

# Indonesia Online: A Guide to E-commerce

While currently, e-commerce only accounts for less than one percent (worth ~US\$2 billion per year) of Indonesian retail spending, analysts believe that the country's fast growing middle class and proliferation of smartphones will soon raise that share to eight percent (worth US\$8 billion) in just a few years. If that scenario were to happen, then Indonesia's e-commerce market would be the largest in Southeast Asia.

Currently, e-commerce sales in Indonesia are admittedly somewhat low, but sales are expected to triple by 2016. Like most countries, the top category for online shopping is clothing and apparel. In 2014, around 60 percent of online shoppers bought items in this category. Interestingly, 27 percent of all e-commerce transactions occurred via social media.

In a counterpoint to this dispiriting news, according to an analysis conducted by the Boston Consulting Group late last year, 74 million Indonesians live in households that spend more than US\$200 per month – this number is predicted to grow to 141 million by 2020. Furthermore, according to SingPost, a global logistics firm, there will be 20 percent year on year growth in internet users through the year 2016.

An additional factor contributing to the growth potential of e-commerce in Indonesia, is the fact that more and more people are becoming too busy to shop in traditional stores and do not want the headache associated with navigating the notoriously busy roads in order to reach the stores, instead preferring the products to be brought to their chosen location.

Companies like Lazada, which is known as "the Amazon of Southeast Asia", are already operating within Indonesia. Lazada, which has been in the country since 2013, became the largest business to consumer site in Indonesia during 2014 (taking the top spot from Amazon). The company reportedly averages around 6.5 million views a months. Maximilian Bittner, chief executive of Lazada, has stated that he believes "Indonesia is predestined for a really massive explosion in e-commerce." According to Lazada, Indonesians spend on average 181 minutes on their smartphones a day – the longest time in the world.

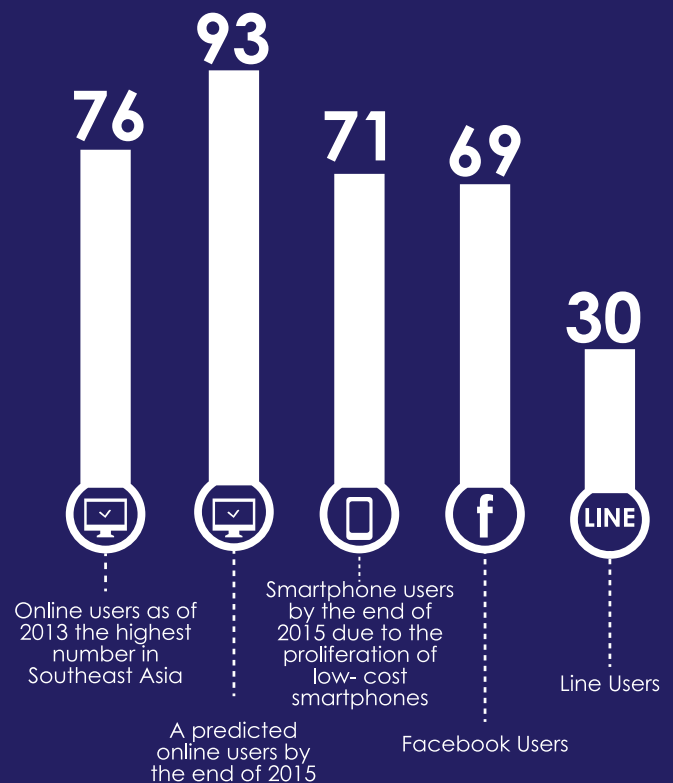
Other sites operating in the country include Alibaba (with 3.9 million views/month) and eBay (with 2.2 million views/month). It is unclear if Amazon has any future plans to invest into Indonesia with a physical

presence – the company tending to prefer a light footprint for its operations in much of Asia.

Tokopedia, a local company, is one of Indonesia's top consumer to consumer marketplaces; it has reportedly received over US\$100 million in funding from venture capitalist firms Softbank and Sequoia Capital. Many are hopeful that this sort of large cash injection will spur further investment into other e-commerce businesses in Indonesia. Said Tokopedia CEO and co-founder William Tanuwijaya, "If we can convince and carry the level of the company to match what the investors expect, it will provide them with the confidence to put money into other [local] startups."

Another problem that companies must overcome if they wish to operate in the e-commerce space in Indonesia is finding a way to deal with the country's poor shipping network. As a result, companies like Lazada have essentially created their own private delivery systems by hiring

## Indonesia E-Commerce (Million Users)



hundreds of motorbike and truck drivers to deliver their packages. Additionally, due to poor roads, unclear addresses, and a lack of good maps, it is often difficult to actually physically deliver the packages.

An additional area that companies must work on is the lack of trust that many people still have with regards to buying products online. This is an issue that e-commerce companies have had to grapple with throughout Southeast Asia. The populace worries that they will not receive the products that they have ordered, that they might

lose their money, or have their information stolen. It is thus incumbent upon companies operating in the region to be open and honest about their policies and to ensure that they provide a high level of customer service.

A number of companies have arisen in order to fill the vacuum in the epayments space, these include Doku and Veritrans. In 2014, Doku processed US\$520 million in transactions, a whopping 30 percent increase over 2013.

*Edward Barbour-Lacey*

## Indonesia Tightens Controls On Foreign Internet Investment



The Indonesian government has tightened restrictions on foreign companies trying to enter its growing Internet market. It has also tightened rules on foreign ownership of the country's key resources and finance industries.

With a population of roughly 250 million and a rapidly growing middle class, Indonesia has become Southeast Asia's largest Internet market due to the spread of smartphones. Internet-based business is expected to expand rapidly, but if the introduction of advanced technologies from

foreign companies and ample funds lose momentum, it could hinder growth.

According to research firm GfK, 21 million smartphones were sold in Indonesia in 2013, up 50% on the previous year.

An executive of the Indonesian subsidiary of Japanese online retail giant Rakuten, which entered the country in 2011, said that sales promotion via smartphones has been increasingly effective through collaborations with the free chat app Line and other companies.

### Smartphone Shipments; In Millions of Units

