## CONTENTS

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executive summary</td>
<td>03</td>
</tr>
<tr>
<td>Asia’s next giant:</td>
<td>04</td>
</tr>
<tr>
<td>Indonesia’s e-commerce landscape</td>
<td>07</td>
</tr>
<tr>
<td>Leading the field:</td>
<td>07</td>
</tr>
<tr>
<td>Major players in Indonesian e-commerce</td>
<td></td>
</tr>
<tr>
<td>Understanding Indonesia’s online consumers</td>
<td>14</td>
</tr>
<tr>
<td>Popular products and categories</td>
<td>17</td>
</tr>
<tr>
<td>Entry points for Australian businesses</td>
<td>18</td>
</tr>
<tr>
<td>Approaches for accessing the market</td>
<td>19</td>
</tr>
<tr>
<td>Conclusion</td>
<td>21</td>
</tr>
<tr>
<td>How Austrade can help</td>
<td>22</td>
</tr>
</tbody>
</table>

---

About this report:

*E-commerce in Indonesia: A guide for Australian business* was prepared by Amplitude in consultation with the Australian Trade and Investment Commission (Austrade). This report is based on research conducted by Amplitude. Authors: Bede Moore, Karina Akiib and Susie Sugden.

For more information on Amplitude:

[www.amplitudeconsumer.com](http://www.amplitudeconsumer.com)

bede.moore@amplitudeconsumer.com
The Indonesian e-commerce market has enjoyed dramatic growth over the last five years, upending a long-held view among local venture capital firms and businesses that Indonesia was underperforming compared to its regional rivals.

Recent estimates by Macquarie Bank suggest the Indonesian market has grown 60–70 per cent annually since 2014 and will expand from US$8 billion in 2016 to US$60 billion in 2020.\(^1\) This is expected to generate new opportunities for e-commerce sites and their businesses.

Several factors have ushered in the rise of Indonesia’s e-commerce industry. Increasing smartphone and internet penetration, intensive foreign investment in leading platforms, the growing Indonesian middle class, and the more recent overhaul of online payments have all contributed to market growth and the sophistication of local players. Positive regulatory tweaks by the Indonesian Government also auger well, especially for Australian businesses looking to access online consumers.

The rapid evolution of the market presents a real opportunity for Australian businesses who have typically faced a difficult process to gain access to Indonesian consumers. Complex local operating conditions, combined with a difficult customs and regulatory environment, have created obstacles for businesses looking to sell their wares in the archipelago. E-commerce offers the possibility of much easier access by lowering or eliminating many of these hurdles, making it possible to access Indonesia from afar.

Australian businesses should already be looking at the possibilities afforded by the growth in Indonesian e-commerce. This report examines Indonesia’s e-commerce market, its growth, consumers and the avenues that businesses can follow to access online consumers. Accessing Indonesian e-commerce still has its challenges, but Australian businesses with existing relationships and operations in the archipelago should have an e-commerce strategy in place.

Australian businesses without existing relationships or connections to Indonesia should still look seriously at entering its e-commerce market. However, the viability of doing so will depend on how well they can navigate ongoing regulatory barriers and their ability to furnish products that suit the tastes of Indonesian consumers. These products should also take cultural and religious differences into consideration. For example, some e-commerce markets may only accept Halal-certified products. Businesses without connections to Indonesia have some options open to them, and this report discusses fundamental changes that may occur in the next 12 months that could give them unprecedented access to Indonesia’s 100 million-plus internet users.
ASIA’S NEXT GIANT: INDONESIA’S E-COMMERCE LANDSCAPE

Indonesia has long trailed its larger regional rivals, China and India, in terms of e-commerce market size and sophistication. But after many years of watching international and local companies compete in the two larger markets to its north, Indonesia is now enjoying some of the global spotlight. International investment into the market is hitting all-time highs as an array of global internet giants jockey for position in the world’s fourth most populous country.

Complex local conditions have often resulted in Indonesia being deprioritised by global firms looking to access Asian consumer markets, particularly given the size and comparative ease of selling products into China. The positive trends outlined below suggest a review of this attitude is warranted. Australian businesses have an unprecedented opportunity to test the market for their goods via e-commerce sales channels and at much lower risk and cost than ever before.

Building off of a small base: size and growth of the market

Indonesia’s e-commerce landscape experienced investment of at least US$2.5 billion over the last three years, paving the way for businesses to list and sell their products online.² In 2015 there were 18 million online shoppers in Indonesia; Google and Temasek expect this to grow to 119 million by 2025.³

Underpinning the growth in online transactions in Indonesia are local e-commerce giants (such as Lazada, Tokopedia and Bukalapak) that provide businesses with a platform to set-up an online storefront, accept transactions and, in Lazada’s case, warehouse and deliver goods to customers.

Growth in the customer base of major e-commerce companies is shifting outside Jakarta as logistics and smartphone penetration continue to improve.

Amplitude’s in-house research undertaken for this report found that customers in Indonesia’s Tier 2 cities account for an increasingly large proportion of e-commerce transactions as residents take advantage of the wide choice of products previously unavailable to them.

Despite recording significant year-on-year growth of 60-70 per cent since 2014, the Indonesian e-commerce market is still relatively small (US$8 billion) compared to regional pace-setter, China, with sales of US$692 billion.⁴ In 2016, Indonesia’s e-commerce sales as a percentage of total annual retail sales amounted to 1.6 per cent, compared to 13 per cent in China.⁵

These percentages suggest there is still room for growth in the Indonesian e-commerce market, which is likely to be led by the ongoing transformation of the industry via high levels of investment and industry consolidation.

A swift evolution: The four drivers of Indonesian e-commerce growth

The growth of e-commerce over the last five years has been primarily driven by four structural changes in the industry. First, the increase in smartphone penetration made possible by the availability of low-cost devices. Second, an emerging middle class with a larger portion of disposable income is being targeted by leading e-commerce companies.⁶ Third, at least US$2.5 billion of foreign direct investment in e-commerce platforms by leading Chinese and Western firms, specifically via significant joint venture or partner relationships, for example, Lazada-Alibaba, Go-Jek-Tencent-KKR, Tokopedia-Alibaba and Shopee-Sea (formerly Garena).⁷ Fourth, the accelerating evolution of payments infrastructure that is enabling customers without bank accounts (unbanked consumers) to make online purchases.
Smartphones are central to Indonesia’s accelerating e-commerce growth. According to Tony Keusgen, Country Head of Google Indonesia, smartphone penetration more than tripled – from 14 per cent to 43 per cent – between 2013 and 2016, driven in part by low-cost devices, with fully functional Android handsets available for as low as US$30. A Google Indonesia survey held between November 2014 and February 2015 found that 78 per cent of respondents shopped online using mobile devices.

Lee Kang, Vice President, Indonesian Cellular Phone Association (APSI), is quoted in a Macquarie Research report as saying the number of smartphone users in Indonesia has been growing at 30-50 per cent each year, and that this momentum may continue, due to the availability of affordable 4G smartphones and further development of Indonesia’s 4G network.

On average, Indonesians spend more time on social media than citizens of the United States. Although Indonesia lags behind other Southeast Asian countries on internet speed and affordability as government and telecommunication companies continue to modernise existing infrastructure, the country is expected to add 50 million new internet users in the five years to 2020, reaching a penetration rate of 53 per cent.

An emerging middle class

McKinsey Global Institute suggests Indonesia’s economic and population growth mean the country’s ‘consumer class’ could grow from 45 million in 2010 to 135 million by 2030 – an additional 90 million consumers in 20 years. The report projects the nation’s emerging middle class to spend its new disposable income on personal items such as fashion, makeup and electronics.

E-commerce is already benefitting from the rise in disposable income among Indonesia’s middle class. Private consumption of goods and services by household accounted for a higher proportion of gross domestic product (GDP) in Indonesia than China or India.

By 2050, Indonesia will have the third largest middle class among emerging markets

Source: HSBC, Consumer in 2050: the rise of the EM middle class, October 2012.
The growth is not only in Jakarta. In a 2015 Oxford Business Group report, national logistics provider JNE stated that 40 per cent of its e-commerce deliveries were outside Jakarta. For more affluent consumers living in Tier 2 cities with limited choice in offline retail selection, online marketplaces offer choice and variety they were previously only able to access when travelling to Jakarta.

Increasing foreign direct investment

A large portion of financing behind top marketplaces comes from large international venture capital and private equity funds that bring significant experience in e-commerce from their portfolio of investments. Global investors’ focus on Indonesia has accelerated market growth, providing the funds needed to conduct aggressive marketing to entice new consumers to their platforms. Tech companies also invest this funding in providing loss-leading products, which has successfully attracted customers onto online platforms, although the current widespread use of this strategy will be unsustainable over the long term.

Evolution of payment infrastructure

Online payments have long presented an impediment to faster e-commerce growth in Indonesia. Most major internet sites carry a wide array of payment mechanisms, which reflects Indonesia’s fractured payments system and the inability for a single company to provide a market-leading solution. In response, most direct sales sites push customers towards bayar-di-tempat (cash-on-delivery) both as a mechanism to enable the 40 per cent of Indonesians without bank accounts to shop online and improve online conversion rates.

Bank transfers remain the second highest payment method, either facilitated through online bank portals or via automated teller machine (ATM), with credit card transactions hovering around 10 per cent due to low penetration rates. Recent developments in the payment space suggest significant changes are afoot. E-wallets have been slow to gain a foothold, but aggressive investment is changing the landscape. The popularity of alternative electronic payment mechanisms offered by companies such as Go-jek and Kudo is increasing, bringing unbanked consumers online and expanding the addressable market for these platforms.
LEADING THE FIELD:
MAJOR PLAYERS IN
INDONESIAN E-COMMERCE

Indonesia is serviced by an increasing array of e-commerce sites with the capability to reach consumers across the archipelago. As a result, businesses can gain access to the Indonesian market without needing to establish their own site and logistics capabilities. Formal e-commerce sales channels are supplemented by an enormous market of classified sales run through sites such as Facebook, Instagram and local giant, OLX (formerly Tokobagus), but most sales of imported or high-value items occur on the country’s largest e-commerce sites.

Indonesian e-commerce companies have made swift advances over the last five years and their sophistication and service offerings are currently undergoing a period of dynamic evolution. All sites listed in this report can display products, coordinate orders and handle payments on behalf of businesses. But sites are increasingly adding new functionalities, such as in-house warehousing and logistics, cross-border capabilities and new payment mechanisms. The industry predicts bonded warehouses will be launched within the next 6-12 months, which will transform the ease and reliability of imports for both suppliers and customers.

Owing to an intense period of investment and consolidation since 2014, several leading players have emerged. Industry analysts predict that further consolidation is likely, and there is ongoing speculation about the entrance of Amazon, which at the time of writing (October 2017) is not yet operating in Indonesia.

Most e-commerce sales take place on one of five types of website:

- Online marketplaces (B2C)
- Direct sales sites
- Consumer-to-consumer (C2C) marketplaces
- Brand’s own website
- Flash sale sites.

Online marketplaces (B2C)

Online marketplaces are the online equivalent of a traditional business-to-consumer (B2C) bricks-and-mortar retail store or shopping centre. Individual brands or multi-brand sellers set up stores within the marketplace to sell direct to consumers. The exact business model for each marketplace varies; typically, marketplaces require sellers to arrange their own warehousing and delivery, although as competition has increased, some platforms have introduced warehouse and fulfilment services for high-performing businesses.

Online marketplaces usually charge a number of fees for activities such as initial store setup, ongoing product listings as well as commission fees based on sales volumes. A service provider will often also be required to manage online product listings and customer service, which will add monthly fees paid to the platform. Online marketplaces may also offer a direct sales platform service to sellers.

Direct sales sites

Direct sales sites acquire or hold inventory from or on behalf of businesses. This may be on a consignment basis where the seller is only paid once goods are sold to the end consumer. Direct sales sites internally operate all aspects of the e-commerce sales process: an e-commerce platform, merchandising, warehousing, distribution and reverse logistics, payments and customer service. Since the direct sales site takes some risk in holding stock, this model is less common than the general online marketplace model.
C2C marketplaces

C2C marketplace sites do not hold or purchase inventory and they usually require the merchant to distribute the goods when they receive an order from a customer. The best-known Western example is eBay. Merchant margins from marketplaces tend to be lower and aspects such as warehousing and distribution are the merchant’s responsibility. Businesses can set-up stores on the site at low cost, with the result that most marketplaces host thousands of businesses extending from sole traders and SMEs all the way to officially branded stores. In Indonesia, the leading direct sales stores all incorporate a marketplace component.

Brand’s own website

Branded e-commerce sites sell the products of a single brand or group of brands. It is the online equivalent of a standalone bricks-and-mortar retailer. Only a small number of examples of branded e-commerce sites exist in Indonesia, largely because most brands are still represented by distributors that are unwilling to invest in building specialised online sites for their brands and have insufficient marketing capability and budgets to drive sales. As a result, most brands rely on individual stores/featured stores on the direct sales and marketplace sites. Businesses considering establishing their own branded store should test the market via a larger direct sales or marketplace site before launching individually.

Flash sales sites

Flash sales sites offer time-limited discounts and deals to users. Price points on these sites are very low in Indonesia and are largely unsuitable to imported products unless used as a mechanism to sell excess stock. Flash sales sites have declined in size and popularity over the last five years and have also been incorporated as a feature into larger sites such as Elevenia.
INDONESIA’S LARGEST E-COMMERCE PLATFORMS

Indonesia’s largest e-commerce sites are either a combination of direct sales and marketplace, or pure marketplace models. Heavy investment and competition is quickly changing the market landscape, which will improve access for foreign businesses and may yield new competitors in the coming years.

**Lazada**

Indonesia’s largest online marketplace and direct sales site and part of the Lazada Group, Lazada spans six markets in Southeast Asia. It was launched in 2012 by Rocket Internet and in April 2016, China’s Alibaba Group acquired a controlling stake. Alibaba also has holdings in SingPost and the three companies are increasingly using their geographic footprint to provide access to six countries across the region. Foreign businesses can also access six markets via a centralised hub. In May 2017, Enterprise Innovation reported that Lazada will use SingPost’s regional e-commerce logistics hub, which will likely further streamline product importation and access for suppliers and businesses.17

Lazada Indonesia conducts direct sales and ‘partners’ approximately 15,000 third-party sellers in Indonesia, according to the Nikkei Asian Review.18 Lazada carries general merchandise, with electronics, fashion and homewares constituting the leading categories. Publicly available estimates from e27 suggest Lazada received an average of approximately 51 million monthly visits between January and March 2017, and lead other e-commerce sites in social media penetration on most platforms, receiving about 16.8 million monthly Facebook visits measured over the same period.19

Australian businesses will soon be able to list directly on Lazada Indonesia, supplementing existing access to other Lazada sites in the region, according to Future Commerce, a company that has established a relationship with Australia Post to enable businesses to sell directly on the site. A pilot of this arrangement has already launched on Lazada Malaysia under the branding ‘Australian Pavilion’. It offers Australian exporters the opportunity to test the market without building in-country relationships or operations.20

**Tokopedia**

Indonesia’s largest C2C marketplace and second largest e-commerce site, Tokopedia has an estimated 46 million monthly visits. In August 2017, Alibaba invested in Tokopedia, taking the value of Tokopedia at over US$1 billion.21 Indonesia’s two largest e-commerce companies, Lazada and Tokopedia are both backed by China’s largest internet company, Alibaba Group.

Tokopedia was founded in 2009 and established itself as Lazada’s chief competitor when it received US$100 million from venture capital funds SoftBank Capital and Sequoia.22 Media reports in mid-2016, claimed Tokopedia had facilitated an average of 16.5 million monthly transactions from 1 million sellers operating on its platform.23 Businesses can sell via Tokopedia’s marketplace or as individual stores within the site, and most categories contain imported products.
Shopee
Launched in 2015, Shopee is the C2C shopping arm of Southeast Asia’s most valuable internet company, Sea (formerly Garena). It was listed for IPO on the NYSE in October 2017, raising US$884 million and has a market capitalisation of more than US$4 billion.24 Shopee’s growth has been mobile-led, incorporating tools for SME sellers that enable them to manage their online stores or upload existing content from other platforms such as Instagram or Facebook.

Elevenia
An online marketplace comprising individual stores and C2C businesses. e27 states the site was launched in 2014 as a joint venture between XL Axiata, one of Indonesia’s largest telcos, and SK Planet, the South Korean online and mobile services firm, which is a subsidiary of SK Telekom.25 According to Tech in Asia, the companies have invested approximately US$110 million into the site, with the most recent funding round occurring in early 2016.26 The site was recently acquired by the Salim Group.27 Elevenia receives an estimated 34 million site views per month, driven by over 4 million products from 30,000 sellers. Sixty per cent of the site’s buyers are from the greater Jakarta area (known as Jabodetabek) while 20 per cent are from other Tier 1 cities including Medan, Surabaya and Bandung. The site carries a general merchandise range and stocks a large number of imported products across most categories, including baby, food and beverage. Elevenia also runs a flash sales site, although basket sizes are typically less than A$10.

Bukalapak
Indonesia’s second largest C2C marketplace with estimated monthly visits of 28 million. Bukalapak was founded in 2011 and is backed by KMK, a subsidiary of Emtek, an Indonesian media conglomerate. KMK reportedly holds 49 per cent of the company and has invested US$32 million in the site.28 The site carries individual stores for businesses. Bukalapak lists physical and digital products and has recently included functionality to allow users to invest in mutual funds.29 Most categories contain imported products, but listings typically focus on cheap local products.
Blibli
A direct sales site and marketplace with estimated monthly visits of 25 million, according to e27. Tech in Asia states the company was founded in 2011 by PT Global Digital Niaga, a subsidiary of Indonesian tobacco conglomerate, Djarum Group. Blibli lists general merchandise with a similar product range to its larger competitor, Lazada. The company holds its own stock and maintains an in-house warehouse and distribution capability. Qualified businesses are also able to list products on the site and distribute directly to customers via a drop-shipment model.

Deal Street Asia states that in June 2017, Blibli acquired Tiket.com, one of Indonesia’s largest online travel sites. Blibli carries an extensive range of imported products across most major categories. Based on its in-house research, Amplitude estimates Blibli has a higher-than-average-priced basket size than Tokopedia and Bukalapak.

MatahariMall
Launched in 2015, MatahariMall is a B2C marketplace that is majority-owned by Indonesian retail conglomerate Lippo Group. It combines a hybrid model of marketplace and direct sales, with around 90 per cent of its sales generated by the marketplace, according to Tech in Asia. While most suppliers ship product themselves, MatahariMall also offers warehousing and shipping support to its sellers. MatahariMall offers a wide range of goods spanning fashion, beauty, electronics, home, groceries, books and entertainment. It also provides limited online-to-offline services by allowing consumers to buy online and go to MatahariMall’s offline stores pick up the goods. Despite its aggressive launch in 2015 and strong local backing, traffic to the marketplace has slowed over the last few years with only 7.5 million monthly visitors, according to e27.
SPECIALISED E-COMMERCE PLATFORMS

Indonesia’s specialised e-commerce platform market is evolving rapidly due to international VC and private equity investment. It includes a mix of B2B and B2C models across product categories that may appeal to Australian exporters.

www.zalora.co.id  A leading B2C shopping retailer that offers fashion products from leading local and international brands, established in 2012 with presence across Southeast Asia. The platform targets consumers aged 25-35 years. Australian fashion businesses can gain easy access to Indonesian and Southeast Asian customers via the Zalora platform.

www.orami.co.id  Southeast Asian e-commerce platform focused on mother and baby products. Formerly known as MoxyBilna, it is currently owned by a Thai e-commerce company.

www.ruparupa.com  Ruparupa is the online store for offline retail group Kawan Lama Group and focuses on homewares, hardware, toys and office furniture. Products sold on the site are sourced from their retail brands including Ace Hardware, Informa and Toys Kingdom.

www.indotrading.com  B2B directory for suppliers, manufacturers and resellers selling electronic equipment, construction materials, mechanical and automotive parts, home and garden appliances and heavy equipment. No transactions are conducted by the platforms but the site enables buyers to request quotes from listed suppliers.

www.ralali.com  B2B e-commerce platform focusing on industrial supplies, machinery, equipment and tools with the aim to simplify the procurement process for businesses. Transactions can be conducted directly on the platform. Launched in 2013.

www.happyfresh.id  HappyFresh enables consumers to shop from local grocery retailers via mobile and web platforms and connects directly with local major grocery chains. HappyFresh is headquartered in Jakarta and has operations in Indonesia, Malaysia and Thailand. Established in 2014.

www.go-jek.com  Go-jek is an application-only platform that is a hybrid between Uber and e-commerce. It provides consumers the ability to have motorbike riders purchase goods in offline stores and deliver directly to their home focusing on groceries, specialty stores and restaurants. Founded in 2010, Go-jek’s platform has expanded rapidly, attracting significant investment from overseas venture capital and private equity firms.

Source: Amplitude in-house research, September 2017.
# INTEGRATING WITH INDONESIA’S E-COMMERCE PLATFORMS

Below is an outline of estimates relating to Indonesia’s largest e-commerce platforms – it is a guide only and is subject to change. Businesses should conduct their own investigations before taking steps to list their products on any e-commerce platform.

<table>
<thead>
<tr>
<th></th>
<th>Lazada</th>
<th>Tokopedia</th>
<th>Bukalapak</th>
<th>Elevenia</th>
<th>Blibli</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Business model</strong></td>
<td>B2C</td>
<td>C2C</td>
<td>C2C</td>
<td>C2C Flash sales</td>
<td>B2C</td>
</tr>
<tr>
<td><strong>Monthly visits (million)</strong></td>
<td>51</td>
<td>46.5</td>
<td>28.3</td>
<td>34.6</td>
<td>25.7</td>
</tr>
<tr>
<td><strong>Product categories</strong></td>
<td>General retail</td>
<td>General retail</td>
<td>General retail</td>
<td>General retail</td>
<td>General merchandise with a focus on electronics</td>
</tr>
<tr>
<td><strong>Number of sellers (B2C) and/or (C2C)</strong></td>
<td>15,000</td>
<td>1 million</td>
<td>1.3 million</td>
<td>30,000</td>
<td>6,000</td>
</tr>
<tr>
<td><strong>Shop front deposit</strong></td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td><strong>Annual fee</strong></td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td><strong>Commission</strong></td>
<td>7-13% of transaction including payment fee</td>
<td>0</td>
<td>0</td>
<td>5-10%</td>
<td>5-10%</td>
</tr>
<tr>
<td><strong>Local business or local ID required</strong></td>
<td>No, but official business licence required</td>
<td>No</td>
<td>No</td>
<td>Yes, local</td>
<td>Yes, local ID required</td>
</tr>
<tr>
<td><strong>In-house logistics</strong></td>
<td>Yes, optional</td>
<td>Partners with local logistics providers</td>
<td>No</td>
<td>Partners with local logistics providers</td>
<td>Yes, if listed as consignment</td>
</tr>
<tr>
<td><strong>Australia-based procurement</strong></td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td><strong>Direct import</strong></td>
<td>From China</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td><strong>Cross-border capable</strong></td>
<td>Yes***</td>
<td>No</td>
<td>No</td>
<td>Yes***</td>
<td>No</td>
</tr>
<tr>
<td><strong>Ownership</strong></td>
<td>Alibaba majority-owned</td>
<td>Tokopedia</td>
<td>Emtek</td>
<td>XL Axiata, SK Planet</td>
<td>PT Global Digital Niaga</td>
</tr>
<tr>
<td><strong>Payment method to seller</strong></td>
<td>Bank transfer for direct sales sellers, via escrow for marketplace sellers</td>
<td>To Tokopedia escrow account then transfer to local bank account</td>
<td>To Bukalapak escrow account then transfer to local bank account</td>
<td>To Elevenia escrow account then transfer to local bank account</td>
<td>Bank transfer for direct sales sellers, via escrow for marketplace sellers</td>
</tr>
</tbody>
</table>

Source: Amplitude in-house research, September 2017. Prices in Australian dollars unless otherwise indicated.

* Direct import means the company links to overseas suppliers (i.e. Lazada links to its Alibaba sellers in China) and manages stock for them (holds stock in its warehouse on their behalf) to sell via its platform.

** Cross-border capable means the company fulfils items directly from overseas suppliers when a purchase is made on the site (only for applicable countries and vendors). For example, a merchant in Indonesia can sell directly to a customer in Malaysia if it opts in to sell on international platforms.

*** Cross-border capabilities are still limited and do not yet apply to Australia.
UNDERSTANDING INDONESIA’S ONLINE CONSUMERS

Although Indonesia’s e-commerce market is swiftly providing access to a wider number and array of consumers, it is essential for Australian businesses without existing connections in Indonesia to ensure they have appropriate product–market fit before taking steps to list their products online.

The profile of the average Indonesian e-commerce customer has been relatively constant over the last five years, but the increase in mobile penetration and impact of companies investing in logistics and convenient payment mechanisms is slowly altering consumer demographics. New market forces are currently leading to a change in customer segments and geographies.

Amplitude’s in-house research conducted during 2017 found that the fastest growing e-commerce customer segments live outside Jabodetabek and are from lower socioeconomic backgrounds. The implication is that basket sizes will decrease as regional customers make up an increasing portion of buyers on these sites.

In 2012–16, the ‘typical’ Indonesian e-commerce customer was male and over 80 per cent were aged 18–34. Older customers were more valuable as basket size and net merchandise value increased with age.

Although basket sizes vary considerably by category, the average basket size across Indonesia’s e-commerce landscape hovers around US$25 and is driven by sales in fashion, accessories and electronics.

The shift in customer demographics toward consumers from lower socioeconomic backgrounds is most likely putting downward pressure on the average basket size. In comparison, Australia’s average basket size in June 2016 was US$90, according to research by StarTrack.33

The fastest growing e-commerce customer segments live outside Jabodetabek and are from lower socioeconomic backgrounds. The implication is that basket sizes will decrease as regional customers make up an increasing portion of buyers.

Indonesian basket sizes are lower than markets in Japan, Korea and China, which have historically been favoured by Australian businesses. E-commerce for groceries, fresh and agricultural products is still in its nascent phase.
ONLINE CONSUMERS: PREFERENCES

Survey results of online consumer studies reflect many of the structural advantages that e-commerce enjoys over traditional brick-and-mortar retail and endorse the view that online sales penetration as a percentage of overall retail sales is likely to grow. In a 2016 survey conducted by Deloitte, Indonesian participants identified three main advantages to online shopping:

› **Practicality:** The availability of products, home delivery and availability of information are the most cited reasons for preferring to shop online.

› **Wider product choice:** Better range and merchandising than products found in local stores and markets.

› **Promotion:** Rewards, loyalty points and access to exclusive content entice Indonesian consumers to shop online.

Comparing the Deloitte survey responses to wider structural issues in the Indonesian economy is illuminating. Given widespread traffic congestion in most Indonesian cities and limited product selection in offline retail stores, particularly in Tier 2 cities, it is clear why customers are increasingly looking online for solutions. The table below shows the survey outcomes – a full 63 per cent of customers – are motivated by convenience to shop online, and a further 15 per cent indicate product choice as the main motive.

The findings of Amplitude’s in-house research suggest the introduction of price subsidies, such as free shipping, can dramatically affect conversion rates, which also points to the importance of online shopping for residents of Tier 2 cities (deliveries to Jabodetabek are mostly free).

### Reason for shopping online

<table>
<thead>
<tr>
<th>Reason</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Practicality</td>
<td>63%</td>
</tr>
<tr>
<td>Price</td>
<td>5%</td>
</tr>
<tr>
<td>Product Range</td>
<td>15%</td>
</tr>
<tr>
<td>Promotion</td>
<td>12%</td>
</tr>
<tr>
<td>Reliable review</td>
<td>5%</td>
</tr>
</tbody>
</table>

ONLINE CUSTOMERS: PROFILES

These consumer survey profiles were compiled by Amplitude in May 2017 from in-person interviews in Jakarta and phone interviews in Makassar, Sulawesi, East Indonesia. The results are a positive sign for businesses looking to use e-commerce as a mechanism for entering Indonesian markets. They suggest an increasing reliance on online retail to deliver the types of products and services required by a growing proportion of the population.

FARAH: STAY-AT-HOME MOTHER

Farah is 30 years old and lives in Jakarta. She is a stay-at-home mother with a 2-year-old son and her husband earns A$3,000 a month. Farah spends 3-4 hours a day browsing online, reading reviews and shopping for baby clothing and accessories: ‘It’s so much more convenient to buy online while I’m looking after my baby, I don’t have to get out into the traffic,’ she says. Farah enjoys following her favourite Instagram stores to find more boutique items. She spends 2 million IDR (A$200+) a month on online shopping.

INDRA: FATHER AND WORKING PROFESSIONAL

Indra is a 35-year-old administrative manager. He earns 7 million IDR (A$700+) a month working at a restaurant. He works 8am-5pm, owns a motorbike and lives at his parents’ house in central Jakarta with his wife and 6-year-old son. Indra uses the internet to buy things he needs for the restaurant, for example, food containers, heating lamps and furniture. He pays cash-on-delivery using the restaurant’s petty cash as he doesn’t own a credit card. For personal shopping Indra uses his ASUS smartphone to shop on Lazada for electronics and specialist motorbike parts. He also browses on Instagram and purchases directly from trusted Instagram sellers that he follows. He spends an average of 1 million IDR (A$100+) a month on online shopping.

NADA: WORKING PROFESSIONAL

Nada is 21 years old, works 8am-6pm in healthcare management and lives in Makassar. She earns 5 million IDR (A$500+) a month, owns a car and lives with her aunt and cousins. In her spare time she enjoys practising traditional dance and singing with a local youth group that travels the world showcasing her local culture. Nada uses her iPhone to chat with her friends on WhatsApp and LINE, browse Instagram and search online. She uses Instagram and Lazada to buy things she can’t get in the local malls in Makassar.

On Instagram Nada buys clothing and headscarves with an average value of 100,000 IDR (A$10+) per item. On Lazada she buys makeup and camera accessories worth approximately 250,000 IDR (A$25+) and takes advantage of free shipping promotions as most items come from Java. Nada pays for these products by transferring the money from an ATM to the seller or e-commerce platform’s local bank account as she doesn’t frequently use her online banking login.
For Indonesian consumers, the path to purchase is complex but in most cases it begins with a keyword search on Google. ‘Electronics (non-mobile)’ was the most searched for category in 2016 followed by ‘Mobile Phones’, ‘Vehicles’ and ‘Apparel’. The keyword search categories with the highest growth are ‘Groceries’ and ‘Beauty/Personal Care’.

As is common in most e-commerce markets, the largest search category in terms of GMV is ‘Apparel/Footwear’. This category is also one of the fastest growing with 30 per cent historical growth, a rate that Amplitude expects to continue.

Over the last few years, as Indonesian consumers became more familiar with online shopping, their Google keyword searches have evolved to encompass more niche categories. Amplitude’s research has found that some of the fastest growing categories include ‘Traditional Toys and Games’, ‘Pet Care’ and ‘Home Care/Home Improvements’ with growth of 35 per cent, 24 per cent and 20 per cent respectively.

The table right shows the relative size of search volume on Google for selected categories. Of the categories selected, ‘Beauty & Personal Care’ is the most searched for category, followed by ‘Clothing’. Many of these products, such as ‘Home Improvement & Maintenance’, are not available online, and therefore are not a definitive indicator of demand.

Austrade recommends that Australian businesses do their own research before deciding whether their products are the right cultural fit for Indonesian consumers. For example, these Google keyword searches do not indicate whether products found under ‘Vitamins & Supplements’ and ‘Meat & Poultry’ were Halal-certified. Legislation currently under discussion by the Indonesian Government mandates that all products entering Indonesia will need to be Halal-certified by 2019. For advice related your specific product, please consult Austrade directly.

<table>
<thead>
<tr>
<th>Category</th>
<th>Indexed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beauty &amp; Personal Care</td>
<td>100.0%</td>
</tr>
<tr>
<td>Clothing</td>
<td>89.9%</td>
</tr>
<tr>
<td>Jewellery</td>
<td>25.2%</td>
</tr>
<tr>
<td>Toys</td>
<td>25.2%</td>
</tr>
<tr>
<td>Sporting Goods</td>
<td>25.2%</td>
</tr>
<tr>
<td>Vitamins &amp; Supplements</td>
<td>18.1%</td>
</tr>
<tr>
<td>Home Furniture</td>
<td>17.2%</td>
</tr>
<tr>
<td>Fish &amp; Seafood</td>
<td>2.8%</td>
</tr>
<tr>
<td>Snack Foods</td>
<td>2.8%</td>
</tr>
<tr>
<td>Baby Formula</td>
<td>2.3%</td>
</tr>
<tr>
<td>Pet Food &amp; Supplies</td>
<td>2.3%</td>
</tr>
<tr>
<td>Meat &amp; Poultry</td>
<td>1.8%</td>
</tr>
<tr>
<td>Milk</td>
<td>1.8%</td>
</tr>
<tr>
<td>Cooking Oils &amp; Spray</td>
<td>1.4%</td>
</tr>
<tr>
<td>Wine</td>
<td>1.4%</td>
</tr>
<tr>
<td>Juice</td>
<td>1.4%</td>
</tr>
<tr>
<td>Yoghurt</td>
<td>0.5%</td>
</tr>
<tr>
<td>Beer</td>
<td>0.5%</td>
</tr>
<tr>
<td>Home Improvement &amp; Maintenance</td>
<td>0.5%</td>
</tr>
<tr>
<td>Cheese</td>
<td>0.5%</td>
</tr>
<tr>
<td>Jams, Jellies &amp; Preserves</td>
<td>0.2%</td>
</tr>
</tbody>
</table>

Source: Amplitude in-house research, 1 June 2017, aggregated data from Google.
ENTRY POINTS FOR
AUSTRALIAN BUSINESSES

It is already possible to take advantage of Indonesia’s e-commerce industry, although access does vary depending upon a company’s size, products and whether it has existing relationships within Indonesia.

Existing relationships

Companies with distributors or operations in Indonesia should already have an Indonesian e-commerce strategy. Those with existing supply chains into China can leverage those relationships to test an Indonesian e-commerce strategy – for example, Alibaba-Lazada and Alibaba-Tokopedia.

Most consumer products (except for fresh grocery) enjoy a healthy online trade, especially among lower price points, presenting an immediate opportunity for consumer goods companies. Other verticals are less developed, such as B2B channels (e.g. industrial products), presenting an even larger opportunity for Australian companies with the financial wherewithal and patience to exploit it.

No existing relationships

For SMEs with no current relationships or presence in Indonesia, and no supply chains into China, a few access points already exist, but full-scale entry into the market remains difficult. Three primary factors complicate their entry:

- Almost all Indonesian e-commerce companies rely on businesses’ goods to be inside Indonesia prior to listing.

- In-bound customs to Indonesia have traditionally been slow, and even small-size packages are frequently held-up for additional customs charges, complicating the international drop-ship model.

- E-commerce growth has not eliminated other hurdles to accessing the Indonesian market, such as time-consuming and expensive product registration processes in categories such as food, beverage, health supplements and cosmetics.

As a consequence, most leading e-commerce companies will not currently allow international drop-ship as an option for businesses, and large players such as Lazada and Zalora instead require businesses to interact with their regional headquarters in Singapore.

For these companies, hope for a better future is on the horizon. Australian businesses will soon be able to list directly on Lazada Indonesia via the ‘Australian Pavilion’.35 This may be the first of many access points enabling Australian businesses to directly access the market without requiring local operations.

Bonded warehouses within Indonesia are likely to launch in the next 6-12 months.

Broader structural changes also promise to facilitate easier access. In January 2017, Indonesia increased the de minimis level on imports from US$50 to US$100, which will likely result in faster customs clearance and delivery, and an improved customer experience. More importantly, as prefaced earlier in this report, bonded warehouses within Indonesia are likely to launch in the next 6-12 months. Bonded warehousing will allow foreign businesses to store their goods in Indonesia and, for goods valued under US$100, reduce reliance on local distributors and subsequent delivery times into the country. In effect, this should provide equal access to the market for foreign businesses.
APPROACHES FOR ACCESSING THE MARKET

There are four avenues Australian businesses can follow to access the Indonesian e-commerce market:

› Local distributor
› Establish Indonesian operations
› International drop-ship
› Work with regional players.

Local distributor

All but the largest international brands work via distributors into Indonesia’s retail market. Distributors provide local working knowledge on retail dynamics and they are increasingly attuned to opportunities provided by online sales.

This has not always been the case. Until recently, leading distributors, particularly in fashion but also in homeware, hardware and grocery, were hesitant to cooperate with e-commerce sites due to the perceived risk of cannibalising their brick-and-mortar sales.

Successive years of growth and investment have mostly sidelined this view and almost all major distributors are now listing on local sites. Nonetheless, foreign companies seeking access to the Indonesian e-commerce market via distributors should undertake careful due diligence to understand the distributor’s approach to listing products online.

For businesses with existing relationships and/or a local presence, there are local service providers that can support local warehousing and logistics. These companies include:

› aCommerce: local partner providing services in warehousing and logistics
› 8Commerce: local partner providing services in warehousing and logistics
› Connexi: platform supporting managing inventory on multiple local Indonesian e-commerce platforms, syncing with what stock is available; does not offer warehousing or logistics.

Establish Indonesian operations

Creating a local entity in Indonesia and importing products into the market will allow for the greatest access to e-commerce and wider retail markets. It also comes with the highest setup costs, complexity and risks. International brands typically establish their own operations once they have demonstrated sufficient product–market fit to warrant deeper investment into Indonesia, transitioning away from distributor relationships.

Despite the added complexity of establishing a local presence, companies seeking to access Indonesia, especially those with existing supply chains into China and that enjoy greater access through a free trade agreement – may consider this option.
International drop-ship

Amplitude’s in-house research conducted for this guide found that no major e-commerce sites accept international drop-ship (where the goods are held offshore and dispatched upon customer order into Indonesia) as a method for accessing the market. Amplitude expects changes to Indonesian customs regulations will likely see the return of drop-shipping.

It is worth noting that international shipments into Indonesia continue as a feature of the e-commerce landscape with major international sites, such as Amazon and ASOS, shipping into the country. Indonesian customers continue to use these sites to gain access to products unavailable in Indonesia and despite the periodic difficulties with customs.

For this reason, local sites have experimented with international drop-shipping to improve their product ranges at various times throughout the last five years, but sites have ceased the practice more recently due to customer service and brand reputation issues arising from late or non-delivery. As competition from regional sites increases, and in consideration of recent customs changes, it is likely that local sites will invest in enabling international drop-ship and bonded warehousing options to stay competitive.

Work with regional companies

Indonesia is currently serviced by several companies operating e-commerce sites in multiple countries and this number is likely to grow. The two largest examples are Lazada and Zalora, both of which have operations in several Southeast Asian countries and have built sophisticated cross-border capabilities, allowing their foreign businesses to access customers across the region. Access to regional markets is provided via Singapore rather than directly into Indonesia, which reduces the time and cost of inbound logistics.
Indonesia is an e-commerce market to watch. Developments in the industry are unlocking new opportunities for foreign businesses. Direct access channels already exist and are likely to expand as industry competition heats up and more consumers come online.

Australian businesses should take the time to understand the market and the opportunities it affords them. Indonesia differs from its regional peers in important ways, not least because the market is still considerably less developed than more familiar markets such as China, has lower-priced basket sizes and is less focused on imported products. Similarly, while improvements in regulation are helping to advance Indonesia’s e-commerce industry as a whole, businesses need to understand specific regulations that may affect their products, particularly in categories such as beauty, cosmetics and food.

Nonetheless, Indonesia warrants serious attention and Australian businesses with existing operations should already be actively looking at how to exploit these e-commerce opportunities. Indicators suggest Indonesian e-commerce is likely to continue growing and its ease of access is improving. The opportunity for Australian businesses is significant, as another regional player opens its doors to Australian products.
HOW AUSTRADE CAN HELP

The Australian Trade and Investment Commission – Austrade – contributes to Australia’s economic prosperity by helping Australian businesses, education institutions, tourism operators, governments and citizens as they:

› develop international markets
› win productive foreign direct investment
› promote international education
› strengthen Australia’s tourism industry
› seek consular and passport services.

Austrade provides information and advice that can help you reduce the time, cost and risk of exporting. We also administer the Export Market Development Grants scheme and offer a range of services to Australian exporters in growth and emerging markets.

W austrade.gov.au
E info@austrade.gov.au
T 13 28 78 (within Australia)

AUSTRADE IN INDONESIA

Seeking the right advice and assistance is critical to the success of doing business in Indonesia. Austrade has an office in Jakarta. Austrade’s English- and Indonesian-speaking staff members can provide exporters with market guidance and access to information, promotions and referrals such as:

› introductions to appropriate contacts in offline and online channels
› feedback on the suitability of Australian products and services for the Indonesian market
› advice on applicable regulations in Indonesia
› opportunities for participation in online and offline promotions and trade missions.

W austrade.gov.au/Indonesia
E indonesia@austrade.gov.au
RESOURCES


2. Amplitude in-house research based on publicly announced foreign direct investment funding rounds into Indonesia in 2015–17.


5. As above, page 1, accessed 4 October 2017.


14. As above.


E-commerce in Indonesia: A guide for Australian business