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)
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 Paxel shows that the volume of express shipments of frozen foods and other essential goods has jumped by about 70%.

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. 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. By that time, Indonesia will comprise 52% of the ecommerce market in Southeast Asia.

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.

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.

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: Original chart from JLL Research: Indonesia Logistics – Fast Track or Derailed, June 2016. Adapted and updated by Eastspring Investments in April 2020. State of China updated from Dr Yu (Jack) Gong, Director of CORMSIS Business Liaison (China), University of Southampton, May 2020.

Source: “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’.

On 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 (Lazada 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.

Disclaimer

This document is produced by Eastspring Investments (Singapore) Limited and issued in:

Singapore and Australia (for wholesale clients only) by Eastspring Investments (Singapore) Limited (UEN: 199407631H), which is incorporated in Singapore, is exempt from the requirement to hold an Australian financial services licence and is licensed and regulated by the Monetary Authority of Singapore under Singapore laws which differ from Australian laws.

Hong Kong by Eastspring Investments (Hong Kong) Limited and has not been reviewed by the Securities and Futures Commission of Hong Kong.

Indonesia by PT Eastspring Investments Indonesia, an investment manager that is licensed, registered and supervised by the Indonesia Financial Services Authority (OJK).

Malaysia by Eastspring Investments Berhad (531241-U).

This document is produced by Eastspring Investments (Singapore) Limited and issued in Thailand by TMB Asset Management Co., Ltd. Investment contains certain risks; investors are advised to carefully study the related information before investing. The past performance of any the fund is not indicative of future performance.

United States of America (for institutional clients only) by Eastspring Investments (Singapore) Limited (UEN: 199407631H), which is incorporated in Singapore and is registered with the U.S Securities and Exchange Commission as a registered investment adviser.

European Economic Area (for professional clients only) and Switzerland (for qualified investors only) by Eastspring Investments (Luxembourg) S.A., 26, Boulevard Royal, 2449 Luxembourg, Grand-Duchy of Luxembourg, registered with the Registre de Commerce et des Sociétés (Luxembourg), Register No B 173737.

United Kingdom (for professional clients only) by Eastspring Investments (Luxembourg) S.A. - UK Branch, 10 Lower Thames Street, London EC3R 6AF.

Chile (for institutional clients only) by Eastspring Investments (Singapore) Limited (UEN: 199407631H), which is incorporated in Singapore and is licensed and regulated by the Monetary Authority of Singapore under Singapore laws which differ from Chilean laws.

The afore-mentioned entities are hereinafter collectively referred to as Eastspring Investments.

The views and opinions contained herein are those of the author on this page, and may not necessarily represent views expressed or reflected in other Eastspring Investments' communications. This document is solely for information purposes and does not have any regard to the specific investment objective, financial situation and/or particular needs of any specific persons who may receive this document. This document is not intended as an offer, a solicitation of offer or a recommendation, to deal in shares of securities or any financial instruments. It may not be published, circulated, reproduced or distributed without the prior written consent of Eastspring Investments. Reliance upon information in this posting is at the sole discretion of the reader. Please consult your own professional adviser before investing.

Investment involves risk. Past performance and the predictions, projections, or forecasts on the economy, securities markets or the economic trends of the markets are not necessarily indicative of the future or likely performance of Eastspring Investments or any of the funds managed by Eastspring Investments.

Information herein is believed to be reliable at time of publication. Data from third party sources may have been used in the preparation of this material and Eastspring Investments has not independently verified, validated or audited such data. Where lawfully permitted, Eastspring Investments does not warrant its completeness or accuracy and is not responsible for error of facts or opinion nor shall be liable for damages arising out of any person's reliance upon this information. Any opinion or estimate contained in this document may subject to change without notice.

Eastspring Investments (excluding JV companies) companies are ultimately wholly-owned/indirect subsidiaries/associate of Prudential plc of the United Kingdom. Eastspring Investments companies (including JVs) and Prudential plc are not affiliated in any manner with Prudential Financial, Inc., a company whose principal place of business is in the United States of America or with the Prudential Assurance Company, a subsidiary of M&G plc (a company incorporated in the United Kingdom).