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1. Introduction

Indonesia, the fourth most populous country in the world, is emerging as an economic powerhouse in Asia Pacific. Its consumer base is predicted to rise to 135 million by 2030, making it the third largest consumer base in the world and the seventh largest economy. On top of a budding economy, a variety of push factors such as growing internet penetration, rapid mobile device adoption, increased social media usage and greater spending power by the middle class make Indonesia’s eCommerce sector ripe for expansion. The majority of the population is very young - nearly 60% are below 30 years of age, with this age group expected to expand by 2.9 million users a year. However, like most emerging markets, Indonesia faces challenges with respect to adoption and implementation of new technologies, infrastructure developments and congestion due to rapid urbanization. The Indonesian consumer is also becoming more discerning, looking for more convenient ways to shop and engage with brands in the online space. This white paper details the eCommerce landscape of Indonesia, drivers of eCommerce growth, insights into the profile of the Indonesian online shopper, key industry players in the eCommerce space and challenges in one of the region’s fastest growing consumer markets.
2 Overview of Indonesia’s eCommerce Landscape

2.1 Digital Consumption Trends

With its large population, increasing affordability of the internet and usage of mobile devices, Indonesia has the highest percentage of internet users compared to other Southeast Asian countries. As of 2013, there were a total of 74.6 million users in Indonesia with the next country, the Philippines, with about half the number of users (34.8 million).

Internet Users Across Southeast Asia (2013)

Indonesia’s internet user base is slated to have a 20% year-on-year growth until 2016, which will lead to 102.8 million users by then. This is due to the increasing spending power of the middle class. Fierce competition between mobile companies is also driving mobile phone and subscription plan prices down, making them affordable for more users.

Growth in Indonesia’s Internet Users

Source: Tech in Asia
Source: eMarketer
According to a survey by MarkPlus, the number of Indonesian internet users grew steadily from 42.2 million to 74.6 million from 2010 to 2013. Netizens, who can be defined as users who spend more than three hours a day online, have also grown during the same time period from less than 20% to more than 40%. The survey also revealed that almost half of these netizens were under the age of 30 years, while those above the age of 45 years made up 16.7% of netizens in the country. Most netizens access the web via smartphones (86%) and spend between Rp 50,000 (US $5) and Rp 100,000 (US $10) every month for internet access.
2.2 Influence of Social Media

Between January to March 2014, Indonesia’s capital, Jakarta, contributed 2.4% of the global total of 10.6 billion Twitter posts, making it the city generating the most tweets in the world. A Google study on Understanding the Mobile Consumer in 2013 also supports that Indonesians are frequent social media users, with 97% visiting social networks and 79% doing so at least once a day via their smartphones. Its highly active online social community has gained the city its nickname, “social media capital of the world.”

The country’s most popular social media platforms are Facebook, Twitter and Google Plus. In early 2013, Indonesia was ranked first worldwide in terms of growth of account owners for Twitter. As of 2014, it has 69 million active Facebook users, making it the fourth largest user in the world. It also had 36% of its population on Google Plus and is also the second largest user of mobile messaging app Line as of September 2014, with 30 million active users. With 26.4% of online transactions occurring on social media platforms in 2014, it is evident that this high level of social media activity represents a huge opportunity for global and regional brands to engage with their customer base and ultimately drive sales in the social space.

Businesses are recognizing Indonesian’s affinity for social media and are using the opportunity to connect with existing and potential customers. There are an increasing number of accounts on social media being created purely to sell products. The emergence of local startups like LakuBgt and Onigi, which assist businesses to sell on these social platforms, is another indicator that Indonesia’s social commerce sector is growing. Social media is also a great platform for businesses to address customer concerns in a timely and personal way. An active and engaging online social presence is key for online success in Indonesia.
2.3 Who is the Indonesian Shopper?

In 2013, there were 4.6 million Indonesians shopping online. This is expected to increase to 8.7 million people by 2016.

Growth in Number of Online Shoppers in Indonesia

<table>
<thead>
<tr>
<th>Year</th>
<th>Online Shoppers</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>4.6 million</td>
</tr>
<tr>
<td>2014</td>
<td>5.9 million</td>
</tr>
<tr>
<td>2015</td>
<td>7.4 million</td>
</tr>
<tr>
<td>2016</td>
<td>8.7 million</td>
</tr>
</tbody>
</table>

Source: eMarketer

Indonesians are very social creatures and show strong preference for shopping on social channels. On messenger groups such as Blackberry Messenger and LINE, consumers find that they can directly converse with retailers. Other social platforms include online forums like Kaskus and Tokobagus, where consumers can share their purchases and product reviews.

Preferred eCommerce Channels or Platforms for Online Shopping

- Messenger Groups: 27%
- Conventional Online Shopping Sites: 20%
- Online Forums or Classifieds Sites: 26.6%
- Social Media Platforms: 26.4%

Source: Tech in Asia

In 2012, a single transaction’s average basket size was USD $55, with online shoppers spending an average of USD $256 over the year. With personal spending levels rising by 10% annually alongside rising internet adoption rates, it is clear that online transactions are growing steadily. While the number of customers are large, the most successful online sites are selling products with a value of less than Rp 200,000 (USD $20). Sukamart, an Indonesian online grocery store, says that its average basket size is Rp 300,000 to Rp 500,000 (USD $30 to $50). This compares to the average basket size of USD $94 on asos.com, a popular UK fashion retailer.
According to a 2013 McKinsey survey, Indonesians are risk averse and late adopters of new products and technology, regardless of their social class. This may explain the locals’ affinity towards Cash on Delivery payment methods and their preference for channels like forums and social networking sites, which allow for interaction with sellers and other customers, so that they can ask questions and receive recommendations before committing to a purchase.

While Indonesians shop across multiple categories, the most popular are clothing and apparel (67.1%), shoes (20.2%) and bags (20%).

Females tend to have a higher purchase rate, with the highest spending on clothing, mobile devices, travel, laptops and accessories.

Due to the low home internet penetration, another trend seen is that online shopping is primarily being done during office hours on an employer’s internet. Retailers see a daily peak in online shopping at 11 am, followed by a second rise in the early afternoon as workers get back online after lunch. For eCommerce, these are key time periods for targeted promotions and audience engagement. More than a quarter of Indonesian users spend over 30 hours per week online, which is on par with other Asian countries such as Malaysia and the Philippines but less than Singapore and Vietnam.
3 Drivers of Growth

3.1 Rapid Economic Growth Has Led to Increased Spending

In 2013, Indonesia’s total GDP was USD $868.3 billion, following an average growth of 5.9% over 2009 to 2013. Growth is expected to continue at an average of 5.8% until 2020, providing a solid foundation for new investments in the country and increasing the disposable income of the growing middle class. Online spending is predicted to increase by 40% in 2014 and 53% in 2015.

Majority of Indonesia’s businesses are small and medium businesses, representing 99% of all businesses in operation. The country’s retail sales amounted to USD $411.29 billion in 2014, of which 0.6% (USD $2.6 billion) are online sales. Forecasts for 2015 indicate that online sales in Indonesia will reach USD $3.56 billion. Even though sales through online channels will account for only 0.7% of total retail sales, the figures indicate a significant opportunity. Compared to developed markets like the United States which have eCommerce percentages closer to 5%, Indonesia’s online marketplace has plenty of room to grow.

Despite the capital city initially being the driver of eCommerce growth, both Rakuten and Zalora say that as of 2014, 70% of their orders come from rural areas. Indonesia’s second- and third-tier cities are growing fast but many still lack shopping malls, presenting a largely untouched segment and an opportunity for online companies to reach customers looking for more convenient shopping solutions where brick-and-mortar stores are not easily accessible.

3.2 Increased Affordability of Mobile Devices and Mobile Internet

The rise in mobile phone ownership is a key factor driving the rise in internet adoption rate. Mobile phone ownership doubled from 12% in March 2012 to 24% in March 2013, with an estimated 71 million mobile phone users in Indonesia by 2015 and 16.2 million tablet users by 2017. With users spending an average of 181 minutes on their smartphones every day, the most amount of time in the world, there is a huge opportunity for mobile commerce in the country. While fixed broadband internet is currently only in 1.6% of total households, affordable mobile internet plans has allowed a whole generation of internet users to leapfrog desktop technology and move straight to mobile devices.

According to Google’s 2013 survey on mobile consumers, smartphones are emerging as a significant point of purchase amongst Indonesians. 95% have researched a product or service on their phone while 57% have made an actual purchase via smartphone, 64% doing so at least once a month. In 2013, Indonesians spent USD $8.5 million in mobile commerce. In addition to driving up numbers of online purchase, research which starts on smartphones also lead to purchases across channels - 64% of shoppers who start the buying journey on mobile go on to buy via computer and 68% go on to buy in-store.

<table>
<thead>
<tr>
<th>Year</th>
<th>Online Sales Estimate (USD)</th>
<th>Retail Sales Estimate (USD)</th>
<th>Online Sales As a Percentage of Retail Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>$1.8 billion</td>
<td>$363.42 billion</td>
<td>0.5%</td>
</tr>
<tr>
<td>2014</td>
<td>$2.6 billion</td>
<td>$411.29 billion</td>
<td>0.6%</td>
</tr>
<tr>
<td>2015</td>
<td>$3.56 billion</td>
<td>$473.91 billion</td>
<td>0.7%</td>
</tr>
<tr>
<td>2016</td>
<td>$4.49 billion</td>
<td>$543.07 billion</td>
<td>0.8%</td>
</tr>
</tbody>
</table>

Source: Statista

Despite the capital city initially being the driver of eCommerce growth, both Rakuten and Zalora say that as of 2014, 70% of their orders come from rural areas. Indonesia’s second- and third-tier cities are growing fast but many still lack shopping malls, presenting a largely untouched segment and an opportunity for online companies to reach customers looking for more convenient shopping solutions where brick-and-mortar stores are not easily accessible.
3.3 A Growing Middle Class

Indonesia is also urbanizing at an extremely fast rate with 71% of the total population, or 209 million people, predicted to move to urban areas by 2030. The overall rise in disposable income will also see an estimated 90 million Indonesians becoming part of the consuming class by 2030.

According to the Yayasan Indonesia Forum, Indonesia is also on the path to becoming a high income country by that year with expectations for high levels of industrialization, more advanced technology and growth in the service sector. These factors, along with the growing sophistication of customers and their openness to other forms of retail, will significantly contribute to even greater eCommerce rates as spending power increases.

3.4 The Draw of Online Shopping's Convenience

The expanding middle class has resulted in increasing urbanization and higher levels of car ownership. According to a Wharton report in 2011, Indonesia’s car sales reached almost 900,000 units, making it the number one car market in Southeast Asia for that year. While this is indicative of an increasingly wealthy nation, it has also contributed to transport issues. Congestion continues to remain a challenge for the bustling cities of Indonesia. As such, people are continuously looking for more convenient ways to shop. Online shopping has therefore become increasingly popular as shoppers can make their purchases from the comfort of their offices and homes while avoiding traffic.

To address the infrastructural challenges present, companies like fashion retailer Zalora and sukaMart.com, a grocery retailer owned by Japanese trading house Sumitomo, have set up their own delivery services in greater Jakarta, one of the world’s biggest and busiest metropolitan areas.
4  Key eCommerce Sites

In 2013, Amazon was the most popular B2C site in Indonesia. Despite having no local presence, pricing or logistics support, their breadth of products drew the highest amount of visitors. However, Lazada Indonesia, Rocket Internet’s answer to Amazon, made the jump to the top spot in 2014. This comes after their rebranding in 2014 that showed a shift of focus away from consumer electronics to a larger range of lifestyle products. Lazada is also better at serving the local market with native language marketing campaigns, same day delivery and a variety of custom payment revenue. Zalora, Rocket Internet’s fashion venture, is another big player in the local market. Operating in ten countries throughout Asia Pacific, their Indonesian store accounts for the largest share of revenue across the group.

Tapping on the potential of Indonesia, Japan also entered the market with Rakuten Belanja Online, a standalone subsidiary of the Japanese giant Rakuten operating locally. In a culture with such distinct characteristics and low levels of risk-taking, a localized strategy such as adding an Indonesian word Belanja (which means expenditure) to a company name increases approachability and trust.

Kaskus is the leader of online forums in Indonesia. As of May 2014, it reported to have over 6.8 million registered users that create 4,000 new threads every day. The site also sees more than 750 million page views and 25 million unique visitors every month. A visitor typically spends about 29 minutes on the site every day. Kaskus’s biggest competitor is OXL, formerly known as TokoBagus. It is the largest eCommerce platform and Indonesia’s third largest local website.

Of special mention is the consumer-to-consumer (C2C) marketplace Tokopedia. Claiming to be the biggest eCommerce site in Indonesia, they are drawing ten million monthly visitors with shoppers buying a total average of two million products a month in 2014. From the businesses already present, it is clear there is a local audience ready for eCommerce, even if it is still in the early stages of development.
Online payments in Indonesia are low, with credit card penetration at only 4.5%. Businesses must therefore present themselves as being reliable and trusted online retailers by prioritizing data and payment security.
5 Key Challenges in Emerging Markets

Operating an eCommerce business presents a variety of challenges, especially so in an emerging market such as Indonesia. Some of the challenges encountered by eCommerce businesses are:

5.1 Customers Hesitant About Online Payments

Once an eCommerce site is live in Indonesia, the biggest challenge for brands new to the market is convincing the consumer that their online store is trustworthy. Compared across the Southeast Asian region, Indonesians are the least likely to make an online purchase due to their risk averse nature. Indonesians tend to use the internet mainly for research - 80% go online for price comparisons before buying in-store, compared to the regional average of 60%. A 2013 Nielsen survey revealed that the biggest obstacle to eCommerce was the customers’ fear of fraud, with 34.6% of customers citing this as a reason for not making an online purchase. According to the survey, six out of ten consumers said they were unwilling to provide credit cards details online. Another study by Google in 2013 revealed that customers' lack of trust in credit card security on mobile devices was the top reason for not purchasing online via their smartphones. Data and payment security is therefore a key consideration for businesses to present themselves as being reliable and trusted online retailers.

Selling online also poses the challenge of a lack of tangibility. 21.5% of consumers were not comfortable making a purchase before they could touch and feel the quality of the items they were buying. While the average European fashion website receives customer queries on only 5% of orders, Zalora in Indonesia receives an average of one phone call or message per order from concerned customers to confirm if their request has been received, a strong indicator of customers’ concerns with online shopping.

5.2 Need for More Widely Accepted Payment Methods

Given Indonesians' preference for traditional payment methods, such as Cash on Delivery, eCommerce businesses entering Indonesia may find payment collections challenging, especially if they are used to online payment systems. Many newer forms of payment such as internet banking are not widely used and customers typically choose to make payments directly through an ATM to a retailer's account. This also results in consumers often deciding to simply walk into a brick-and-mortar store and buy a product immediately, instead of making the final purchase online. In 2013, the eCommerce payment method breakdown was as follows:

Breakdown Of Payment Methods in Indonesia (2013)

<table>
<thead>
<tr>
<th>Payment Method</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>BANK TRANSFER</td>
<td>57%</td>
</tr>
<tr>
<td>CASH ON DELIVERY</td>
<td>28%</td>
</tr>
<tr>
<td>OTHERS</td>
<td>8%</td>
</tr>
<tr>
<td>CREDIT CARD</td>
<td>7%</td>
</tr>
</tbody>
</table>

Source: Vela Asia
With Indonesia’s eCommerce sector having a low uptake of credit cards, local eCommerce players have developed unique payments solutions. Travel website Tiket.com offers 14 different methods to make a payment, more than any other online store in Indonesia. Kaskus took it a step further, by creating their own payment system for their C2C marketplace. Other sites such as Bhinneka use free delivery within Jakarta to encourage customers to make online transactions. These increased payment options have also increased the growth of Indonesia’s eCommerce ecosystem as a whole.

### Innovative Payment Solutions in Indonesia

1. **DOKU**
   - An e-wallet that allows customers to make online purchases with or without credit cards and complete peer-to-peer transactions. It designs, integrates and optimizes commerce transaction systems for local and international merchants in various industries.

2. **Veritrans**
   - An online payment gateway that simplifies the process of accepting multiple payment methods, including credit card, internet banking, and mobile banking, by providing a single point of integration for eCommerce merchants.

3. **IPAYMU**
   - An e-wallet that allows customers to make cashless offline payments. It is also a mobile app which enables payments by scanning QR codes by using an e-wallet account to make a purchase.

4. **Indomoch**
   - An online payment gateway that is specialized for online game payment. It has a wide distributor network that enables both online and offline payment via ATMs, 7-11 outlets, mobile phone agents and thousands of warnet or internet cafés in more remote areas.

#### 5.3 Need for Sophisticated Logistics Solutions for eCommerce Businesses

Indonesia’s infrastructure is a challenge to both businesses and customers alike. Rapid urbanization has resulted in increased traffic congestion, driving people to shop online. With this increase in online shoppers, eCommerce businesses need to work closely with an experienced and reliable logistics and supply chain partner to ensure timely delivery of goods to their end customers. This growing demand for more sophisticated logistics solutions for eCommerce businesses will lead to further investments of global and regional logistics players in the country. An example of such an investment is the agreement between Singapore Post and Pos Indonesia, who have come together to improve the distribution and delivery of international postal items so as to cater to the growth in eCommerce traffic and strengthen the regional eCommerce logistics network.
Conclusion

There is a high growth potential in the Indonesian eCommerce market, as indicated by the increase in internet and mobile penetration, a growing consumer base and greater spending, rapid developments in both direct selling websites and marketplaces, as well as continuous activity in the social space. Indonesia’s online ecosystem also requires increasing investments in infrastructure and logistics to keep up with these growing demands and also faces challenges in consumer behavior, given the local market’s hesitation to fully use online payments. For any business looking to venture into Indonesia’s eCommerce landscape, it is vital that they consider localization and offering multiple payment and delivery options so as to reap the benefits of this rapidly growing Asian economic powerhouse.
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