



E-commerce Strategic Business Environment Analysis in Indonesia

Dwitya Aribawa*

Department of Management, Universitas Atma Jaya Yogyakarta, Indonesia. *Email: dwitya_aribawa@mail.uajy.ac.id

ABSTRACT

This research is aim to identified important factors in external business environment that tend to influence company capabilities to achieve objective. It conducts to several e-commerce in Indonesia. Those companies operate several industries, such as grocery and household retail, fashion retail, electronic and gadget retail and travel agency booking provider. We conduct thematic analysis with quad helix stakeholders approach. It found that the firm faces several external environment factors that affect the business activities. This research concludes that e-commerce in Indonesia needs to establish strategic action plan to take advantage from opportunities of demographic bonus, arising middle income and broaden the scope of business. To minimizing external limitation, quad helix stakeholders are demanding to covers urgency issues on establishing efficiency in transportation, educating small and medium enterprises to engage with e-commerce and demanding of alternatives source of funding. This research recommend that firms in this industry focus on integrating channels of ordering, improving warehousing and delivering process, expanding marketing strategy that focus in knowledge sharing and integrating global supply chain.

Keywords: Business Environment, Industry Analysis, E-commerce

JEL Classifications: M10, M30, F23

1. INTRODUCTION

According to Saroja (2012), today's retailers faces some of the toughest issues ever experienced in the history of the industry from a fundamental change in the way consumers shop to greatly increased expectations for service and price. Retail is last channels that engage to end customers. This also means they should aware about customers very well. Information technology plays a vital role in how well the customers are satisfied to achieve revolutionary excellence in marketing, customer service, and associate effectiveness and supply chain efficiency.

Retailers has concern to take a look at how to transform operations through the creative deployment of today's information technologies to increase sales, improve customer retention rates and reduce costs for a significant competitive advantage. The transformation of the retail industry is accelerating rapidly due to the formation of new businesses not bound by the limitations of traditional organizational and structural models. E-commerce are

an excellent approach to be applied in this growing environment of technology (IBM, 2006).

Advanced tacit and explicit knowledge approach can be used to unify insights to specific offers, and execution capabilities are recommended to support organization wide sharing of objective at scale and across multiple channels to meet satisfaction and repurchase intention of customers (Accenture, 2012). The major players have always used scale to maximize their buying power, but that scale also considering characterize of behaviors and preferences of customers. With access to more detailed, real time information about potential customers and more ways to reach them, retailers can improve on how they managing customers. Further, it also will help organization to shortening behind the desk expenses and logistics, overall costs and in the end will effect to the uplift of margin by efficiency in operational (Mercier et al., 2012).

E-commerce refers to all of commercial transaction that related to organization and individual that based on digital processing

based on internet. In Indonesia e-commerce as a one of activity in economics pattern that supported by internet infrastructure has a wide segmentation and implementation. Outlined by Indonesia Ministry of Communication and Information Technology (2012), activity of e-commerce will be maximize implemented in Indonesia when supported by the infrastructure, connectivity, tendency of changing in people behavior and the ease of using e-commerce facilitated by enterprise.

With its stable economic growth, young population and growing middle class, producers of consumer goods have a positive point of view to Indonesia market as the next big leap of emerging market. With base of consumers that was bigger than the United States and Europe, emerging markets are being a huge opportunity since millions of people moving out of subsistence poverty and entering the middle class, with growing disposable income. Analyst has claimed that Indonesian consumers were characteristic in six areas: Willingness to pay more for brands, homogenous in what they buy, strong brand loyalty, preference for small packs, high purchase frequency and influenced by social media (Suwastoyo, 2013). The arise of awareness of people using internet or e-banking technology, growing infrastructure of internet, increasing the number of middle class, improvement of education and expansion of gadget users in Indonesia bring positive impact for the demand of e-commerce industry (Forst & Sullivan Consulting, 2012).

Starting from 2012, some of Indonesian e-commerce has established by Foreign Direct Investment (FDI) from of multinational companies. This is an insight of e-commerce business in Indonesia entering rapid leap of growth. Considering the study background above, the problem statement of this research paper that guiding readers to understand clearly is "There are several external environment factors which create opportunities, threats and business implication which that will influencing e-commerce in Indonesia."

2. LITERATURE REVIEW

2.1. Indonesia E-commerce Industry

According to Veritrans and Daily Social Research (2012) about E-commerce Survey in Indonesia. The research found the 2011 data which counted \$0.9 billion total of Indonesia E-commerce market share, this amount is only 0.7% of the retail industry market share (\$137 billion). The researcher analyze about future growth of Indonesia E-commerce industry that will be growing rapidly from 2011 to 2015 regarding the trend moves of youngsters and internet penetration that driving Indonesian customers to more preferably purchasing by e-commerce. Figure 1 will explain about the potential growth of Indonesia E-commerce in term of internet users, middle class population, broadband (internet) penetration and e-commerce market size.

Indonesia has huge opportunity as one giant in e-commerce industry that derived global development. According to Tumiwa (2015), Indonesian digital buyers is just 2% from the population, in Thailand it counted around 21%, in Malaysia it counted around 53% and in Singapore it counted around 58%. The other fact that considering in is about the trends and behaviors of online

customers in Indonesia. Fashion product and travel booking are most popular goods and services that prefer to buy according to the surveys. In the other hands books and grocery product are not yet common in e-commerce transaction in Indonesia. Veritrans and Daily Social (2012) also discover about the preferred place doing online transaction is and how to paid the transaction. Facebook (Social Media), Kaskus (Online Forum) and OLX relative more attractive to in Indonesia customers rather than the e-commerce company official website such as sukamart.com, bhinneka.com, blibli.com or tokopedia.com. This trend is arising possibility of fraud in term of online transaction.

2.2. Indonesia E-commerce Stakeholders

Indonesian E-commerce following the regulation and direction from three government bodies, which are Ministry of Trade and Commerce, Ministry of Communication and Informatics and Indonesian Agency for Creative Economy. Some of regulations also including control from Indonesia Central Bank and Indonesia Financial Service Authority.

Indonesia E-commerce Association or known as IdeA is an official entity for e-commerce business in Indonesia. IdeA facilitating, connecting and providing their members with specific approach of e-commerce development plan in order to compete to global marketplace. The association also takes in charge to prepare the appropriate regulation and direction to e-commerce in Indonesia (Tumiwa, 2015).

3. RESEARCH DESIGN

This research using gathering expert view from focus group discussion to quad helix stakeholders, which are consists of academia, e-commerce players, government (key person from Indonesian Agency for Creative Economy) and civil society (key person from Indonesia E-commerce Association). Secondary data obtained from the company available sources, literature review from articles and books that related to strategy and business topic and also news and statistic data that supported the business environment issue for the subject of research. This paper using the qualitative analysis (thematic-analysis) and literature review methods to collecting, structuring and analyzing the data that has found.

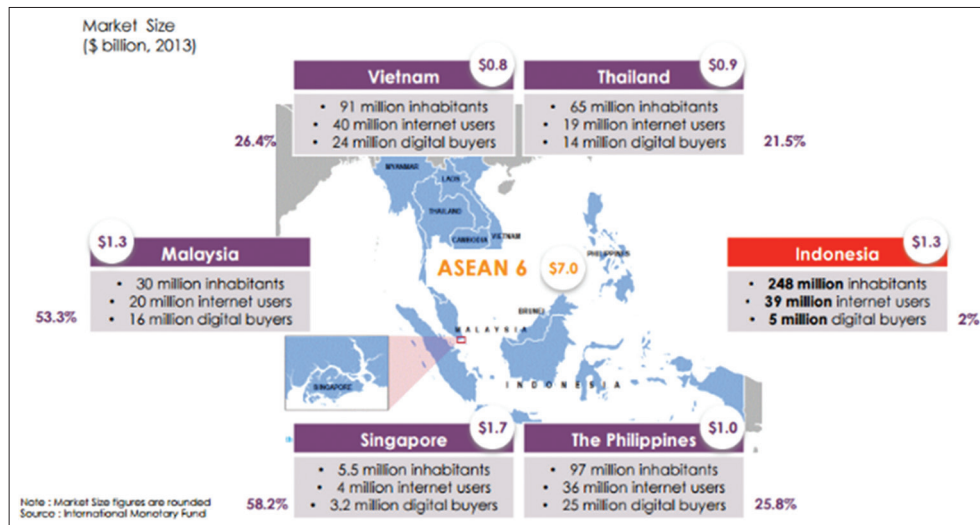
4. EMPIRICAL RESULTS AND ANALYSIS

According to Downey (2007), political, economic, social and technological (PEST) analysis is a scan of the external macro-environment in which an organization exists. It is a useful tool for understanding the political, economic, socio-cultural and technological environment that an organization operates in.

4.1. Political Factors

Creative industry, especially IT based business has been put in the front of the next developing industry that has high growth rate to stimulate economic growth and absorbing employees. According to Ministry of Communication and Information Technology (2012), there are several amount of budget allocation that focus

Figure 1: Potency of Indonesia E-commerce



Source: Tumiwa (2015)

to develop the environment of IT business in Indonesia and empowering business with attention to small medium enterprise and new developed business.

Decentralization arise good chance to set business centers in outside Java Island, especially for sub-warehousing system. Public (government)–private company partnership need to assess as an opportunity to engaging business expand. In democracy era there will arise election dilemma for business, in fact the successfulness of election will influence positively to business flow and create better climate of competition (World Bank and The International Finance Corporation, 2013).

IMT-GT collaboration appearing positive insight for Indonesian E-commerce that may has plan to expand business chain to ASEAN countries start from Indonesia. IMT-GT that empower outside Java island growth is the positive issue to decrease the gap between Java Island economic growth and other island in Indonesia. The long term relation of Indonesia and country around (especially ASEAN and East Asia) will be escalate the as well known, SMT own related business in retails and distribution that will incline the opportunity to get benefit from the strong value chain of holding company (IMT-GT, 2013).

The implementation of ACFTA in 2010 and AEC in 2015 bring challenge to local e-commerce providers because in term of efficiency is difficult to compete. Moreover, some of Indonesian E-commerce just distribute imported product from China, ASEAN countries or Japan. In order to compete, Indonesian E-commerce needs to provide typically needed goods and services using the local knowledge that only known by local e-commerce providers.

4.2. Economic Factors

The growing demand e-commerce business seems look as future potential sector that will bring positive insight to Indonesia Economic Growth. Lot of FDI in ICT industry also makes an impact to gross domestic product (GDP) of Indonesia. Improvement awareness and education of using ICT around Indonesia has a positive impact to income per capita in the future

(Forst & Sullivan Consulting, 2012; Veritrans and Daily Social, 2012). The number of target market of Indonesian E-commerce should be broaden, not only focus on certain local market but also expand to around Indonesia and may going to global market for the future. In term of economic of scale, Indonesian E-commerce (especially small and medium enterprises) faced difficulty to compete to big company (local and foreign).

E-commerce industry is an industry with technology-incentive characteristic. As a part of ICT creative industry, this industry planned by government to greatly contributes to economic development. ICT industry will be prioritizing as an industry that has high growth rate or called future industry for Indonesia. Further, it also suggest by experties that stated the needs of changes to paradigm of Indonesia industry driving from mass rapid product to creative-value added (Kim, 2004; Lucci, 2012).

Some policy that supports the industry development should be decided by government, collaboration of ministry of industry as a supportive part to gain competitiveness in industry development to support economic growth (Ministry of Communication and Information Technology, 2012).

Government instructed to support ICT business in term of empowering new business, bank funding and developing business infrastructure. Plus a tax allowance for communication products (e-business infrastructure) plan to accelerate ICT industry will be prioritize as an industry that has high growth rate or called future industry for Indonesia according to white book of ICT from Ministry of Communication and Information. In the same time, there is demanding to Indonesian employee that needs to develop in order to meet the needs of rapid development of e-commerce industry. Safety of transaction still is an issue in this industry, need of clear regulation and education of doing transaction will be essential in order to create well climate in e-commerce industry.

Monetary and fiscal policy can be implementing simultaneously to prevent some extraordinary conditions of global environment or internal country situation (Laurens and Piedra, 1998). Every

country needs to determine the right combination of monetary and fiscal policies in the right conditions (right pills on the right disease) of global environment and country itself (Adiningsih, 2013).

This is the right time for local e-commerce business to provide Indonesia products to Indonesia market and also global market. Increasing the amount of local consumption will also derive to hold Indonesia GDP growth in positive. Amount of VAT that will grant to e-commerce business will increase consumers tendency index and business tendency index in general, trust of consumers will build up and climate of industry will be much better after implement this policy. Consumer tendency index aims to get a picture of a business situation and general economic consumer opinion, based on consumer purchasing power and also on perceptions about business conditions and economic climate. Business tendency index provides information about state of business and the economy in the short-term.

4.3. Social Factors

There is inequality of income (higher GINI ratio) between urban and rural area. Further, found much of tendency to enter middle class trap, since middle class people not build human capital. E-commerce faced difficulty to broaden market outside Java Island, lack of the logistic ability and infrastructure being barriers to reach other island faster and easier. Inequality infrastructure between Java and outside Java make problem for distribute (Bowie, 2008).

Y generations demanding a new way to shop and tendency of live individually (especially in big cities), they think about time efficiency, shopping activity will not be an entertainment activity. Indonesian people has a strongly tendency doing orientated community (based on ethnic, interest and other relative factors), it will be a proper new market segmentation for Indonesian E-commerce to serve group or community needs. Growing of middle class (higher level of social class) people in Indonesia that demanding more healthy and easy to reach products (Ancok, 2013).

Questioning to serve rural area in the future, e-commerce business can be the proper solution of disparity of distribution between west and east part of Indonesia. Moreover, personalization of goods and services needs for specific demographic of buyer, business needs to develop new way of approach regarding this issue in order to create barrier to entry and keep in touch to niche customers in order to anticipate big players in retail industry that take a part in retail e-commerce competition. Indonesian people have a low tendency of using e-payment system, that is why government and business should facilitate a comprehensive infrastructure and education related to the payment system that makes users more comfortable (Verra and Fitriani, 2012; Susilastuti, 2013).

Businesses in Indonesia are well advised to develop a genuine awareness of their surrounding community. Demonstrating a business contributes to community welfare helps ensure the community has an interest in protecting the business. Unless

a venture seeks local community involvement, providing employment and investment will not ensure good relations or security. The concept of traditional land ownership remains strong across Indonesia, and irrespective of contractual rights the government may award, local communities will act to protect their environment. Hence, mining companies adopting consensus based approaches to secure their rights are more likely to receive local community support than those relying on legal solutions.

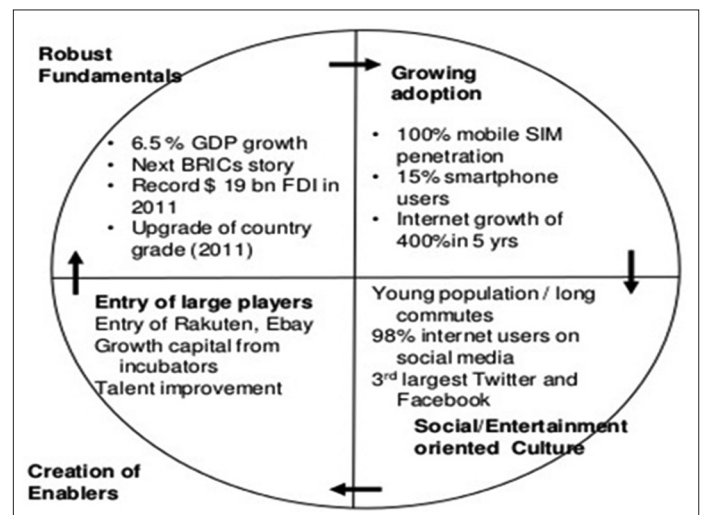
4.4. Technological Factors

Based on ASEAN E-commerce Database Project (2010), Indonesia has only contribute 24.4% in internet penetration of ASEAN or only 12% Indonesia people can accessed internet (20% is an average of ASEAN penetration to internet), that proportion is look small when compared to Indonesian population to ASEAN. Where only 47% Indonesian decide to purchase in online store and the most of that transaction using bank transfer (46%) as a payment method besides using e-money (8%) or credit card (34%).

The arise of awareness of people using internet or e-banking technology (as safe payment system online), growing infrastructure of internet, increasing the number of middle class, improvement of education and expansion of smart phone and gadget in Indonesia bring positive impact for the demand of new development of e-commerce industry in Indonesia (Forst & Sullivan Consulting, 2012) (Figure 2).

In order to create customers engagement, Indonesian E-commerce needs to leverage the local knowledge that only known by local players and centralized to into specific customer database management. Customer database management approach will help business through allowing clear understanding to the customer needs and wants. Advanced tacit and explicit knowledge approach can be used to unify insights to specific offers, and execution capabilities are recommended to support organization wide sharing of objective at scale and across multiple channels to meet satisfaction and repurchase intention.

Figure 2: Indonesia ICT Outlook



Source: Forst & Sullivan Consulting (2012)

Table 1: Indonesian e-commerce EFAS

External factors (opportunities and threats)	Weight	Rating	Weighted score
Governmental environment	0.025	2	0.05
Domestic politic	0.050	3	0.15
International politic	0.050	2	0.1
Economic development	0.025	3	0.075
Industry arid sectoral policies	0.100	4	0.4
Regional economy	0.050	4	0.2
Monetary and fiscal policies	0.050	2	0.1
Social environment	0.150	4	0.6
Cultural environment	0.025	2	0.05
Demographical environment	0.100	5	0.5
Natural environment	0.025	3	0.075
Processing technology	0.200	5	1
Information technology	0.150	4	0.6
Total	1		3.90

Source: Focus group discussion. EFAS: External strategic factors analysis summary

5. CONCLUDING REMARKS

This research try to elaborate expert views and secondary sources information regarding to PEST elements as external environment factors that will arises opportunities, threats and business implication to Indonesian E-commerce, which those are describing in previous part as factors that affect the business. According to Wheelen et al. (2015), the external business environmental scanning must be carried out prior to the strategy formulation process of a company since it provides the management with a tool for avoiding strategic surprise and provides a higher probability to meet sustainability growth of company.

The external strategic factors analysis summary (EFAS) is tool for summarizing and evaluating the relative influence of individual environmental issues, as shown on Table 1.

Considering on EFAS analysis, overall it can be conclude that Indonesian E-commerce has proper responds to strategic external factors appears. Indonesian E-commerce able to take advantage from opportunities and minimizing the effects of threats those come from business external factors in order to compete to global marketplace.

According to quad helix discussion synthesization, the future outlooks for sustainable development of Indonesian E-commerce industry are:

1. Provide excellent quality of services and provide reliable center of information to meet customers' engagement and in the end will be satisfied and retain repurchase intention
2. Develop mobile access to ordering process and also provide the today shipping system
3. Build the technology based integrating system of ordering, warehousing and delivering process to meet the fast moving consumers in Indonesia
4. Expanding marketing strategy and offerings products based on local knowledge

5. Integrating global supply chain of corporation to meet the efficiency goal.

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