

The Migration from Traditional to Digital

► MEHMET KALAY : BORUSAN LOJİSTİK SERVICES GENERAL MANAGER

Borusan Lojistik relied on a traditional business model since it was established in 1973. In order to meet the demands of digital business, eTA Logistics was established as an offshoot company, however it failed to achieve the expected scale within the first years. Then, the company's management made what was considered to be a 'disruptive' decision to migrate the parent company to digital. Despite concerns, the model worked - a success that is supported by the data of this extraordinary transformation.

BY MEHTAP DEMİR

In 2012, the year that marked the onset of the disruptive impact of digitalization on various sectors, Borusan Holding established eTA and positioned this company alongside Borusan Lojistik which adopted a traditional business model. The purpose was to create the business of the future. Logistics was being digitalized, and the idea was to plan for the future and position the company accordingly.

The new business model involved bringing together the carrier and the Shipper. The company completed its organization between 2014 and 2016, but failed to achieve the projected goals and continued as a startup until the beginning of 2019. By this time, the company had been unable to bring enough cargo owners and truckers together as originally planned. Such platforms required a large participation in order to achieve their goals, otherwise the participation in contracts would not meet customer needs.

At that point, Borusan Lojistik Services' General Manager, Mehmet Kalay pointed out that the breaking point for such digital platforms is achieving a certain scale, and proposed bringing together eTA and the traditional company, Borusan Lojistik. Borusan Lojistik was one of the major companies in the sector and boasted numerous truckers and cargo owners. The merger would, in a sense, allow for creating the expected "scale".

The company was faced with a difficult decision. For Borusan Lojistik, with a large turnover and profit, the merger and new business model would potentially lead to a collapse. Nevertheless, the company management recognized that digitalization and change were necessary and they decided to mitigate Borusan Lojistik customers and trucks to digital.

Contrary to prior concerns regarding profit and turnover, the company found that the number of customers and contracts actually increased. The number of trips managed digitally rose from 100-150 to approximately 2500 by the end of 2019. In addition, the number of truckers expanded to 156 thousand, including 20-thousand regularly employed truckers. These figures made eTA the 3rd largest platform in Europe, in terms of number of daily trips. As a result, this growth then led to further contracts and more truckers. Borusan Lojistik Services General Manager Mehmet Kalay shares with us this significant transformation and its results.

DECISION TO GO COMPLETELY DIGITAL

Over the recent years, the logistics industry growth rate has been slowing down and this has had a negative impact on profits. Although it affects every category across the industry, it is observed more in what is known as a “full truckload” carriage: a business model where the entire truckload is carried from one point to another. Growth is slowing down and the margins are shrinking.

The size of the logistics industry is \$50 billion in Turkey and eTA operates in the “full truckload” carriage sector of this figure which amounts to \$20 billion.

We had 3 reasons when we were making this decision to change. The first was that the business was not growing and was not as profitable as it used to be.

The second was that the customers were unhappy and a business truly relies on customers. This stems from the fact that customers close their deals at the beginning of the year through negotiations, trying to reduce the price in each trip. The timely supply rates in this industry are approximately 60% throughout the year. This means that only 6-7 out of the 10 trucks committed can be available, consequently preventing the sale of 4 trucks. This rate should be 90-95 percent. Additionally, companies make the majority of their sales in the last week and they are unable to find trucks in this last week, which leads to a loss in sales.

The third was that the truckers were unhappy, because they were unable to find a job and they returned from the trips without any cargo. Today, the number of trips without such a load is around 18% in Turkey.

In other words, the company, customers and truckers were dissatisfied in the old system. We decided to resolve this with a digital platform.

THE RISKS INVOLVED IN ABANDONING THE TRADITIONAL

If there was actually a risk, it involved every party of this process. For example, it is generally thought that some that truckers would struggle to keep up with the digital world. This it is not, however, correct. Our research showed that use of smartphones was around 90 percent, with Internet usage at 95 per cent. Initially, we considered the idea of giving out smartphones and Internet packages but then we realized that they had long been using online services. On the customer side, they had already understood the importance of the digital world. There was no risk for them in keeping up with digitalization. One major risk was customer views, but in that case you could always find the early adopters. We were examining our entire business model as a company. If I had suddenly upset the brokers and disrupted this network, the entire system could have crashed. Also, when you include the customer in the picture, if this platform had not worked just for one day, the entire business model could have crashed.

Given all of these potential risks, the day with the majority of the risks was when the network was changed and the platform was offered to our customers and 156

THE IMPACT OF THE MERGER

73

MILLION

TURNOVER REALIZED FOR 2019

125

MILLION

NEW COMPANY'S TARGET FOR THE END OF 2020

156

THOUSAND

TRUCK DRIVERS REGISTERED IN THE SYSTEM

279

THOUSAND

NUMBER OF TRIPS IN 2019

WE MIGHT ACQUIRE 1 OR 2 COMPANIES IN EUROPE

- \$15-20 billion of \$50 billion logistics sector in Turkey is the cross-border transfers. We have identified some geographical areas after research and we are strong in some locations in countries such as Germany and France. We project acquiring 1 or 2 companies in these countries.

- We can reach the sites they reach in any country. For example, Europe's second largest company is Uber Freight. Our daily carriage numbers have almost caught up with Uber's. We will outnumber them soon and will therefore be in a better position than the competition in Europe. Why not proceed at a faster rate by acquiring 1 or 2 companies in Europe?

thousand truckers. It was the beginning of 2019 and the platform's IT architecture was supposed to be working and scalable.

And it worked. If some customers had not been able to find a truck or had been dissatisfied, the system could have crashed that day. We achieved figures up to two thousand daily - up from the hundreds - in as little as six months. We have become a business that has grown twentyfold.

WAS THE TRANSITION EASY?

The time we had with the “early adopters” was about 3 years. I told the Board of Directors about the mistakes we had made in the four years. For example, we realized that the system did not work completely with the marketplace model. Turkish people like speaking to someone and negotiating. Therefore, we turned the broker network into a program supported by artificial intelligence. If someone wants to negotiate first, they use an interface on eTA platform. A broker answers the call, and they see how far they can negotiate with the broker. This is possible because they have the entire map of Turkey in front of them.

All our transactions are documented. In order to get a trip from us, the truckers must upload about 20 documents to the system. They are then required to obtain consent once again on the Borusan system.

We know the 156 thousand truckers registered in the system closely and were therefore able to act very quickly when uploading the documents to the system. On the platform, truckers want a very simple interface that allows for easy movement of their fingers. We worked on this for 3 years and we conducted ethnographic tests and interviews with the truckers.

A COMPARISON OF THE OLD AND NEW SYSTEM

We can explain our work in three processes. The first is very traditional: I find a trucker and I refer him to the customer; my earning is the difference between the prices. The second is that I open a bid as a customer. I am awarded the work of company x - this is the traditional method. Now, I can do it much faster and I can do this across a larger spectrum of truckers. In the past, I was only able to reach 5-10 thousand truckers a day and I can now do this by opening bids to 156 thousand truckers a day. The third is that I can be faster, as I am doing all this digitally - all the truckers are tracked digitally to enable a clear knowledge of their whereabouts. When there is no trucker available at a location, I send my own fleet and serve as an intermediate to ensure market balance there. For example, let's say I lost the contract with company x and then company X awarded the annual contract to a competitor. I tell the company X, “you know that the awarded company will work at a 60% performance. Especially, in summer months, it will be as much as 6 out of every 10 trucks.” And I tell them, “let's register you to eTA so that you can find trucks easily via the platform” This way, I am able to reach major customers even if I lose an annual contract. I can also reach the companies that can provide 60% customer satisfaction in the contracts I lose.

THE FINANCIAL RETURN OF THE NEW MODEL

In the past, the prices quoted by companies providing good services such as Borusan Lojistik used to be too high for large customers. Now, they can get quality service from us at better prices. Now, I have a customer, someone with a cargo and a trucker. However, truckers also have some needs such as fuel, insurance, credits etc. We are now able to sell them all via the platform. Borusan Lojistik is Turkey's largest fuel buyer today, with 40 million liters. We will soon start selling tires and lubricants, building an ecosystem for the various elements of the process. eTA was generating a \$10 million business volume in early 2018. This became a \$73 million business at the end of 2019 and will be a \$100 million business at the end of 2020. It is a business with such a fast growth and we aim to continue this growth rate. In the forthcoming period, we aim to do what we call product extension: bringing other products in to the eTA platform. Our customer satisfaction is measured by the NPS score and last year, our NPS score did very well by increasing two-fold.📈

HOW DOES THE NEW MODEL WORK?

1 Customer opens an annual bid, stating its requirements such as “200 trucks daily.” It sets a price for the 200 trucks.

2 Then, Borusan Lojistik is to find these trucks, so a bid is opened on the system.

3 If, for example, we have agreed on TRY1000 with the company, we ask the trucker if he could do this job for TRY800.

4 At the end of the day, if Borusan and the trucker close the deal at TRY850, the difference of TRY150 is Borusan Lojistik's profit.

5 The trucker carries the cargo at TRY850. Our role here is to win the contract as a whole and deliver the job by daily contracts, making profit from the price differences.

6 There are also some different models. We give truckers eTA cards. For example, I offer a portion of TRY850 as fuel. We credit fuel over these cards. This allows me to generate income from the fuel as well.