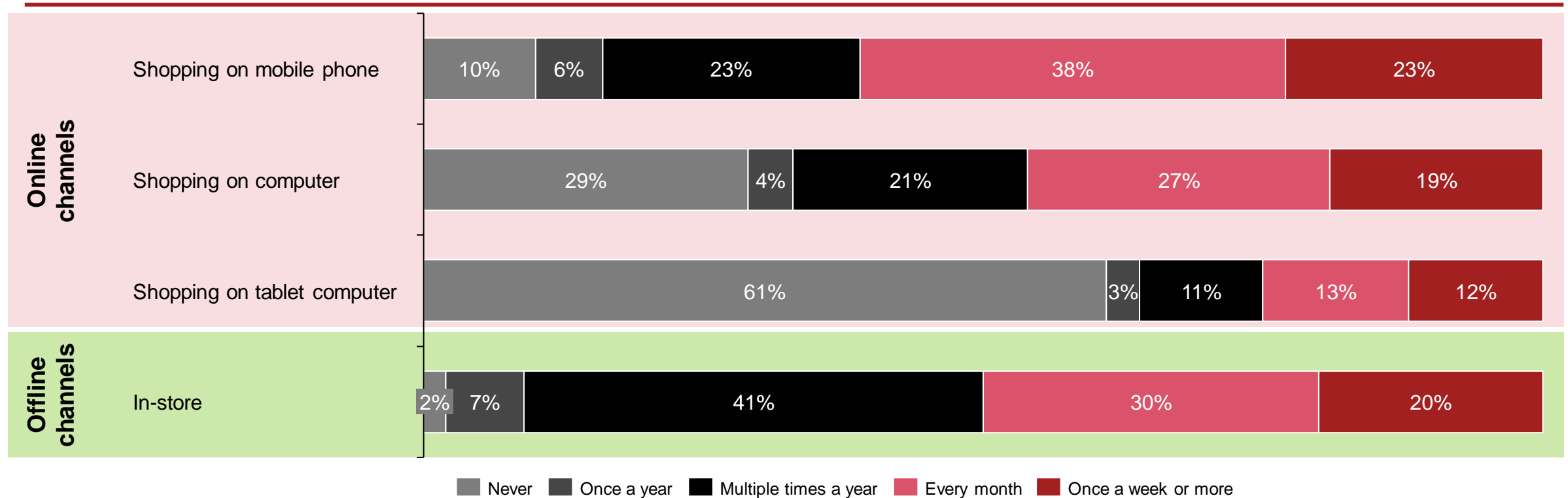


- **COVID-19 restrictions** led to a significant increase in demand for e-commerce in 2020
- **Thanks to increased adoption of e-commerce solutions by vendors and permanent changes in consumer behaviours**, the market is expected to reach 400-450 billion TRY in 2026 and have more than a 22% share of total retail.
- It is predicted that the **online shopping customer base** will exceed 45 million in 2026 and make up **more than 70% of the total addressable² population**.

Mobile devices were the most frequently used online shopping channel during the pandemic

Consumer preferences for shopping channels after the pandemic

Shopping channel preferences¹ (2021, %)

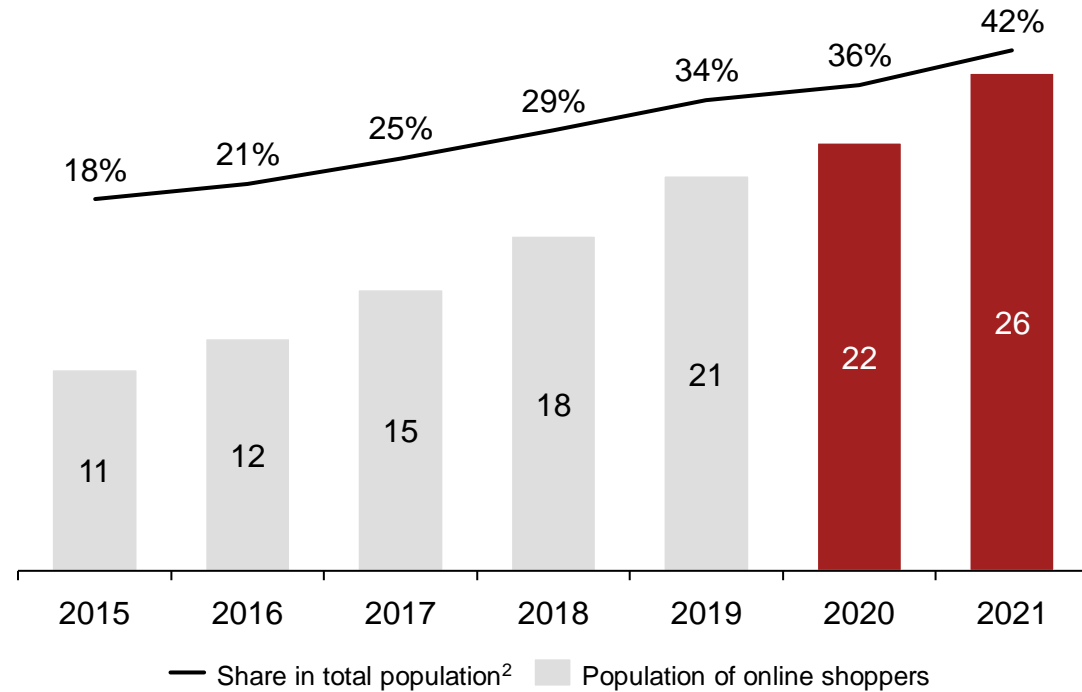


1) Based on the answers provided for the survey question: «How often do you purchase a product (e.g. clothes, books, electronic devices) using the following shopping channels? Please do not include grocery shopping. Please select an option from each line»
 Source: PwC Consumer Insights Survey 2021 (Turkey Findings After COVID-19)

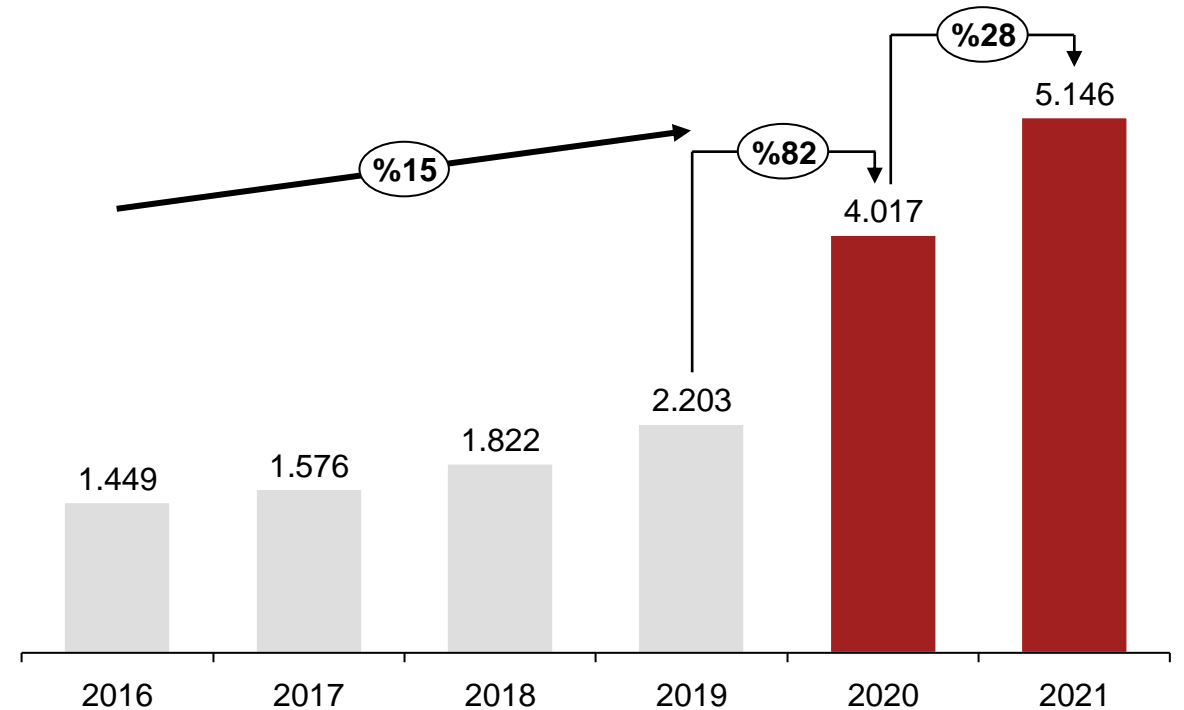
Increase in e-commerce and online shopping habits have shown a tendency to spread throughout the population

Online customer statistics and trends in Turkey

Population of online shoppers¹ (2015 – 2020, mn)



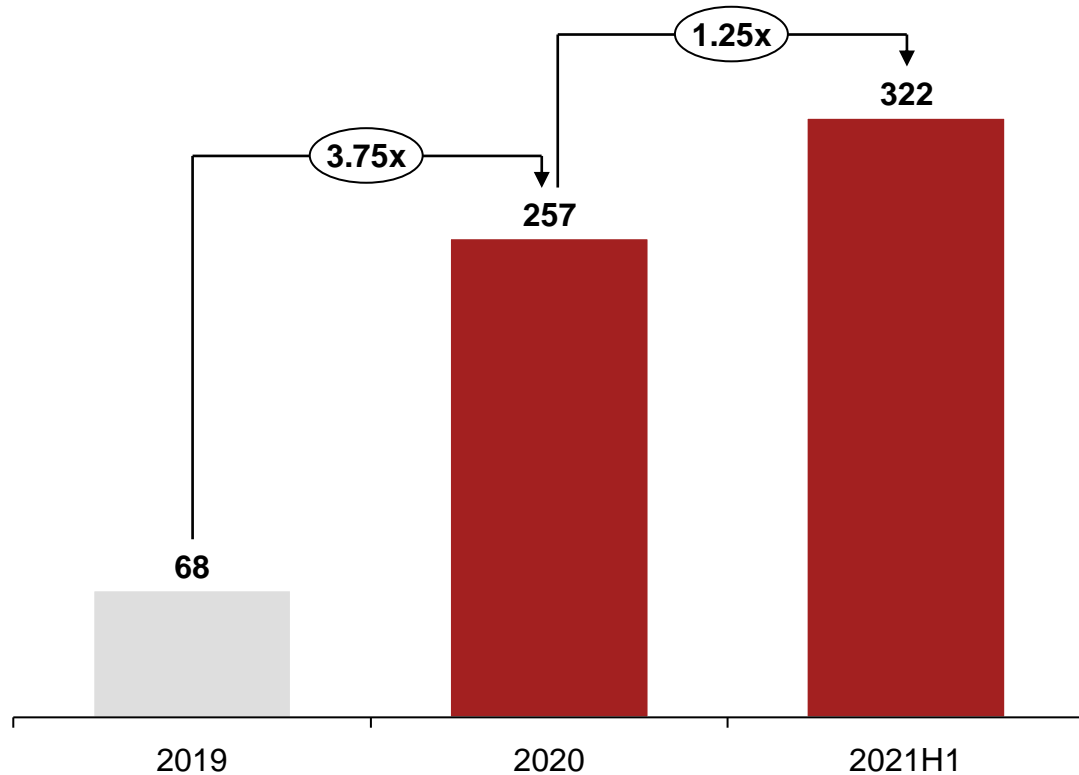
E-commerce spending per customer (2020, TRY)



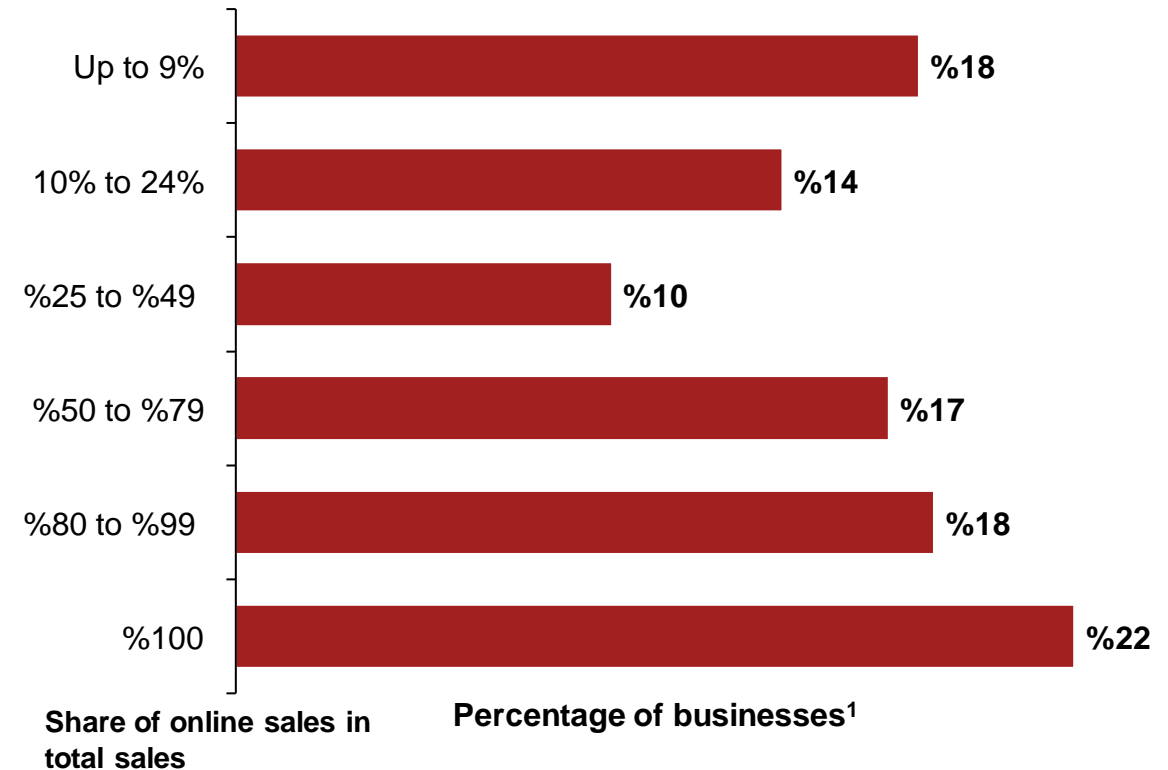
The number of businesses engaged in e-commerce activities and the share of online channel in total sales have increased

Share of e-commerce and its ubiquitousness

Total number of businesses engaged in e-commerce activities (2019-2021H1, thousands)



Share of the online channel in the sales of businesses (April 2021, %)



1) Represents the percentage of 5,196 vendors who participated in the vendor survey of the Competition Authority
Source: Competition Authority E-marketplaces Industry Analysis Preliminary Report, ETBIS, Strategy& analysis

Retailers who want to seize growth opportunities at this time should find the answers to strategic questions

Strategic questions for retailers

- 1 In which **customer segment, sales channel and products & services** do the opportunities lie in the evolving market?
- 2 Which **foreign markets** have **high sales potential**, and which have **entry cost advantages**?
- 3 How can **store and e-commerce** synergy be created in channel strategy?
- 4 What **value proposition** should be defined for customers, suppliers, business partners and all other stakeholders?
- 5 What are the **differentiating capabilities** necessary to succeed in opportunity areas?
- 6 How should the **organization** that will undertake the growth targets **be shaped**?
- 7 How should domestic and foreign **growth opportunities be prioritized**, and what kind of **timeline** should be followed?
- 8 What are the **investments** and **long term business plans** necessary to realize growth opportunities?

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