SWEDCHAM

BUSINESS BLUEPRINT INDONESIA

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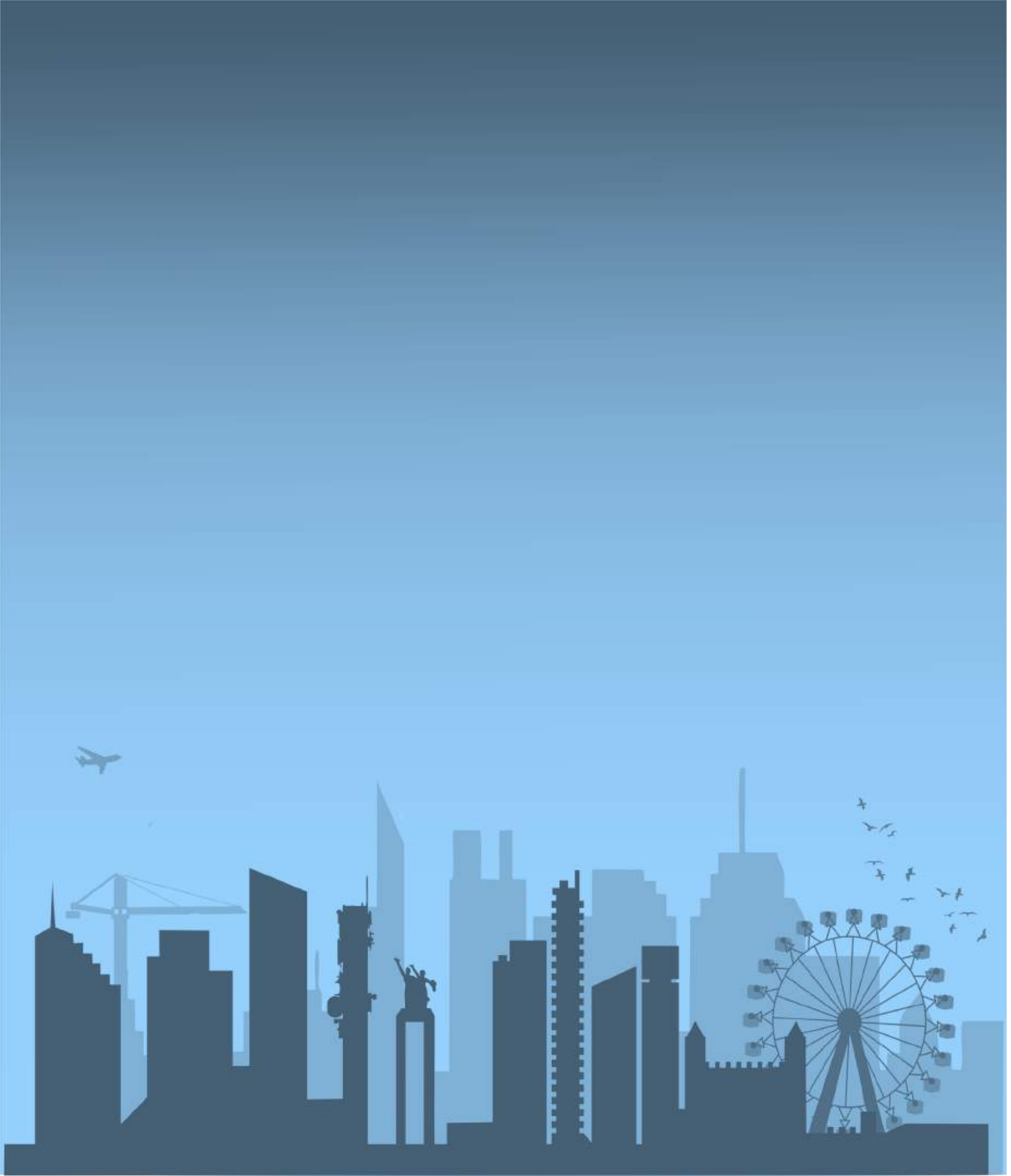
Swedish Chamber of Commerce Singapore



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THE SWEDCHAM BUSINESS BLUEPRINT

The SwedCham Business Blueprint is a document advising on how to do business in Southeast Asia successfully. Advice is gathered from entrepreneurs and executives from Nordic companies in Singapore who do business across the region and who have been invited to share their experiences and recommendations.

The first session in the SwedCham Business Blueprint series focused on Singapore – a key market in Southeast Asia for many companies, as well as an important strategic hub for conducting business in the region. The second SwedCham Business Blueprint session targeted Malaysia, a market undergoing rapid changes both economically and politically.

This third session in the SwedCham Business Blueprint is dedicated to Southeast Asia's largest economy - Indonesia. With a population of 260 million, a rapidly growing middle class and an energetic reform agenda, this country stands out as the market currently attracting the most interest from Singapore-based Swedish Businesses[1] . In a market that offers great opportunities, Nordic businesses are advised to step up their pace since companies from Western countries are currently losing market share to businesses from more active countries such as Japan and Korea. There are currently 70-80 Swedish companies established in Indonesia, mostly large corporations with a smaller number of SMEs. This makes the Swedish presence roughly the same as in Vietnam and less than in Thailand.

Politically Indonesia has a multi-party system, with elections held every five years. Indonesians are generally concerned with economic growth as well as religious values, and political groups are therefore formed to satisfy both of these demands. General elections were most recently held in April 2019, with Joko Widodo of the Indonesian Democratic Party of Struggle (Partai Demokrasi Indonesia Perjuangan, PDI-P) re-elected for a second term as President.

THE WORLD'S SEVENTH LARGEST ECONOMY IS GROWING FAST

Indonesia's market size alone is impressive - the country's population represents 40% of the ASEAN market and is currently the seventh largest market in the world. Whilst it is still too early to say how Indonesia's relative position will be affected by the current US-China trade conflict, growth rates are still predicted to continue at a high pace.

This projected growth means that it is likely that Indonesia will have soon climbed to fifth place among the world's largest economies. The key drivers behind this growth are infrastructure spending, private consumption and manufacturing, with manufacturing being essential to the country's labour market. Indonesia's largest exports are currently coal and oil derivatives.

Indonesia is seeing a lot of investment within the oil, gas and coal mining sectors at the moment, as well as a rapid development in manufacturing, mainly within the food and beverage, textile and electronics sectors. Education is another important area for international businesses as this sector is increasingly open to new solutions.

Indonesia is also undergoing rapid digitalisation. The Indonesian population is online to a high degree, with Indonesians spending an average of close to four hours per day online, mainly via mobile platforms. Indonesia is the largest Instagram market in the world, and e-commerce is so efficient that delivery times in urban areas are often as low as 45 minutes.

The Swedish Business Climate Survey in Singapore 2018

ENTERING A MARKET WITH GREAT REGIONAL DIFFERENCES

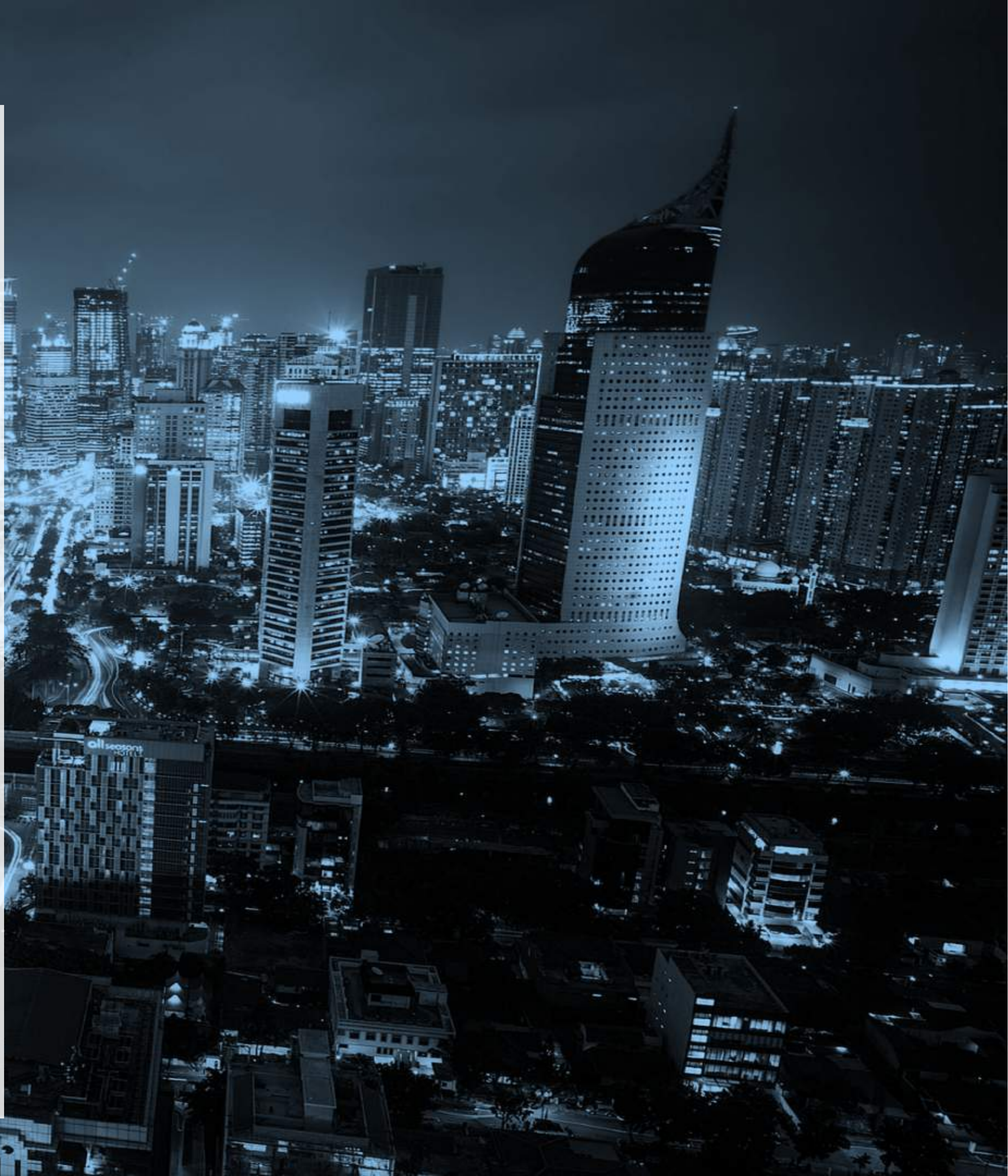
Indonesia is a large country with hundreds of different ethnic and linguistic groups, and the differences between regions need to be carefully considered. The Javanese are the largest ethnic group, and Java is typically the place for manufacturing, whereas Borneo is the main region for the palm oil and mining sectors.

The general sentiment among Nordic businesses is that it is more challenging to set up outside Java, mainly because of the general lack of infrastructure and also because of the relative inconsistencies in the infrastructure that does exist. In the short and medium term business are therefore advices to start by setting up in Java and to concentrate on the larger cities first, and to then move on from there.

However, companies should also take into consideration the longer term implications and opportunities of the government's recent announcement to relocate the capital to East Kalimantan Province on the island of Borneo.

FAST JOB CREATION MIGHT PROVE TO BE YOUR GREATEST ASSET

When entering the Indonesian market it helps to make a good impression on the government, and this is often connected to job creation. Public announcements from Indonesian authorities often focus on the scale of local and inward investment and how many jobs are created - this is a huge concern to a population of 260 million that is projected to reach 300 million within the next 10 years.



ESTABLISHING A LOCAL PRESENCE

Prepare yourself for a tough journey

Nordic businesses stress that conditions in Indonesia are very different from those in other markets in the region, and companies therefore need a unique market strategy for Indonesia.

Despite the multitude of opportunities inherent in the Indonesian market, Indonesia is not an easy market to enter. For instance, foreign investment and ownership are highly regulated - not only through the control of ownership, but also through measures such as the requirement of a US$1.2 million investment over three years and compliance with a wide range of local regulations in order to obtain an import licence.

Another example is that Halal requirements have to be met for all F&B products as well as for all beauty and pharmaceutical products coming into or produced in the country. Halal certification has to be obtained and the Halal logo clearly displayed on packaging otherwise the products will face a sales ban.

The retail sector is another part of the economy that is tightly regulated. It is still largely closed to foreign investment, often making franchising or joint ventures the only viable options for foreign companies seeking to enter the market.

The Political Dimension of the Market is Complex

The Indonesian government's push for reform over the past four years has paid off and seen the country climb the rankings of the World Bank's Ease of Doing Business Index.

Nonetheless, there are still challenges. The Indonesian authorities change regulations often and quickly, which not only creates uncertainty but may also cause severe disruption to business. These quick regulatory changes sometimes have unintended consequences, which the government is then keen to address.

However, the government's process of retracting those laws that have had unforeseen consequences is not transparent, which means that elements of uncertainty still remain.

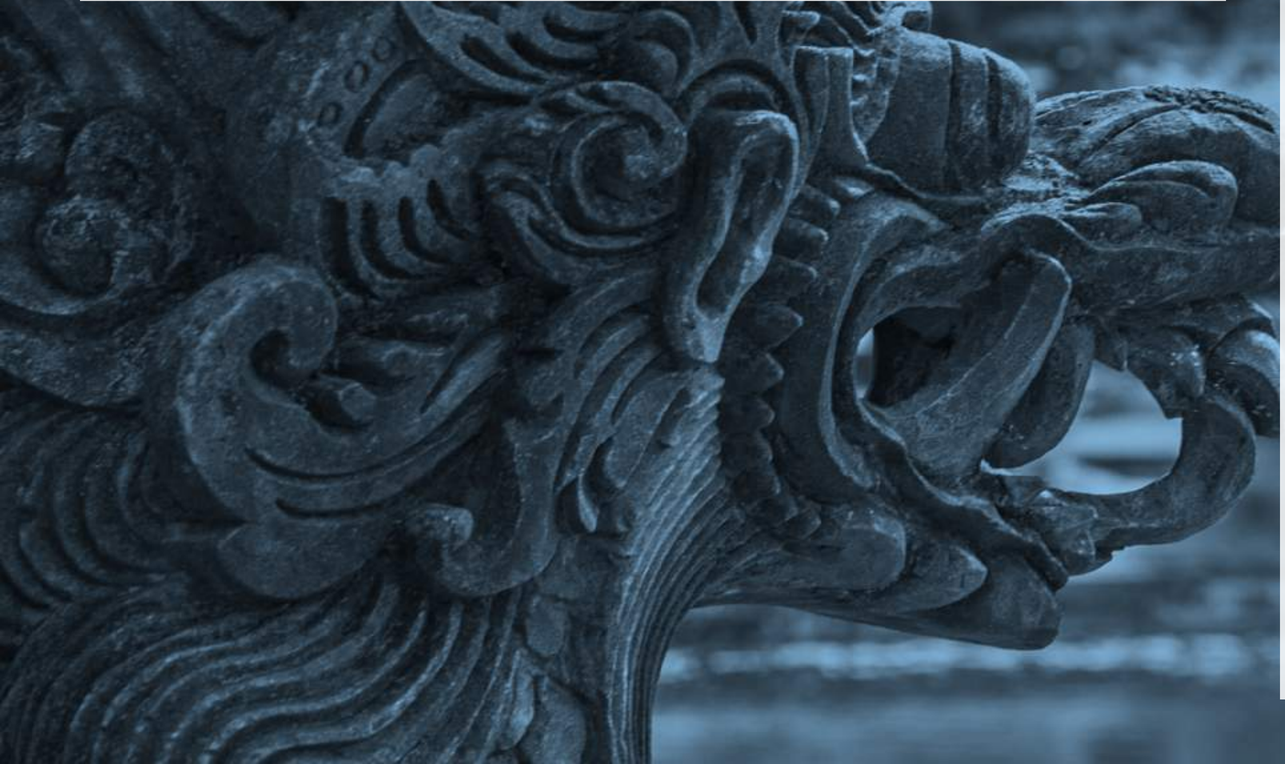
Customs and Importing

Another major challenge involves the import of goods into Indonesia. Just as in many other markets import duties vary depending on the type of product that is imported – however, one major challenge is that the time it takes for goods to clear customs can be highly unpredictable and inconsistent. Additionally, an import licence will be required, and this can be both costly and time consuming to obtain and can only be held by an entity that is registered in Indonesia. A less costly and faster solution may be to work with a local partner that has the necessary licence already.

RECRUITMENT AND ORGANISATION

Streamline – But Don't Decrease the Headcount

As mentioned previously, the Indonesian government considers job creation to be particularly important and is likely to value companies more highly if they create local employment opportunities. When companies in Indonesia are looking at ways to increase efficiency they are advised to avoid job cutting if possible and should therefore look at a variety of other measures to achieve this. Companies need to be pragmatic in terms of human resource planning, taking into consideration the importance of local job creation. For example, a company might be advised to hire three people to handle a particular task rather than one generalist who could manage it all. From a Western perspective hiring more people rather than fewer might seem illogical, but with a minimum wage of US$380 per month, focusing on job creation that benefits the country will prove to be a win-win for all parties in the long term.



Coping With The Challenge of Retaining Talent

The Indonesian workforce tends to move jobs easily and quickly, and loyalty will typically be tied to the management – not just to the higher management, but also to immediate supervisors - rather than to the corporation itself. This job-hopping culture leads to inflation in the salaries required to keep existing staff, although it should be noted that salary is not the only factor that is important to Indonesian employees. Healthcare and welfare benefits are deemed important as well, as are retirement benefits, learning opportunities and having an understanding of the company's mission, vision and values. The likelihood of developing employee loyalty to the point that they stay long enough to move into various management roles is significantly higher with highly engaged staff. This can be partly achieved by highlighting the benefits of the company's Nordic corporate culture and offering clearly defined career paths already at the recruitment stage.

Don't Forget Practical Workplace Details

When setting up an office in Indonesia companies are advised to respect local cultural values and may need to plan for designated prayer rooms in the workplace since prayer during the day is a vital part of many people's lives.

Training Centres

Be prepared to invest in training centres, since finding staff with the right skills may prove challenging. Indonesia does not have any universities that are ranked within the top 500 in the world, and companies entering the Indonesian market should therefore be prepared to train their personnel themselves in order to meet the required competence levels. Whilst this can be done through the implementation of education programmes, many Nordic businesses have taken things one step further and invested in proper training centres that often collaborate with local universities. This can be a good way to solve recruitment challenges, especially during a growth phase. The conclusion drawn from Nordic businesses is that companies should either invest in training or be prepared to compete for talent with relatively high salaries. The cost will be there either way - however, if only money is offered then the full loyalty of the personnel might never be gained.

SALES AND MARKETING

Good Distributors are Key – But You Will Also Need a Representative Office and an Extensive Support System

To most Nordic businesses, Indonesia is a distributor-led market, but finding the right partners and distributors takes a lot of due diligence. In addition to this, and due to the regional differences within the country, there are few nationwide distributors for most product categories. Also, just as in many other Southeast Asian markets, managing operations remotely is not recommended. To succeed in Indonesia, companies need feet on the ground, typically in the form of a Representative Office. There are several reasons for this and one of the main ones is that regardless of who the distributor is, it is important for companies to gain their own market knowledge in order to maximize their chances of success. Having a Representative Office also helps companies understand and communicate to their Head Office if their business offer needs to be adapted to fit in better with local conditions in order to be successful in Indonesia.

Nordic companies working with distributors in Indonesia are also advised to establish a good incentive scheme and to be prepared to increase the level of in-market support they can provide in order to support the growth of their distributor(s). For example, one company experienced a growth of distributor service personnel to 3000, which required investment in its own workforce to be able to train them.

Superior Quality and a Competitive Price are Good, but Trust is Vital

Indonesia is a fairly price-focused market in which TCO (Total Cost of Ownership)-based arguments will only get you so far. Several Nordic businesses have expressed their struggles in trying to convey the overall value of their offering compared to lower-priced and lower quality products and systems. Establishing trust through reliability and face-to-face contact not only gives companies a major advantage - it is a prerequisite for business.

RETAIL STRATEGIES

After a slowdown in the retail sector in the past three years, 5-10 % growth is now expected in 2019 with further growth anticipated in the coming four years. E-commerce is contributing positively to this development - as the number of established Indonesian retail brands moving online increases, so too does the number of Indonesian consumers who feel comfortable towards this way of shopping.

Platforms are Key for E-commerce

Swedish companies tend to want to use and control their own E-commerce sales channels - however, in Indonesia the young and fast growing E-commerce market is to a great extent already dominated by large E-commerce platforms such as Tokopedia, Bukalapak, Shopee and Lazada among several others. By 2025 these platforms are expected to have grown 15 times larger than they were in 2015 and in addition to providing purely transactional E-commercial services, these platforms are also starting to incorporate more social media-type features such as the ability to share product recommendations with friends and direct messaging between buyers and sellers.

Malls are Turning into Social Spaces

In recent years Indonesia has seen the emergence and growth of “retailtainment”, whereby malls have transformed from being almost entirely retail-based into places in which retail space is now increasingly shared with restaurants and entertainment. More square metres are also dedicated to the gym and wellness sector due to increasing health awareness among the population.

As malls are developing into social spaces, the stores in them have become places to browse prior to shopping around online rather than places in which to make a physical in-store purchase. Some global brands see it as a challenge that their products are being sold on the large E-commerce platforms by third party sellers despite having their own physical stores as well as their own E-commerce sites. Other brands have embraced the evolving nature of retail by opening exclusive showrooms whilst being fully aware that some or all of the sales will happen online and have therefore designed their retail spaces to cater to this concept.

FINAL WORDS

Indonesia is the fourth most highly-populated country in the world, with a young workforce whose spending power is growing fast. Despite a complex bureaucracy and red tape challenges which the government has started to address, Indonesia is a vibrant and growing market that should be explored further by any Nordic company with a long-term strategy for Southeast Asia growth.