

**“IF YOU DO NOT
DISRUPT YOUR
BUSINESS,
SOMEONE ELSE
WILL”**

Even though it appears conventional, the logistics industry is indeed among the areas in which technological disruption has been slowly emerging. And this industry presents various challenges due to its asset-intensive character and dispersed structure, along with opportunities as well. General Manager of Borusan Lojistik, Mehmet Kalay, talked to HBR Turkey on prominent trends in the logistics industry, the eTA platform which has enabled them to become more than a “logistics company”, and the company’s future plans.

Interviewers: Serdar Turan, Beste Göksel, Ceren Berfin Beyazdağ





How would you describe the latest changes and transformations which have occurred in the logistics industry? How does Borusan Lojistik position itself in this picture?

The logistics industry has a volume around 4 trillion dollars in a world economy of 86 trillion dollars. And in the Turkish economy, which is 800 billion dollars, the logistics has a strong position as a major industry with a value of around 53 billion dollars.

The growth over 10 years has always been around twice the gross domestic product (GDP) but in recent years the growth rate has been the same as GDP. We are talking about an industry which has grown and has had a volume greater than the Turkish GDP growth for a considerable amount of time. On the other hand, the logistics industry is highly dispersed both in Turkey and around the world. The top ten actors in the industry account for 20% of the market share. The remaining 80% is shared among thousands of actors. This inevitably creates an extremely competitive environment, in which we can say that the customer side is commodified. When there is an improvement on costs to be made, logistics is one of the first areas we consider. Strong price competition is possible due to its dispersed nature. All of these factors combined pose significant challenges to the logistics industry, and the actors in the industry respond to these challenges in three different ways: consolidation,

vertical integration, and digitalization. The actors unite together in the dispersed-structured industry and form consolidated entities. The consolidation trend, first seen in maritime transport, allows companies to establish partnerships or big actors buy the smaller ones. A similar trend has begun to emerge in Third Party Logistics (3PL) practices. For example, land transport companies have started to consolidate among themselves. In Turkey, we are currently unable to see this consolidation clearly. However, firms with financially weak structures have started to leave the industry slowly. Although some acquisitions have taken place, they are unlike the significant acquisitions that we have seen happen abroad.

The second trend I have been observing is the vertical integration, taking consolidation one step further. Examples of this are the acquisition of CEVA Logistics by CMA CGM, or DP World acquiring Unifeeder. Within vertical integration, there may be objectives such as increasing contact with customers and taking margins under control by offering value-added services. Maersk's disintegration of Damco and then relaunching it under its name, after integrating 3PL within Damco, is one of the finest examples of vertical integration.

And, finally, the third trend, digitalization: it is now obvious that we cannot obtain different results by doing the same things.

Everyone is questioning whether they can make a difference with digitalization, but in the end, the prominent logistics companies have started digitalizing in different shapes and forms within their customer experience process. One reason for this is to be better positioned by digitalizing fundamental processes. Maersk is a nice example of this. Since 2013, they have successfully improved their internal processes and launched Maersk Spot in order to develop a new business model. Borusan eTA is also another successful example. When we saw that some things were not as they were supposed to be and that we needed to do them in different ways, we started to ask ourselves whether we could transform land transport, which is the biggest thing we do in Turkey. We then faced the dilemma of any innovator: should I disrupt my own business? When faced with such a dilemma, you realize that if you do not disrupt your own



“A recently established software company can disrupt the business model of hundreds of years.”

business, someone else will come and disrupt it for you. And hence you start your journey. As a result, today we are starting to see new models emerge, especially in last mile logistics. Even though Maersk developed Spot, there are also independent platforms emerging. Companies from outside of the industry which do not know logistics and therefore do not have any loads to carry start to get a share of the profit margin. In short, a threat is coming. For instance, a recently established software company can disrupt the business model of hundreds of years. Of course, a giant like Maersk should position itself against this, through Maersk Spot. In other words, they need to be an innovator.

What is the status quo in the Turkish logistics industry?

The logistics industry in Turkey is way more dispersed than in Europe or America. Entering the industry is not hard at all and, therefore, we can say that one can buy a couple of trucks through loans or investments and enter into business. Think of an industry where you do not have any protection, neither on the customer side nor on the supplier side, since there is no differentiation in customers and the customers are open to this situation. Two types of actors have emerged in such an environment. The first type of actor is the “boss companies” which typically started their business maybe one generation or more ago, buying a few trucks, with the second generation progressing and serving big projects during economic growth periods in Turkey, and which have continued to grow and accomplish many things.

These companies have satisfied their customers and managed their assets well: they bought trucks and warehouses, invested by wisely using their capital and building good fleets, and they have continued doing this for years in an asset-intensive way with a good level of assets. The second type of company is one like Borusan Lojistik, which started its journey with the thought of “investing in people and in software instead of assets.” We started by saying “We will do the right thing by our customers while performing this task and meanwhile we will manage our suppliers successfully so that we avoid an asset-intensive business model.” This has an advantage:

the investment return for the first type is around 5-6% while for the latter model this rises to 20%. This is a huge benefit since the private capital companies which have actively dominated our lives in the last 10 years expect the investment return to be above 20%. You will be able to get satisfying results if you manage to create a business with an investment return over 20%. The companies which are not asset-intensive have grown rapidly in an environment where the “boss companies” and asset-intensive companies are structured this way.

During the last three years, with increasing costs, diminishing demand, and the downsizing economy, asset-intensive companies have found themselves with empty trucks and this could be one of the significant reasons behind falling profitability. In such a structure, in which the competition has risen and companies which are not asset-intensive have gained advantage, we have taken one step forward towards destruction with eTA.

Could you tell us the story of eTA in detail?

eTA started by taking the problems of customers and the logistics industry into consideration. The most important problem was beyond the cost. In the logistics industry, the probability of finding a truck varies between 60 to 90%. Therefore, when one of our customers asks for a truck (generally the busiest time is summer, also called the season of watermelons) there is a 60% chance that they will find a truck available. In this case, each truck that cannot be sent to the customer means a great loss of income and profit. Being unable to find available trucks due to rising demand was a critical issue that needed to be solved. The second problem was on the supplier side; not being able to find loads to transport. This is a problem present both in high and low seasons. The supplier wants to go to a place where they are likely to find a load for the return journey, but since there is nothing that can show them the best location for suitable opportunities, maybe they end up not being able to find the load they wanted.

With the pressure of cost and competition, we have seen the number of truck drivers falling in recent years in Turkey, as we have observed around the world. At this point, eTA decided to dive in and create a market place where everyone can see the loads and truck drivers

available. There are 135 thousand of 220 thousand registered trucks in Turkey currently subscribed to the eTA platform. The system is also legal: everyone's license is registered, they are all insured, and they were accepted into the system after checking and verifying their documents. All jobs are invoiced, with dispatch notes, and their use of fuel is legal.

The eTA platform brings a whole new structure since the complete cycle can be managed and monitored due to the fact that customers, truck drivers, and governmental agencies are among the stakeholders. Today, empty trip rates in Turkey are around 18%. According to our calculations, eTA can bring this rate down to 12%. This contributes to environmental protection as well since the use of a smaller number of trucks reduces carbon emissions.

All of these factors combined evidently bring one question to mind: "Why was this never done before?" The eTA platform is actually a journey which we embarked on eight years ago. The reason why we realized it in 2019 is that we wanted to integrate Borusan customers into the eTA system. At the point when we asked ourselves "Shall we disrupt our own business?" We had various fears and concerns. For instance, we were afraid of being unable to serve our customers. What if the platform collapsed, what would happen if we failed our customers, being unable to transport their products? We were also afraid of the possibility of harming the relationships with intermediaries in our supplier network, which we have been successfully managing for years. These fears made us reluctant about moving forward. But with the use of mobile technology reaching a certain level, the platform becoming more mature, and our knowledge expanding, we decided to include all our customers in the eTA platform in May 2019, before the watermelon season. The timing was indeed a highly debated issue among our members, but we knew we could not attain our target volume if we did not work at the toughest times. So we took a leap of faith and we succeeded. There were over 45 thousand trips done through the eTA last month and now the platform is the third biggest platform in Europe.

From three thousand trips per month, we jumped to 45 thousand trips. Even though the startups have an undeniable advantage in finding talent, accessing capital,

and agility, the more established companies, on the other hand, have the advantage of possessing a ready customer portfolio and being able to upsize rapidly. And what took us further was that we were able to understand this portfolio well and transition into the right technology at the right time.

There are some common stages in the life cycles of platform models: creating the marketplace by bringing the supply and demand together, offering value-added services that answer the community's needs and problems, and finally making the right improvements. So how will the eTA platform evolve?

eTA takes its power from its customers and its community. It is vital to successfully manage a community of 135 thousand people and all the customers, to understand their needs and problems, and to offer value-added services. For instance, the company that buys the largest amount of fuel in Turkey is Borusan Lojistik and we are able to share our purchasing power with the community we formed. It is critical to evolve into a structure in which everybody wins, since this is a highly engaged community growing on its own. So the platform also turns into a marketplace where various products such as insurance, tires and fuel are also sold.

We will also integrate payment systems through the eTA card, which will be activated by January 2020. In other words, when you build a new platform successfully, it becomes possible to talk about different business models as well. The upside of technology is this: in the past, we used to want to be a global company and are investigating the number of global actors from Turkey. But when you position yourself as a technology company, it becomes possible to gain presence in the global arena. While there are many successful actors in the industry who have been in it for 300 years, there are not many actors who have established and manage a logistics platform.

Therefore, your competitor is now not the 300-year-old logistics companies but a five-year-old technology company. Turkey also serves as a hub.

If you have partly accomplished this in a place like



“When we saw that some things were not as they were supposed to be and that we needed to do them in different ways to ask ourselves whether we could transform land transport, the biggest thing we do in Turkey”

Turkey, you can make a difference by working with a competitor in a different country. Managing a logistics company in Turkey, from abroad, is challenging and the concept of managing technologically also brings a different type of competition.

How did you build the technological infrastructure of the eTA platform?

We totally developed the software on our own. My office is in the R&D department and we have been coding for 10 years. We moved to the cloud last year because you have to go cloud if you want to upscale. The cloud system is much more flexible in terms of scale; it speeds up global growth and brings in talent. In its technological background, there are licensed and artificial intelligence-based algorithms which were developed by us.

How do you manage the talent side of the job?

This is an ecosystem project. We could not have done any of the things I have mentioned alone as a logistics company. This is also important in terms of talent. I think this new generation is marvelous. When we graduated, our objective was to work for international companies or consulting firms. But the members of this new generation want to work in startups and develop themselves. Therefore, it is very important to include in the ecosystem a startup in which data scientists work. So, a software developer that works in our company to optimize the price algorithm will need to work with this startup. To summarize, you need to get the ecosystem going once you get into the platform business. It is now the era of evolution, from product into platform, mind into machine, and partnerships into ecosystems. Once you have completed these three transformations, success will be yours.

What kind of challenges did you face as you put the eTA platform into action?

The first challenge was the beginning of the journey where we turned the idea into action. In 2014, we decided to position eTA as a separate company to overcome this challenge. The second one was scaling. To solve this, we needed to clarify the issue of sharing our resources.

We got what was outside and then we leveraged what

we had at Borusan Lojistik, and while we did that we positioned ourselves as “Borusan Lojistik eTA” not “eTA Borusan Lojistik” in order to maintain the balance. The logic was that “Our coding team and our product manager would remain here doing the same thing but people would be working together, collaborating.” And I think we managed to do it correctly. This is how we upscaled. Deciding on the platform to implement this was also another challenging issue since there was also a different technology platform at Borusan Lojistik. It was crucial to do the transition correctly.

So what’s next? What awaits Borusan Lojistik and the eTA platform?

Now we have to distribute what we have developed and grow it within. We have a variety of ideas such as offering value-added services and giving platform access to third parties.

At this point, in order to upscale, it is imperative to get investment. As a matter of fact, even Uber and Alibaba, following their respective IPOs, are still gathering further investment. If an idea is not attracting any investment, then you must have been fooling yourself. Every holding company should be open to these kinds of ideas. And this is why working at Borusan is great: it has innovative shareholders. And the next step for us is to acquire the necessary investment for growth. In order to prove the ideas and draw smart money, we are also open to mergers and acquisitions in line with our global growth objective. If you want to speed up your business, you can widen and invest in your ecosystem by acquiring startups. It is highly important to welcome such developments and apply them to the structure of the holding company as well. Recently, we have taken a huge step in Europe with our eTA platform and we have been deemed worthy of the European Business Awards. Among 363 finalists from all countries, Borusan Lojistik, with its eTA platform, was awarded the first place in the “Customer and Market Engagement” category. This has also increased our motivation immensely. Getting investment proves eTA’s financial success, and this award shows the value of the model. At the end of the day, it is nice to see our work being appreciated globally. ☺