



# REIMAGINING SME RECOVERY IN INDONESIA

By Sea Insights | June 2020



# About Us

## About the Company

**Sea Insights** is Sea's research and public policy unit. Its mission is to develop a deeper understanding of the rapidly evolving digital economy in Southeast Asia and Taiwan. Its research aims to inform leaders, from both the private and public sectors, on critical policy and strategy matters facing the digital ecosystem in the region.

**Sea** is the leading internet company in Southeast Asia and Taiwan. Sea's businesses include Shopee, the region's largest and most popular e-commerce platform, Garena, a global leader in games publishing and development, and Sea Money, one of the pioneers of Southeast Asia's digital financial services sector.

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## Source

This research is based largely from our survey of 20,000 Indonesian youths conducted in June 2020, of which 2,200 are entrepreneurs.

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# EXECUTIVE SUMMARY

# Reimagining SME recovery in Indonesia

- Our research suggests that Indonesian SMEs have actively adjusted to the challenges arising from COVID-19 in important ways.
- **First, SMEs<sup>1</sup> significantly increased their digital footprint.** For instance, **close to 50%** of young entrepreneurs surveyed increased usage of key digital tools such as social media, e-commerce (buying), and online education during this period.
- **Second, SMEs switched distribution channels to improve their sales.** **45%** of young entrepreneurs are selling more actively on e-commerce platforms, of which **1 in 5** are doing so for the first time. They range from homemaker and student entrepreneurs supporting their family and themselves financially, to business owners in the retail, agriculture and healthcare sectors.
- **Third, SMEs have adjusted their strategy and product mix** to cater to changing demand. Some have pivoted to selling items in high demand such as masks and hand sanitizers.
- **The surge in digital adoption will last beyond COVID-19.** Close to **70%** of entrepreneurs said they will permanently increase their usage of key digital tools such as e-commerce (both buying and selling) and social media. As such, the need for SME digital transformation is no longer a luxury but a necessity to thrive.
- **We need to raise digitalisation of local SMEs at every level:** The Indonesian government has already taken important steps to help local SMEs adapt to a more digital world. Further actions to consider include reducing the cost of internet, raising basic digital skills for all, improving access to credit for entrepreneurs, and reskilling the vulnerable businesses who may need to shift sectors.

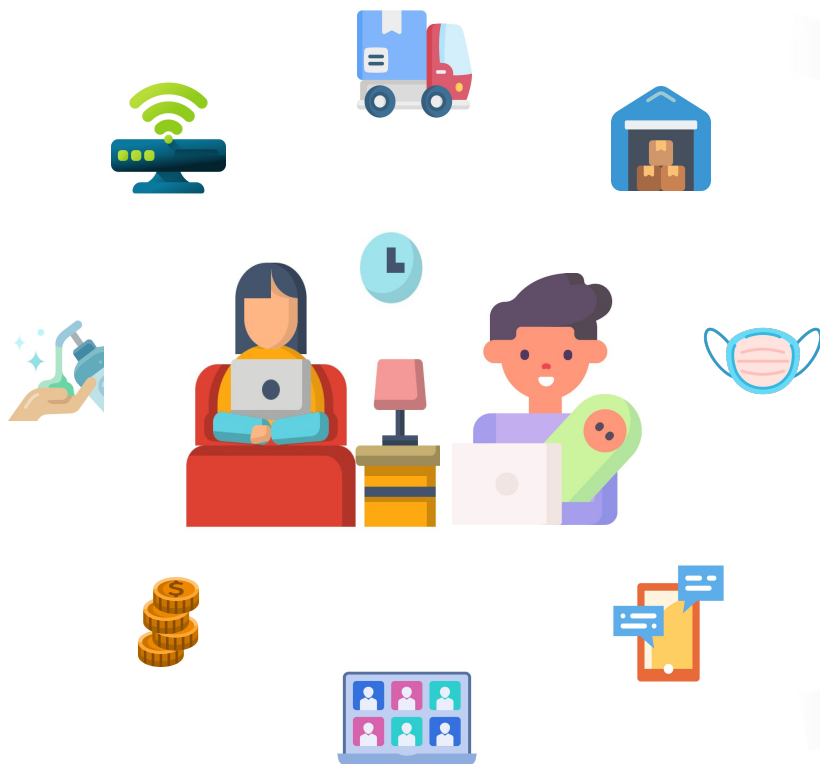
<sup>1</sup> We are referring to young entrepreneurs aged 16-35 in Indonesia in our report. This is based on our survey of 20,000 Indonesian youths, of which 2,200 are entrepreneurs (see Appendix for more details of our survey methodology)



# CHALLENGES

Indonesian SMEs face significant challenges during COVID-19

# Indonesian SMEs face 3 groups of challenges during COVID-19



## 1 Supply

Social distancing,  
Remote working,  
Logistics disruptions

## 2 Cashflow

Decline in revenue,  
High fixed costs,  
Tight credit conditions

## 3 Demand

Rising unemployment,  
Macroeconomic weakness,  
High uncertainty

# Supply-side: Remote working is difficult for many SMEs

Among 2,200 Indonesian entrepreneurs<sup>1</sup> surveyed:



said working remotely was difficult

## Top constraints to remote working

#1 Expensive or unstable internet



#2 Need for physical proximity and interaction with people



#3 Funding



### Who are they?



Health

Education

Agriculture and Mining

Living outside Jakarta

Without college education

### Other key constraints

- Logistics and fulfilment
- Getting stock and raw materials
- Implementing split A/B teams

According to the Cooperatives and Small and Medium Enterprises Ministry, SMEs applying for government aid reported difficulties arising from declining sales, goods distribution and access to raw materials

<sup>1</sup> Our survey focused on young entrepreneurs (between age 15-35). See Appendix for more details of our survey methodology



# Cashflow: Government and online lending becoming more important funding sources

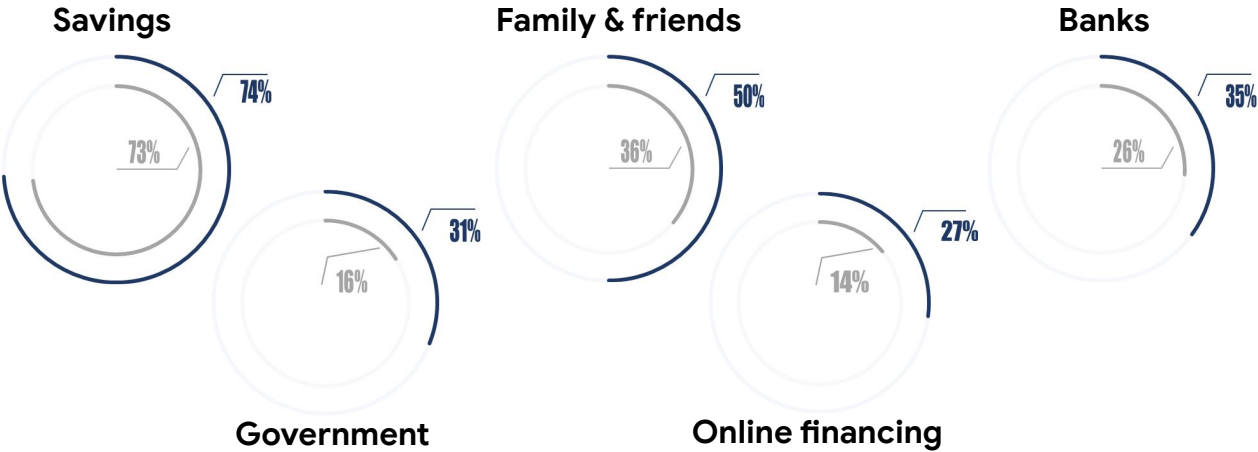
Among 2,200 Indonesian entrepreneurs surveyed:



said **funding is a constraint** to working remotely. Entrepreneurs facing funding constraints are more likely to rely on **external sources of financing** during COVID-19.

“These sources of finance have become more important for me during COVID-19”

■ Entrepreneurs **with** funding constraints    ■ Entrepreneurs **without** funding constraints



- Food and accommodation
- Agriculture and Mining
- Homemaker entrepreneurs
- Living outside Jakarta
- Without college education

External funding sources such as the **government** and **digital lending platforms** are becoming more important to help entrepreneurs tide through cash flow challenges

According to an International Labour Organisation survey, 65% of Indonesian SMEs temporarily halted their operations, with four out of five enterprises closing their business



# Demand-side: Shift in spending behaviour - more cautious, more online

Our survey of **20,000** Indonesian youths aged 16 to 35 found that:

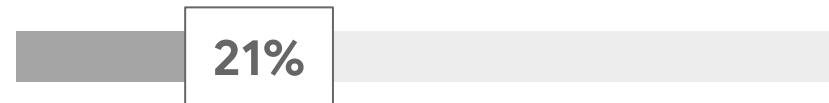
✈ They plan **to increase precautionary savings**

59% learnt to appreciate value of having savings for emergency situations



✈ They face **funding constraints**

21% faced funding constraints during COVID-19



✈ They are **more cautious in spending**

57% are learning to buy what they need, not what they want



✈ They are **shifting to online purchases**

51% are utilising e-commerce more to meet their spending needs



# The 3 phases of COVID-19: We are in the New Abnormal

We are here



## Maximum Lockdown

Most things are closed

- Significant economic impact
- Mobility declines sharply

## The New Abnormal

Gradual reopening  
(6-12 months or more)

- Safe distancing continues to apply
- Consumers cautious in spending

## The New Normal

Vaccine arrives  
(Unknown)

- Life as we know it may permanently change
- Weak firms with old business models die out

- Experience in other countries suggest supply disruptions may ease as the economy “re-opens” during the new abnormal phase. However, demand takes a much longer time to rebound.
- SMEs’ cash flow issues can linger as safe distancing measures and stringent health standards raise costs for operating offline, while demand stays lackluster.
- The new abnormal phase can last until the vaccine is found and the virus is brought under control.



# ADAPTING AND LEARNING

Despite the challenges, Indonesian SMEs are actively adjusting to the “new abnormal”

# SMEs significantly increased their digital footprint

COVID-19 is the catalyst, accelerating the shift online that was already happening

My usage of this digital tool has **increased** from **before** COVID-19 to **during** COVID-19

(% of entrepreneurs who are using digital tools **more** or **for the first time**)



<sup>1</sup> Other digital tools include eBanking & mobile banking, virtual meetings, food delivery, video games, ewallets, digital government services, enterprise resources planning tools (eg. inventory management), ridesharing, telemedicine, and travel apps

# SMEs switched distribution channels to increase their sales

*SMEs in Indonesia have increased their adoption of e-commerce selling during COVID-19*



**45%** of entrepreneurs are **selling more actively on e-commerce** during COVID-19

## Profile



**Female,  
More educated,  
Mid 20s**

Those selling more actively online tend to be more educated women in their mid-20s.

**50%** of this group are **female** (vs **44%** of entrepreneurs surveyed are women)<sup>1</sup>

**45%** have **college education** (vs **39%** for all entrepreneurs)

## Sectors



**Retail & wholesale,  
Food & accommodation,  
Homemakers**

Those selling more actively on e-commerce tend to be in **retail**, to be **homemakers** or in the **food and accommodation** sectors

Food & accommodation SMEs could be selling ready-made food products on ecommerce, on top of providing food delivery service.

## Challenges




**Funding constraints,  
Logistics and supply  
constraints**

**60%** said that remote working is difficult vs **63%** for all entrepreneurs

They are more likely to mention funding and logistics constraints

<sup>1</sup> Among 2,200 Indonesian entrepreneurs surveyed

# COVID-19 is pushing some late adopters to go on e-commerce for the first time

 **1 in 5** entrepreneurs who are selling more actively on e-commerce are **first time adopters**

## Profile



**Male,**  
**Less educated,**  
**More likely to live in Jakarta**

**72%** of the first time online sellers are **male** (vs **56%** of entrepreneurs surveyed are men)<sup>1</sup>

**32%** have **college education** (vs **39%** of entrepreneurs surveyed have college degree)

## Sectors

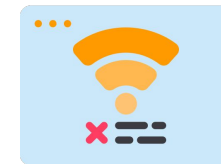
**Agriculture and mining,**  
**Student entrepreneurs,**  
**Healthcare**

Entrepreneurs in the health sector are likely selling items such as **masks** and **hand sanitizers** for the first-time through e-commerce

**Farmers** are also using e-commerce for the first time to reach new customers during COVID-19

## Challenges

**Lack of digital tool know-how,**  
**Costly & unreliable internet,**  
**Lack of Motivation**



**68%** said **remote working** is difficult vs **63%** of all entrepreneurs

<sup>1</sup> Among 2,200 Indonesian entrepreneurs surveyed

# Businesses have adjusted to changing preferences of their customers

*Going digital has been accompanied by shifts in business strategy and product mix*

## Case Study: Keisha Wholesale Clothing

Pak Anggi from Bandung realised that his home-based fashion clothing business needed to adapt significantly during COVID-19:

During PSBB, his online shop became his main source of income.



He shifted away from producing hoodies and outerwear clothing to selling more of **children's clothes** instead.



He also started producing and selling **fabric masks** to help the local knitting factories (pengusaha konveksi) generate some revenue.



The many complementary digital tools on e-commerce platforms such as **live streaming** helped him to reach new customers.



With these changes, his income increased by **35%** during the Ramadan period despite COVID-19.



# SMEs switched to selling more online during COVID-19

## Case Study: Snack Mazter

Snack Mazter is a packaged food business owned by couple Ibu Sherly and Pak William. They have been online for around 4 years, and also have offline shops.



When COVID-19 hit, their customers started panic buying because they couldn't leave their house. Online sales surged for Snack Mazter.



However, one of their key challenges was to meet strong demand in the face of **supply chain disruptions** during PSBB. As such, they had to wait longer than usual before they could get their stock.



Through live chat, they interacted more online with their customers, and realised that demand for **healthy food** is strong.



To adapt to the new demand, Snack Mazter started selling granola cereal, a healthy food product. Its sale grew up to **8 times**, exceeding the sales of traditional snacks during Ramadan period.



# SMEs adapted by selling online for the first time

## Case Study: Kurnia Alam Selaksa

Pak Rizki is a direct distributor of farmers in Bandung and Malang.



He has been a supplier of vegetables such as lettuce and cucumber to Carrefour, Yoshinoya, and Sushi Tei since 2012.



He experimented with online sales in 2018 but was not successful.



COVID-19 was the spark that pushed him to step out of his comfort zone to sell online seriously for the first time.



He joined **training sessions** held on e-commerce platforms.



Within a short-span of four months, he managed to raise his online sales by more than **200x** from his February to June.





# REIMAGINING THE NEW NORMAL

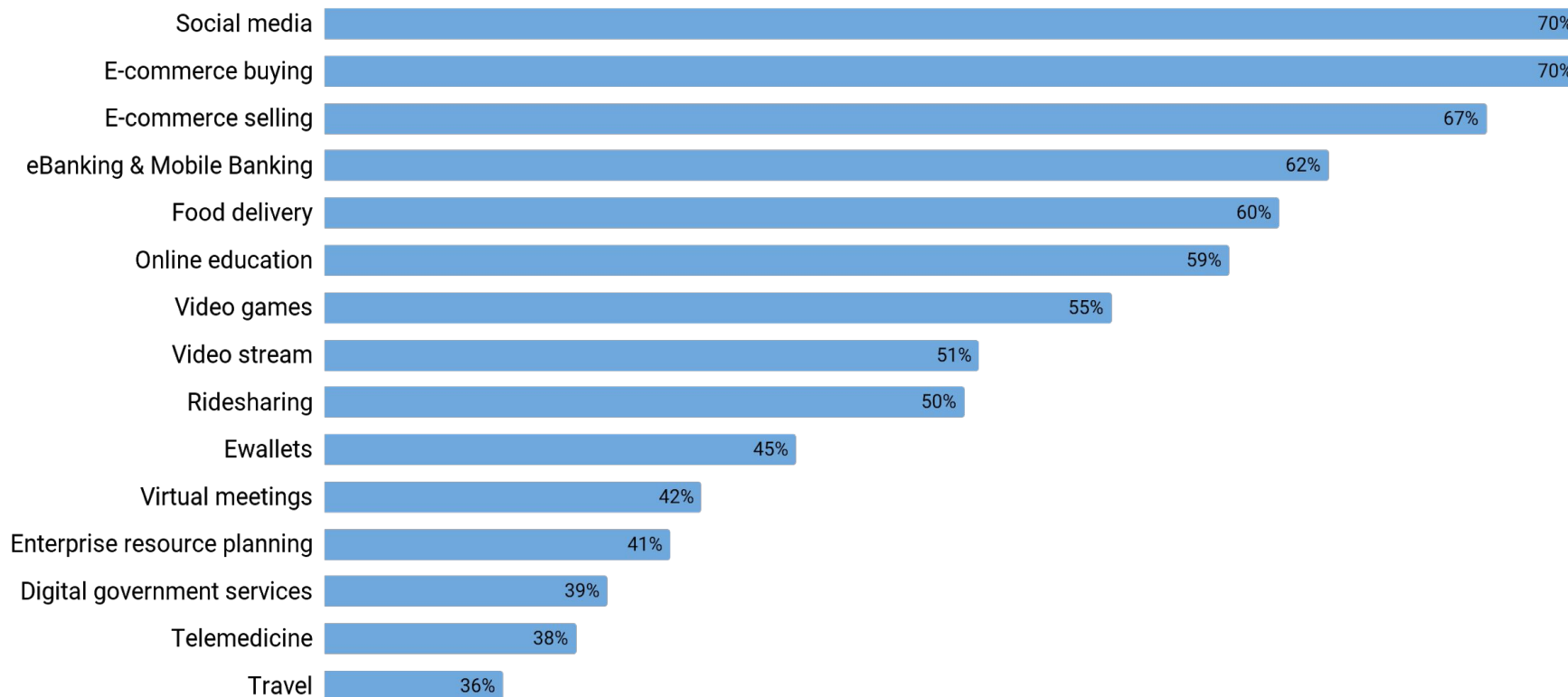
COVID-19 represents an opportunity for SME transformation

# Digital transformation will last beyond COVID-19

Digitalisation no longer a luxury but a necessity for SMEs

COVID-19 will **permanently change** how much I use the following digital tools

(Among entrepreneurs who **increased** adoption of digital tool during COVID-19)



# Going digital can have significant and lasting economic impact on SMEs



Our in-depth research shows that Indonesian SMEs which adopted e-commerce saw more than **160% rise** in revenue and **110% rise** in productivity on average <sup>1</sup>

## Death of Distance

Physical distance no longer a constraint with e-commerce

**Before** E-commerce: **29%** of SMEs sold outside their own region

**After** E-commerce: **60%** of SMEs now sell outside their own region



## Improve Productivity

Lowers the cost to serve customers, raise productivity and allow greater flexibility

↑ **165%** Total Revenue Increase (online + offline)

↑ **117%** Efficiency Increase (Revenue per employee)

## Discover New Income Streams

Generates new class of entrepreneurs and allows them to discover new income streams



### Homemakers

Value the ability to have more household time and to take care of their family through e-commerce



### Students

E-commerce is a valuable source of additional income for students, helping them to pay for their education

<sup>1</sup> Based on our previous research of 18,000 Indonesian business owners conducted in 2019. See Appendix for more details

# We need to close the digital divide for inclusive growth

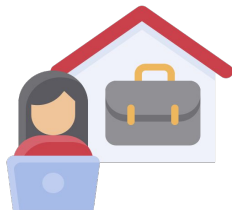
COVID-19 has widened the gulf between the haves and have-nots



**17%** of entrepreneurs did not sell on e-commerce during COVID-19.

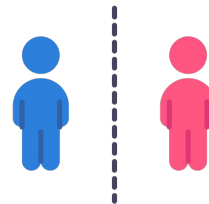
## Remote Working Difficulty

**74%** found it **difficult to work remotely** vs **63%** in our sample



## Physical Proximity & Internet Access

**35%** said their work requires them to be **physically close to other people** vs **30%** for all entrepreneurs



**41%** report that **expensive internet** as a constraint

## Least Educated

**74%** have **below college education** vs **61%** for all entrepreneurs

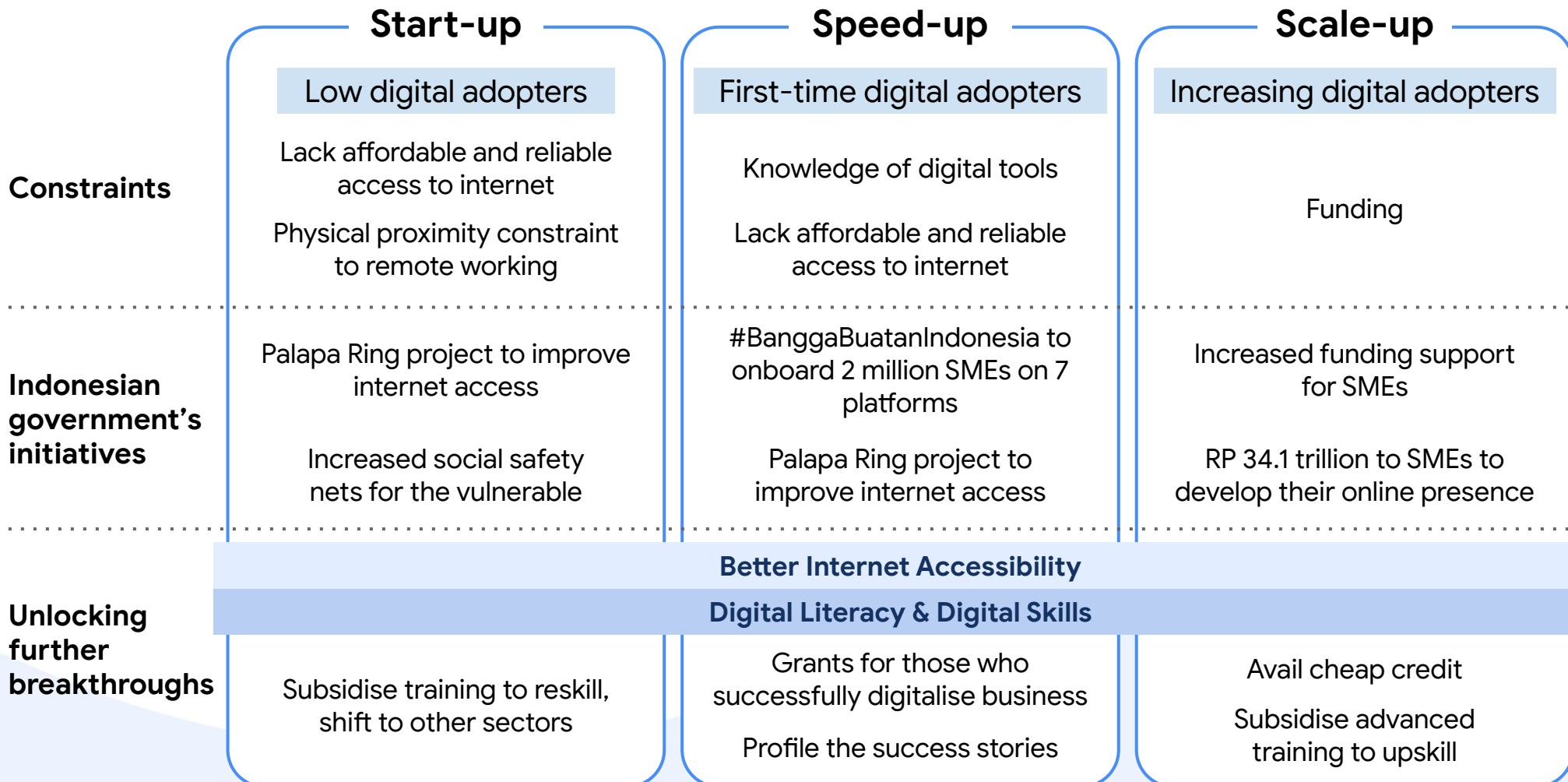


### Sectors

Agriculture and mining,  
Industrial,  
Education

# Let's start up, speed up, and scale up

The Indonesian government has done a good job in supporting SMEs. More can be done in partnership with the private sector.





# APPENDIX

Survey methodology

# Survey methodology

## ASEAN Youth Survey - June 2020:

- The results of this report are largely based on the Annual ASEAN Youth Survey, conducted in partnership with the World Economic Forum.
- The survey was fielded through the Garena and Shopee platform in June 2020, and focuses on youths aged 16 to 35.
- In total, we received around 70,000 completed responses from across ASEAN.
- In Indonesia alone, we had 20,000 respondents aged 16 to 35, of which 2,200 identified themselves as entrepreneurs.

## ASEAN Seller Survey - 2019:

- In 2019, we surveyed more than 40,000 e-commerce entrepreneurs through the Shopee platform to better understand the economic and social impact of e-commerce.
- We received more than 18,000 responses from Indonesia, of which the vast majority were MSMEs.



# 2020 ASEAN Youth Survey Demographics - Indonesia

**Full sample size: 20,397**

Age

16 to 20	21 to 25	26 to 30	31 to 35
33%	33%	21%	13%

Gender

Female	Male
51%	49%

Location

Capital	Outside capital
10%	90%

Education

Bachelor's degree and above	32%
Below bachelor's degree	68%

**Entrepreneur size: 2,213**

Age

16 to 20	21 to 25	26 to 30	31 to 35
20%	30%	28%	21%

Gender

Female	Male
44%	56%

Location

Capital	Outside capital
9%	91%

Education

Bachelor's degree and above	39%
Below bachelor's degree	61%

Salamat      ขอบคุณ      Cảm ơn bạn

**Terima Kasih**

謝謝      Thank you!