

# Indonesia Go-to-Market

## Best Practices in B2B strategies

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# Indonesia Go-to-Market *Best Practices in B2B strategies*

**By Michel Brekelmans**

Indonesia is considered one of the big emerging markets that many global corporates have on their radar screen for future growth. With a population of 275 million, steady GDP growth and a rising middle class, Indonesia has the potential to be one of the major markets in Asia across a wide range of product and service categories.

But cracking the Indonesian market is not easy. Parallels exist with other large Asia markets such as India and China, but a simple copy and paste of the strategy playbook from those markets will not work as Indonesia comes with its own set of challenges. In this paper we summarise some of the lessons and best practices in cracking the B2B market in Indonesia based on our work with some of the leading suppliers of industrial products and business services.

## Indonesia Economic Development

The economy of Indonesia is the largest in Southeast Asia and is one of the major emerging market economies of the world. As a lower-middle income country and member of the G20, Indonesia is classified as a newly industrialized country. It is the 15th largest economy in the world by nominal GDP and the 7th largest in terms of GDP on a PPP basis.

In 2012, Indonesia replaced India as the second-fastest-growing G-20 economy, behind China. Since then, the annual growth rate has fluctuated around 5%. However, Indonesia witnessed a recession in

2020 when economic growth collapsed by 2% due to the COVID-19 pandemic, its worst performance since the 1997 Asian Financial Crisis.

President Widodo is bullish on Indonesia’s prospect and has predicted that the country will be the 4th largest economy in the world by 2045, it’s 100th year of independence. By then, Indonesia will have a population of 309 million people, economic growth of 5–6 percent and a GDP of US\$9.1 trillion, while Indonesia's income per capita is expected to reach US\$29,000.

## Indonesia’s B2B markets

Indonesia’s manufacturing sector has historically played a key role in the country’s economic development and now contributes around 20% of GDP. The government has ambitious plans to propel the country into the top ten biggest economies in the world by 2030, with manufacturing at the heart of this goal. The main areas of production include textiles and garments, food and beverages (F&B), electronics, automotive, and chemicals, with the majority of manufacturers in this sector consisting of micro, small, or medium-sized enterprises.



Source: Indonesian Central Agency on Statistics (Badan Pusat Statistik)

Indonesia recently became the 10th-largest manufacturing nation in the world and the manufacturing sector employs over a fifth of Indonesia's working age population (around 25 million workers). Put into perspective, Indonesia's manufacturing sector is now larger than the manufacturing sectors of the United Kingdom, Russia and Mexico. Indonesia's labour pool is estimated at around 120 million people, and is growing annually by approximately 2.4 million. As the economy has progressed beyond its predominantly agricultural base to a mixed composition, more workers – particularly women – are now employed in manufacturing and service-related professional industries.

Besides industry and manufacturing, Indonesia's service sectors have also witnessed significant growth in recent years. For instance, the IT and Communication sector has grown at a CAGR% of 11.6% over 2016-2020. And the Business Services sector grew at a rate of 8.6% annually over the same period.

## Best Practices in Indonesia B2B Go-to-Market strategies

Foreign players are increasingly looking to take advantage of Indonesia's strong manufacturing sector and broader B2B opportunities. However, the B2B sector has significant challenges, including intense international competition, particularly from China, increasing labour costs, high transportation and logistics costs, difficulties getting credit, and varying levels of transparency and clarity in regulations.

So how can B2B players crack the Indonesia market? Below we list some of the key lessons and best practices based on our work with leading players from around the world.

1. Despite increasing focus on digital commerce, **traditional channels continue to play an oversized role in B2B marketing and sales in Indonesia's B2B markets.** For instance, sales of more standardised IT products ('boxes') are dominated by 5-6 big national players including market leader MetroData, AGIT, Astrindo, and

Erafone. These players have national coverage and supply distributors and retailers across the country. Suppliers of IT equipment would have to go through these players in order to reach customers in Indonesia.

Digital channels for product sales are coming up but at the moment this represent still a relative small channel share. An exception here is for B2G sales. Government buyers often represent the largest customer segment across many B2B product and service categories and government procurement is increasingly through the online LKPP portal, including for higher value items.

The picture is a bit different for 'solution' sales and sales of more complex and customized products. Here, working through specialized distributors and value-added resellers (VARs) focused on specific customer verticals is probably the way to go rather than the mammoth wholesalers with their huge product portfolios. Another route is to sell directly to system integrators or end-customers with sufficient technical capability to directly source for their needs.



2. B2B product service providers should be ready to deal with **relatively long sales cycles** in Indonesia. Like elsewhere in Asia, relationship building is very important and in Indonesia this comes with a specific local flavor. Business meetings are often less about ‘facts and features’ but more about ‘family, politics and gossip’. To the average MBA educated business executive unfamiliar with Indonesia’s business culture, trying to close a deal can quickly lead to frustrations due to this seemingly endless focus on side issues.

In Indonesia, business is only done once the trust and relationship is established and typically there is a preference to deal with local people in the local language. When trying to crack Indonesia’s B2B market, companies should carefully assess who will lead the charge in building customer relationship. Flying in senior deal makers from Singapore, not an uncommon strategy for B2B players in Southeast Asia, may not be effective when dealing with a more traditional buyer from Indonesia who will only consider doing business with partners with strong personal relationships.

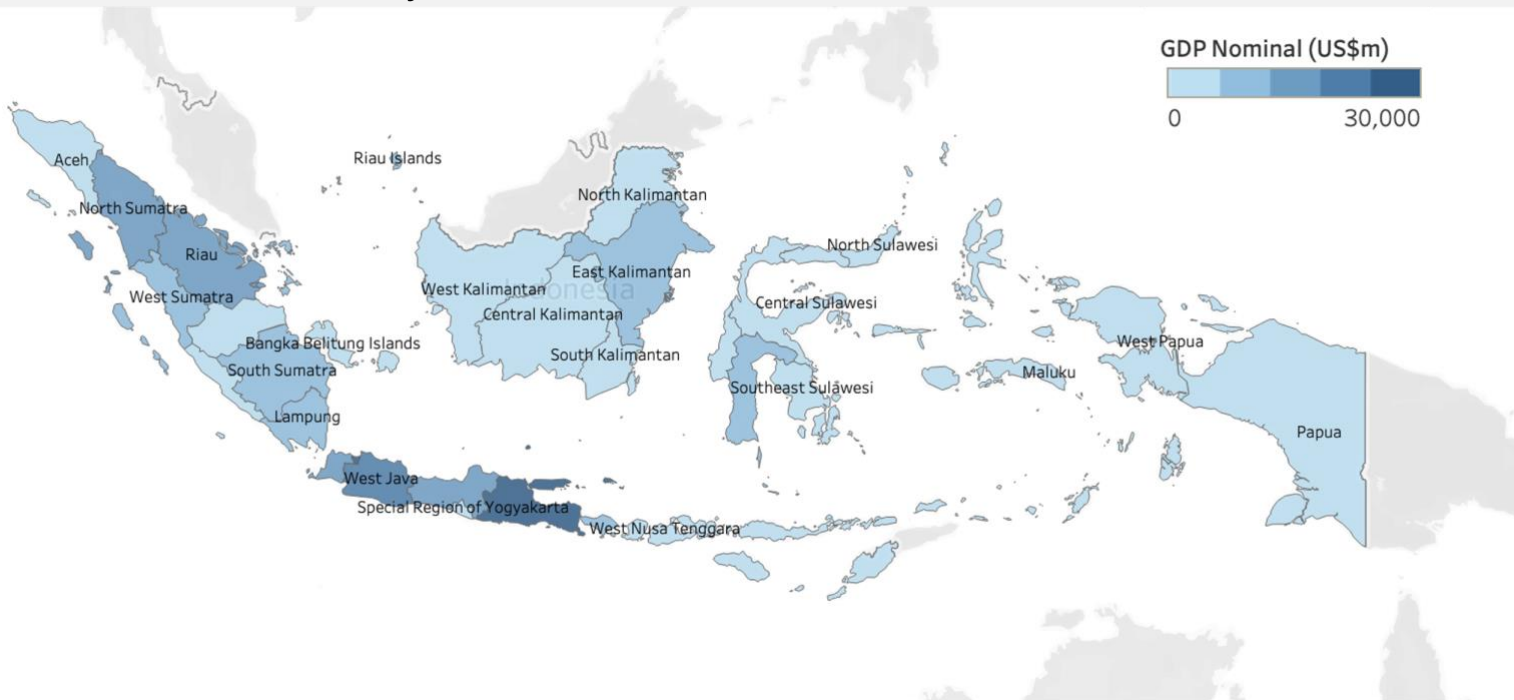
3. To be successful in Indonesia, the brand principal is required to **take an active role in developing the market**. The most typical model we see for B2B players is to start with a rep office and conduct import and transactions through dealers and distributors. The principal supports the dealers in distributors through sales trainings and may support sales pitches for high value prospects. The principal also actively manages potential conflicts between distributors through a project database and price management.

Once scale is reached the principal would typically opt for setting up a local legal entity (PT entity). This allows the company to directly transact in the form of imports and direct sales to customers in Indonesia. All transactions must be done in local currency in Indonesia.



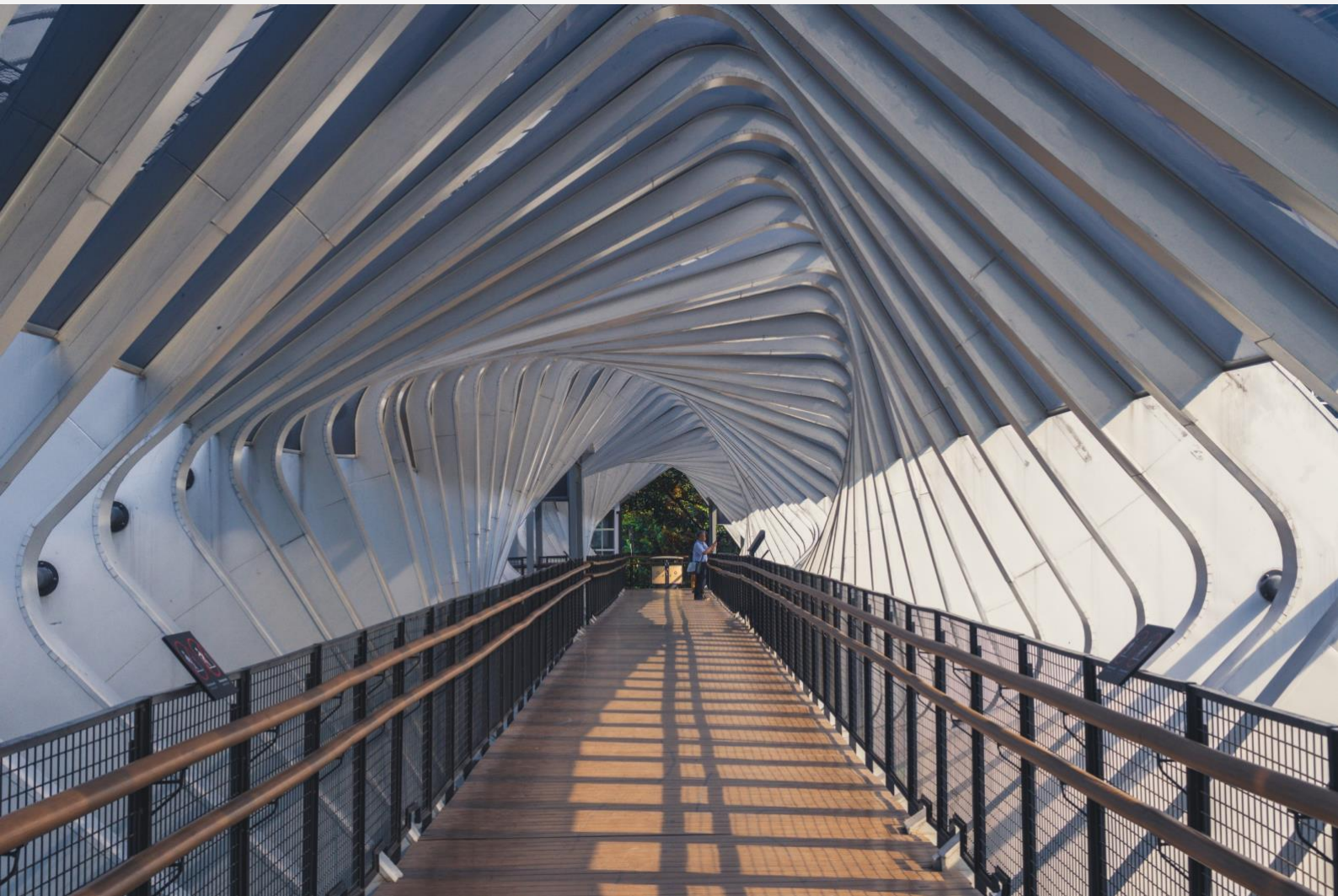
4. B2B players in Indonesia need to **determine where to focus their commercial efforts**. Java typically represents the largest geographical share of Indonesia's B2B market with up to 70-80% of national share in some categories. The top 5 cities in Java are Jakarta, Bandung, Surabaya, Yogyakarta and Semarang. After Java, Bali is often the second largest B2B market in Indonesia but this differs by category.

Indonesia: 2019 Nominal GDP by Province



For standardized B2B product sales ('boxes') wider nationwide representation is required to reach all customers. Relationships with national players can be supplemented with local distributors that have strengths in local markets (e.g., Rajawali in Bali or Suryala in Cirebon, West Java) or in specific verticals (e.g., Parastar or Trikomfell in the Telecom vertical).

For customized solutions, often the decision maker sits in Jakarta, even if the project is executed elsewhere. Nevertheless, local project manager may be key influencers and need to be targeted by local channel partners.



5. Finding the right distribution partner in Indonesia should be determined firstly by the **strength of relationships with key customer accounts**; of secondary importance is their specific vertical expertise (although these can go hand-in hand). Customers often have preferred suppliers in mind and will tell the principal which supplier should be used for a specific transaction. Multiple distributors in the same vertical may therefore be required depending on the strength of relationship by respective distributors across the target customer accounts.
  
6. Depending on the target customer profile, B2B players may have to **tailor their account strategy between MNC and local customers**. MNC customers in Indonesia often follow



specifications from (regional) HQs with local management executing according to these specs. This is very different from local Indonesian businesses which set specifications locally and hence requires a different sales approach. Also, MNC customers may directly source from vendors if it is clear upfront what brands and solutions they should work with following the specifications from the company HQ.

7. It's not common to have exclusive arrangements with distributors in Indonesia. Typically, **multiple distributor relationships are required to cover all key account relationships in the market.** This requires tight distributor management, logging of projects in a central portal to avoid damaging practices amongst competing distributors, i.e. price competition. Principals should actively develop and manage their distributor relationships through training and performance evaluations.

8. In terms of technology adaptation, Indonesia is more of a follower compared to other Asian markets, and B2B players should **assess what level of product specification they plan to offer in Indonesia.** For instance, in POS systems, the focus is on core transaction facilitation as opposed to advanced features such as promotion management. Going in with an overspec'd product will turn off customers who are primarily looking to cover the basics and are not ready to take on the cost and complexity of more advanced solutions.

Indonesia's market holds a lot of potential for B2B players looking to grow sales beyond the traditional emerging markets of Asia. But as this paper has shown, tackling the Indonesia market does not happen overnight and a long-term approach with the right local partners is required to build a sustainable business.

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