



## Emerging opportunities in Southeast Asia's largest logistics market

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Indonesia's growing e-commerce market presents significant opportunities for logistics operators in the country. Yet, the archipelago's sprawling network of more than 17,000 islands has its own set of unique challenges.

Amid the coronavirus (COVID-19) outbreak in Indonesia, social distancing measures across the archipelago have led to the closure of many

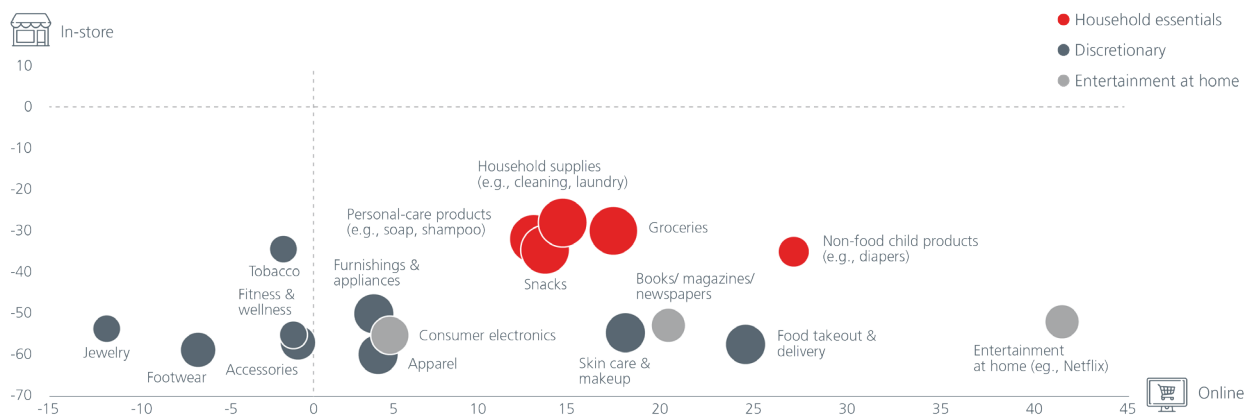
physical storefronts. Jakarta, the capital of Indonesia, has been operating under a state of emergency since 20 March 2020. Public transport operating hours have been shortened, while schools, tourist destinations and entertainment centres have been closed.

With significant disruption to the supply-chain, along with household purchasing power being hit by the lockdown, business-to-business (B2B)

**Fig 1: Indonesia: expected changes in shopping channels**

Expected change in shopping channel per category over the next two weeks

Axes show net intent, bubble size relative to share of respondents that have purchased category in last six months



Source: McKinsey & Company: COVID-19 Indonesia Consumer Pulse Survey 10-12 April 2020. N=722, sampled and weighted to match Indonesia's general population 20+ years. Q: Where do you expect you will buy these categories? Tell us if you will shop in the following places more, about the same, or less in the next two weeks. Q: Where do you expect you will buy these categories? Tell us if you will shop in the following places more, about the same, or less in the next two weeks. Please note, if you don't buy in one of these places today and won't in next two weeks, please select "NA", did not ask this question for categories not shown. Net intent is calculated by subtracting the % of respondents stating they expect to decrease shopping frequency from the % of the respondents stating they expect to increase shopping frequency.

shipments and sales of discretionary goods have also been impacted, according to Indonesia Logistics Association. That said, the business-to-customer market appears to be benefiting from the pandemic. Compared to pre-lockdown days, preliminary data from logistics operator Poxel shows that the volume of express shipments of frozen foods and other essential goods has jumped by about 70%<sup>1</sup>.

According to a recent survey by McKinsey, about 58% of the respondents in Indonesia stated that they have been using online grocery delivery services more since the beginning of the coronavirus outbreak. Some 18% indicated that they were trying online shopping for the first time, buying food, cooking condiments and other household essentials, amongst other things<sup>2</sup>. See Fig. 1.

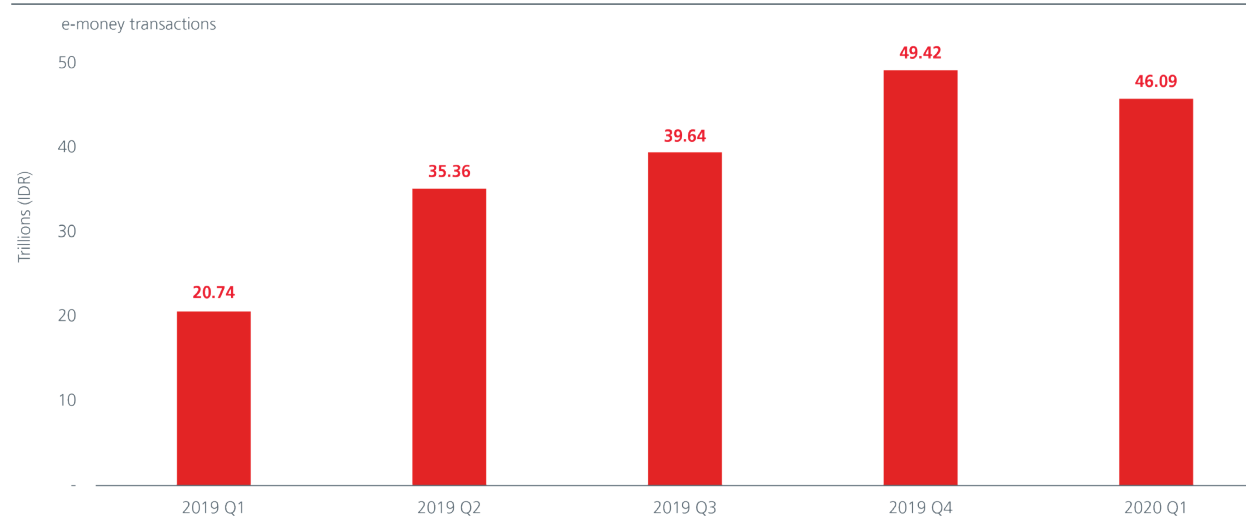
However, even before the coronavirus outbreak, the shift towards online shopping in Indonesia was evident, which can be seen from the rise in electronic payments – a key enabler of e-commerce. As reported by the Central Bank of Indonesia, the value of e-payments in the first quarter of 2020 rose 122.16% from the previous year to IDR46.09 trillion (USD3.05 billion). See Fig. 2.

Powered by increased access to the internet and the growth of tier-2 and -3 cities where access to organised retail is limited, Indonesia is poised to become the largest e-commerce market in South East Asia. As forecast by Google, Temasek and Bain, Indonesia’s e-commerce market, which, stood at USD21 billion in gross market value in 2019, will grow to USD82 billion by 2025<sup>3</sup>. By that time, Indonesia will comprise 52% of the ecommerce market in Southeast Asia<sup>4</sup>.

### FULFILMENT IS KEY

The success of Indonesian e-commerce largely depends on the ability of logistics operators to fulfil deliveries of online purchases to end-consumers across the country. The key function of logistics operators is to optimise the process of product acquisition, storage, transport and distribution, as well as facilitate the tracking of online orders for e-commerce marketplaces – a process which ensures the delivery of products to customers in a timely manner. According to research conducted by consulting firm Frost and Sullivan, in order to keep up with the increasing demand from e-commerce channels, the value of the Indonesian logistics market will increase from USD130 billion in 2015 to USD275 billion in 2020<sup>5</sup>.

**Fig 2: Value of e-payments in Indonesia**



Source: Bank Indonesia, E-Money payment system statistics, as at 31 March 2020.

Sources: <sup>1</sup>EastSpring Investments, quoting Poxel from a conference call on 25 April 2020. <sup>2</sup>McKinsey & Company COVID-19 Indonesia Consumer Pulse Survey 10 – 12 April 2020. N = 722, sampled a weighed to match Indonesia’s general population of 20+ years. <sup>3</sup>Google, Temasek, Bain & Company: e-Economy SEA 2019 Report. P. 21. <sup>4</sup>Google and Temasek, May 2016, e-economy SEA: Unlocking the \$200 billion Digital Opportunity in Southeast Asia, page 7. <sup>5</sup>CLSA Research: Indonesia logistics, citing Frost and Sullivan, 14 November 2019.

Efficient logistics performance is crucial to reduce overheads and improve efficiency, thereby shortening delivery lead times and improving profit margins. Since 2016, Indonesia's logistics sector has made significant progress, along with an increase in the number of toll roads and railways being built and upgraded throughout the country. Furthermore, legislation has become supportive of home-grown logistics operators, and online retailing is now well-established. Still, Indonesia's logistics sector remains at a nascent stage of development in comparison to the more advanced logistics hubs such as Australia, Japan and Singapore. See Fig. 3.

With the infrastructure reforms made over the past five years, Indonesia has reduced its logistics costs from 27% of GDP in 2015 to 22% in 2020. In fact, the government has an ambitious target of lowering logistics costs to 19% of GDP by 2024

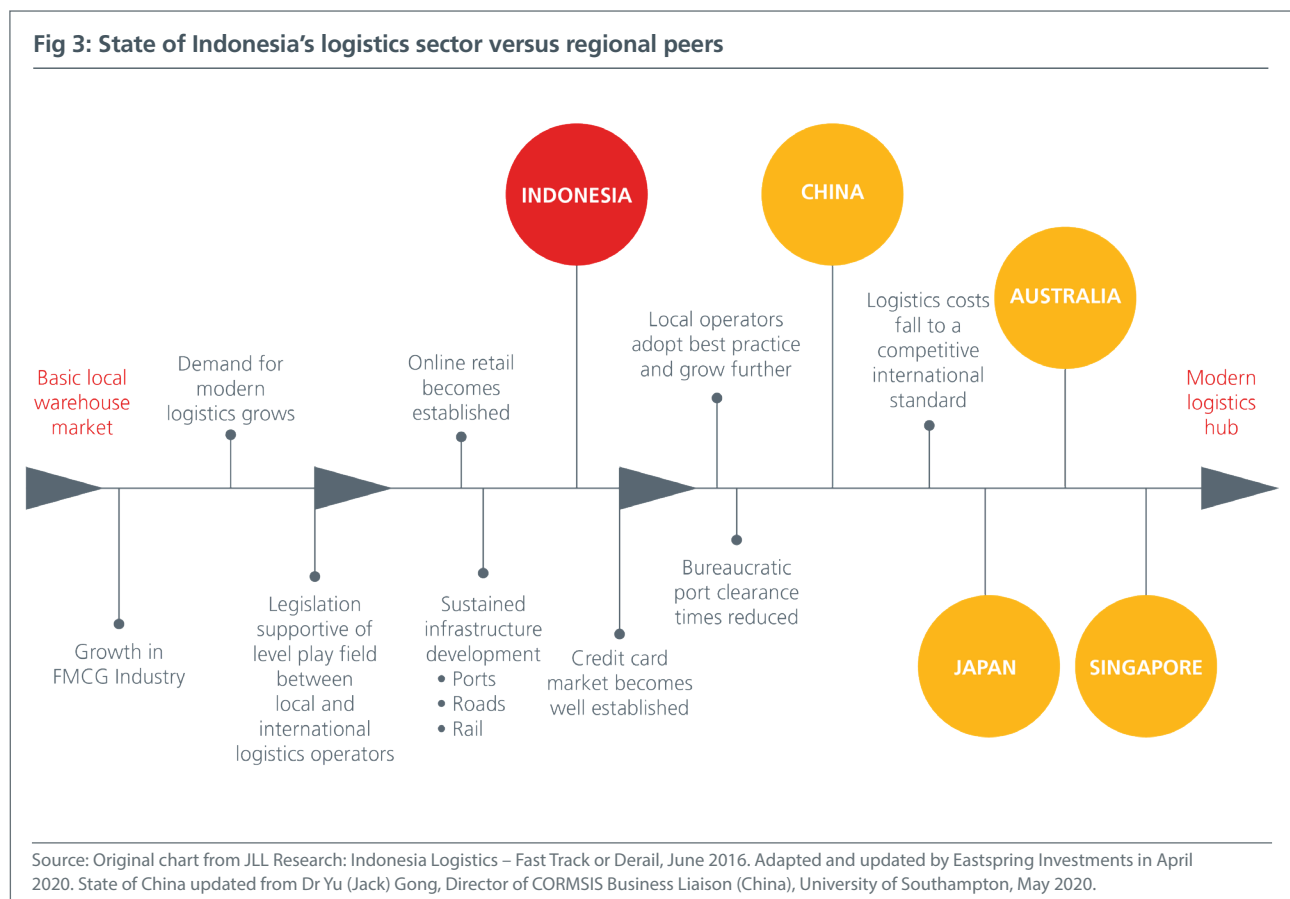
and to eventually match the standards of Japan and Singapore, where logistics costs represent just a single-digit percentage of total GDP.

### OTHER CHALLENGES

While the COVID-19 outbreak may have increased the demand for the same day delivery of purchases, particularly for essential goods, this feature is fast becoming an industry standard even in normal times. According to Econsultancy, 30% of millennials consider the ability of an e-commerce company to deliver on the same day before placing their orders<sup>6</sup>.

According to CLSA research, Indonesian consumers are willing to pay up to an additional 100% premium for same-day deliveries (IDR40,000 for same-day delivery versus IDR20,000 for other deliveries). The Indonesian Courier Association

**Fig 3: State of Indonesia's logistics sector versus regional peers**



Source: <sup>6</sup>CLS Econsultancy: Not offering same-day delivery? You could be losing customers, 14 December 2015.

estimates that the market share for same-day delivery will grow from 8% (300,000 parcels/day) in 2018 to 30% (4.5 million parcels/day) by 2023. In terms of premium logistics charges, the total value of same-day delivery services is projected to increase to IDR65 trillion in 2023, up from IDR4.4 trillion in 2018, thereby outpacing the growth in other delivery services<sup>7</sup>.

One major challenge to Indonesian logistics operators, however, is the 'last-mile delivery', with under-developed transportation networks and a poor records system of addresses across the nation's archipelago of 17,508 islands. Although larger forwarders, centralised sorting centres and a well-developed agent network (of 6,000 to 7,000 couriers) can help logistics operators overcome this last-mile challenge and fulfil deliveries in rural or hard-to-reach areas, these solutions are very labour intensive, and missing parcels and delivery delays remain an issue. In turn, all this results in high logistics costs which are not sustainable for e-commerce businesses and merchants.

By introducing modern logistics technologies and focusing on inter-city delivery, domestic logistics operators are more likely to be able to tap into the same-day delivery market and gain higher profit margins (double-digit percentages versus the 4% margin for a more labour-intensive model). Such an asset-light model includes building a network of smart-lockers as pick-up points to supersede manual sorting, using big data algorithms to create routes for thousands of orders and partnering with on-demand couriers. Only by keeping up with such trends can logistics operators meet the rising expectations of end-customers and e-commerce players.

## EMERGING OPPORTUNITIES

With a population of 268 million, Indonesia is Southeast Asia's largest logistics market. This market, however, remains somewhat fragmented and is relatively less developed than the country's e-commerce market. The young demographics in the country and the hard-to-reach locations have allowed a number of home-grown operators to capitalise on this fledgling sector. Currently, there are more than 15 privately-owned logistics operators in Indonesia, ranging from last-mile delivery start-ups to established incumbents, who are expanding their market shares during the current pandemic. These include:

- ▶ Homegrown pure-play incumbents (JNE, Tiki, J&T Express, Lion Parcel, Paxel, etc.)
- ▶ E-commerce in-house logistics companies (Lazda Express, Red Carpet, Tokopedia, etc.)
- ▶ On-demand logistic services (Go-JEK, Grab, Lalamove, etc.)

While most of Indonesia's top homegrown logistics operators are privately owned, more are likely to seek listings on the stock market in the future as they look for funding to ramp up their logistics capabilities such as automating certain processes, plus acquiring new talent in business development and operations. Even in-house logistics operators may look to expand their reach to service third-party e-commerce platforms. Understanding the potential and challenges of Indonesia's growing logistics market can help investors assess the emerging opportunities in this sector.

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