eCommerce in Indonesia

August 2012
About Us

- Leading online payment processor for the Indonesian market
  - Founded in 2011
  - www.veritrans.co.id

- Tech media and research company that focuses on the Indonesian market
  - Founded in 2008
  - www.dailysocial.net
This study was conducted as part of an independent research project at Harvard Business School by the management of Veritrans, in joint effort with DailySocial.

First-hand interviews and transaction information was collected from leading eCommerce companies in Indonesia.

This report is the first study solely focused on the Indonesian eCommerce market.
Why we conducted this study

- Lack of market research & data on the Indonesian eCommerce industry
- Available estimates of the Indonesian eCommerce market vary widely with figures anywhere between $50 million to $3 billion
- Current market reports do not provide a clear or consistent definition of eCommerce, making cross-country comparisons difficult
- Major market research firms have published figures on Indonesian online shopping behavior, but only as part of a more general market report on Internet users in South East Asia
- Number of online shoppers surveyed: 584
- Distributed through email lists owned by DailySocial, Disdus, and other cooperating parties
Defining eCommerce

“'The sales of goods and services where an order is placed by the buyer or price and terms of sale are negotiated over the Internet''

— U.S. Department of Commerce
Defining eCommerce

- Payment does not necessarily need to be made online
  - Includes classified ads sites (e.g. Kaskus, Tokobagus, Facebook)
- Does not include online travel services, financial brokers and dealers, and ticket sales agencies
<table>
<thead>
<tr>
<th>Country</th>
<th>Percentage of eCommerce users out of the internet population</th>
<th>Avg. annual eCommerce spend per eCommerce user (in USD)</th>
<th>eCommerce market size (in USD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brazil</td>
<td>17%</td>
<td>$824</td>
<td>$11 B</td>
</tr>
<tr>
<td>China</td>
<td>28%</td>
<td>$799</td>
<td>$115 B</td>
</tr>
<tr>
<td>United States</td>
<td>71%</td>
<td>$1,111</td>
<td>$193 B</td>
</tr>
</tbody>
</table>

How about Indonesia?

$0.9 billion (2011)

Avg. annual eCommerce spend per ecommerce user

$256

Percentage of eCommerce users out of the internet population

6.5%

Source: Internal estimates, Survey
It's only 0.7% of total retail sales

$134 Billion

Source: DataStatistik
Top-down Analysis

Calculation of Indonesian eCommerce market from public data & consumer survey

Estimated market size: $0.6 - $1.2 billion
### Key Assumptions & Calculations

<table>
<thead>
<tr>
<th></th>
<th>Low</th>
<th>High</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population in 2011 (millions)</td>
<td>236</td>
<td>23%</td>
</tr>
<tr>
<td>Internet penetration</td>
<td></td>
<td>23%</td>
</tr>
<tr>
<td>No of Internet users (millions)</td>
<td>55</td>
<td>8%</td>
</tr>
<tr>
<td>eCommerce penetration</td>
<td>5%</td>
<td>8%</td>
</tr>
<tr>
<td>eCommerce buyers (millions)</td>
<td>2.8</td>
<td>4.4</td>
</tr>
<tr>
<td>Average spend per transaction</td>
<td>Rp. 500,000</td>
<td>Rp. 500,000</td>
</tr>
<tr>
<td>No. of transactions per year</td>
<td>4x</td>
<td>5x</td>
</tr>
<tr>
<td>Total eCommerce revenue</td>
<td>5,500</td>
<td>11,000</td>
</tr>
<tr>
<td>In Rupiah Billion</td>
<td>611</td>
<td>1,222</td>
</tr>
<tr>
<td>In US$ Million</td>
<td>0.5%</td>
<td>0.9%</td>
</tr>
<tr>
<td>% of total retail sales</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: BCG, DataStatistik, Internet World Statistics, Survey
Bottom-up Analysis

Calculation of Indonesian eCommerce market from survey of leading eCommerce players in Indonesia

Estimated market size: $0.8 - $1.0 billion
Many eCommerce companies and investors contributed transaction data to this analysis.

However, they have requested that we do not disclose individual company data so we can only report in aggregate terms.

However, Indonesia’s leading online forum, has given us special permission to disclose their transaction data. Thank you Kaskus!

The following page gives you detailed calculation of how we were able to estimate Kaskus’ transaction volume.
## Key Assumptions & Calculations

**New listings (millions)**
- Low: 1.0
- High: 4.0

**Products per listing**
- Low: 4.0
- High: 4.0

**New products per month (millions)**
- Low: 4.0
- High: 4.0

**Average transaction size (US$)**
- Low: $22.2m
- High: $27.8m

**Close rate**
- 20%
- High: 30%

**Total monthly sales volume from new listings**
- Low: $22.2m
- High: $33.3m

**+ sales from old listings**
- Low: $2.5m
- High: $3.7m

**Total monthly sales from all listings**
- Low: $24.7m
- High: $37.0m

**Estimated annual sales of Kaskus only**
- Low: $296m
- High: $444m

*Source: BCG, Internet World Statistics, Survey*
Indonesia Today

Total population: 248 million
Median Age: 28 years
GDP per capita: $4,700
Total Internet users in Indonesia: 55 million

Source: Internet World Statistics, Nielsen
More than two-thirds access internet by desktop & laptop in home

**device used**
- Desktop & Laptop: 71%
- Smartphone: 24%
- Other: 3%

**access location**
- Home: 63%
- Office: 25%
- School & Internet Café: 4%
- Other: 8%

Source: Survey
More than a quarter of users spend over 30 hours per week online.

Compared to other Southeast Asian countries, it's on par with Malaysia and Philippines but less than Singapore and Vietnam.
Search & social network are the most popular internet uses

Many Indonesian entrepreneurs and businesses are connecting online through online advertising and social commerce to profit from these activities
Chat is the primary use of mobile phone service among Indonesians

The top three most used mobile functions require mobile data connection

Source: Survey
Fashion goods are the most popular things bought, followed by online travel bookings which nowadays are easily booked over the Internet.

Some of the more popular categories found in developed market (e.g. online groceries) are virtually nonexistent.
Where to Shop

- Half of online shoppers uses Facebook or Kaskus to buy goods
- In addition to facilitating trust building for consumers with lack of trust in making purchases online, social networks are also able to more accurately screen user behavior for ad placements

Source: Survey

* We partnered with Disdus to distribute the survey through their social media mailing list. Therefore, penetration rates for Disdus and Deal Keren (another group buying site) are likely to be exaggerated.
- **Bank transfer** is the most widely used method of payment for eCommerce

- **Online payment solutions are fragmented** and still not widely used

- **eWallet solutions** have less than 5% penetration

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**Payment Method**

- **Bank Transfer**: 70%
- **Klik BCA**: 41%
- **Credit Card**: 30%
- **CoD**: 24%
- **Mandiri Internet**: 15%

**Note:**
Bank Transfer means ATM payments, cashier payments or transfer of funds electronically to a specified bank account

KlikBCA and Mandiri Internet is the transfer of money using the respective bank's proprietary electronic payment network

**Source:** Survey
Despite high usage, the bank transfer process is highly tedious and involves many more steps than credit card.

- Credit Card: 4 steps
- Mandiri Internet: 7 steps
- Klik BCA: 8 steps
- Bank Transfer: 9 steps

Source: Veritrans and DailySocial estimates by testing on 5 major e-commerce websites in Indonesia
The majority of online shoppers spend **up to Rp. 500,000** (US$ 55) per transaction

There is a minority of shoppers who spends over Rp 5 million
Internet usage will rise threefold over the next 4-5 years

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internet Users</td>
<td>55</td>
<td>149</td>
</tr>
<tr>
<td>(millions)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Middle class</td>
<td>110</td>
<td>150</td>
</tr>
<tr>
<td>population (millions)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Broadband</td>
<td>2%</td>
<td>30%</td>
</tr>
<tr>
<td>penetration</td>
<td></td>
<td></td>
</tr>
<tr>
<td>eCommerce Market</td>
<td>$0.9bn</td>
<td>$10bn</td>
</tr>
<tr>
<td>Size</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Nomura Research Institute, Economist, Indonesia Statistics Bureau, Euromonitor International, Indonesia Broadband Declaration

Note: Middle class defined as those with household disposable income above $5,000/year
Growth Opportunity

Supported by robust economic growth & increase of purchasing power

- **Mobile penetration**: 77%
- **GDP growth rate**: 6.4%
- **Credit Card usage**: 30%
Growth Opportunity

Facebook and Twitter are heavily used and present great opportunities to reach potential eCommerce customers

- 43 million users (4\textsuperscript{th} largest globally)
  - 90% under age of 35

- 11.5 million users (4\textsuperscript{th} largest globally)
  - 12% of total tweets globally
Challenges

- Slow internet and unreliable delivery time
- Price, quality, variety, and customer support are not competitive vs. offline channels
- Indonesia’s banks and conventions are slow to adapt to online transactions

Better Infrastructure
Better Products & Services
Better Payment System

Explosive growth in eCommerce