

## **CHAPTER III**

### **THE ACTORS WHO DEVELOP INDONESIAN E-COMMERCE**

#### **A. Susilo Bambang Yudhoyono (SBY) Administration**

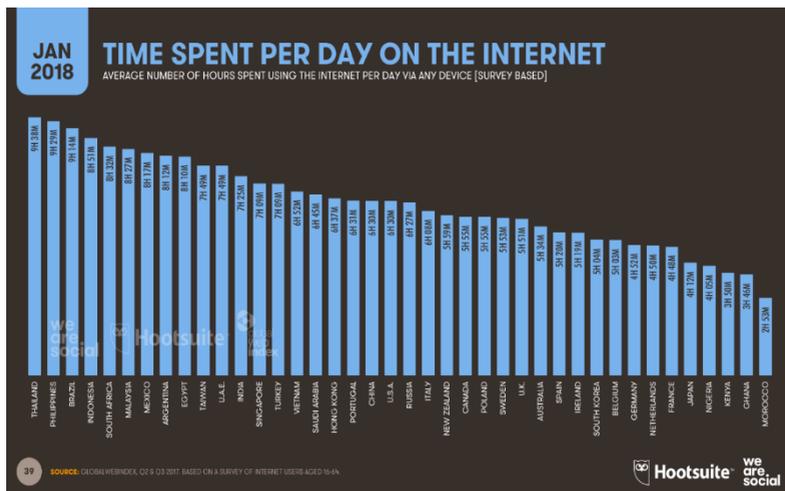
Indonesia is in the midst of an e-commerce startup boom, and no wonder. It is the world's fourth-largest mobile-phone market, with more internet user in a day. More than half of the Indonesian population have their gadget and online to the internet, and every time they use it for surfing on the internet. These phenomena identify since the decade to 2014 GDP grew by an annual average of 6%, but the commodity bust has slowed the economy. Last year it grew by just 4.8%, the slowest rate since 2009. This year is unlikely to be much better: the 2016 budget sets a GDP growth target of 5.3%. However, compared with many other commodity exporters Indonesia is getting off lightly.

This Internet era has caused by the easy access to the internet in the present days. It is not just the number of people using the internet that has increased this era; the amount of time that people spend on the internet has also gone up past year to year. The latest data from '*Global Web Index*' shows that the average internet user now spends around 6-9 hours each day using internet-powered devices and service. If we add this together for all 4 billion of the world's internet users, we will spend a staggering 1 billion years online in 2018. (Kemp, 2018)

Indonesia on the 4<sup>th</sup> rank of time spends per day on the internet. Indonesian people spent their time on the internet for more than 8 hours per day. Indonesian people spend their time mostly on social media like Instagram, Facebook, Twitter and else. However, the other side, Indonesian people also use the

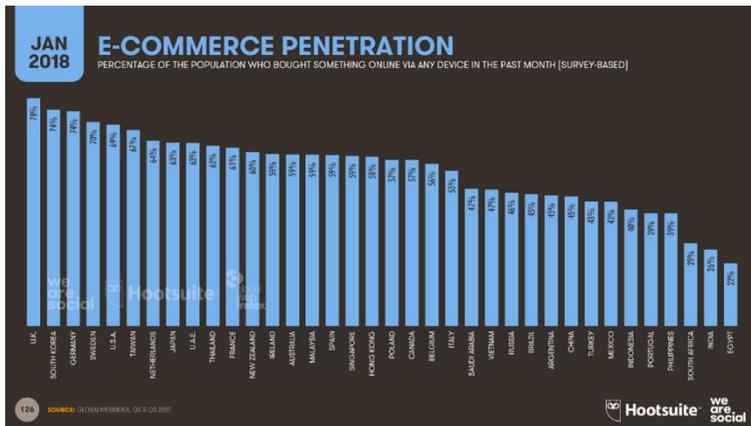
internet in a day to looking for good stuff in many e-commerce, actually not just in local e-commerce like

Tokopedia but also the foreign e-commerce from neighbor countries startup.



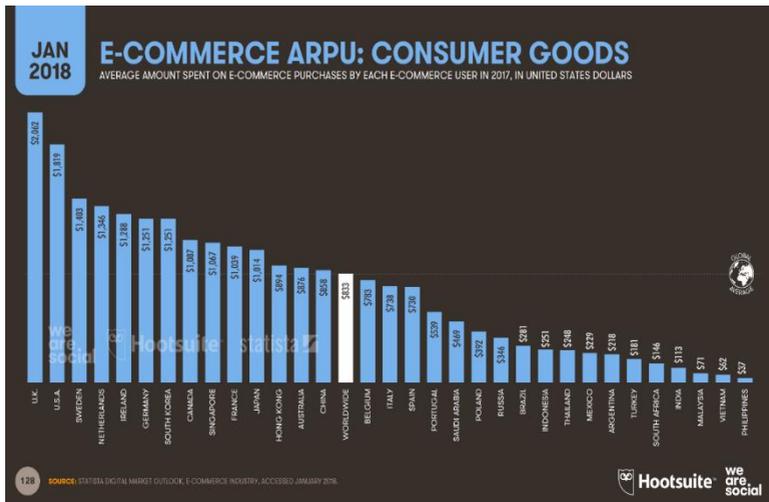
*Figure 2.1: Time spend per day on the internet*  
 Source: (Kemp, 2018)

The total value of the e-commerce market for consumer goods grew by 16 percent over the past year. The data report of Statista's Digital Market Outlook shows that the total annual spend in 2017 reached almost US\$ 1.5 trillion, and the most favorite product that peoples bought it was fashion products representing the most significant single category. Roughly 40 percent of all internet users in Indonesia now use e-commerce sites, but penetration varies considerably between goods trading or payment system in online ways. The Indonesia percentages also affected by 45 percent China number of people using an e-commerce platform to buy consumer goods, for example, food, fashion, electronics, and toys. And it is growing up 5-8 percent, with almost 1.8 billion people around the world now buying online.



*Figure 2.2: E-Commerce Penetration*  
 Source: (Kemp, 2018)

The amount that each person spends on e-commerce is also growing, with average revenues per user (ARPU) up by 7 percent year-on-year to reach US\$833. The British with their e-commerce, Amazon also successfully on e-commerce on their land and become the biggest e-commerce spenders, with an annual spend in the UK now greater than US\$2,000 per user. China spends on e-commerce around US\$ 858 with electronics as an essential commodity that Chinas people bought. And Indonesia spends around US\$251and mostly on cloth and electronic stuff. And this is just for consumer goods, without add spend on other categories such as travel, digital content, and mobile apps. (Kemp, 2018)



*Figure 2.3: E-Consumers ARPU: Consumer Goods*  
Source: (Kemp, 2018)

Since the era of president Jokowi, the growing economic industry of the internet from the startup sector until physical goods in the Indonesian market getting better than SBY. However, the previous actor that wants to develop the Indonesian electric market is Susilo Bambang Yudiyono and the actor from Europe. However, the focus of S.B.Y is on military and did not much focusing on developing of economic. Since the two decades of SBY administration from 2009-2014, the increase of economy in his era touching 6% indeed. The reason is when the S.B.Y era the economic world condition actually in good condition. Also, the commodity of the global economy at a stable price. And also the purchasing of Indonesian people at the time gets higher. (Nurlaela, 2018)

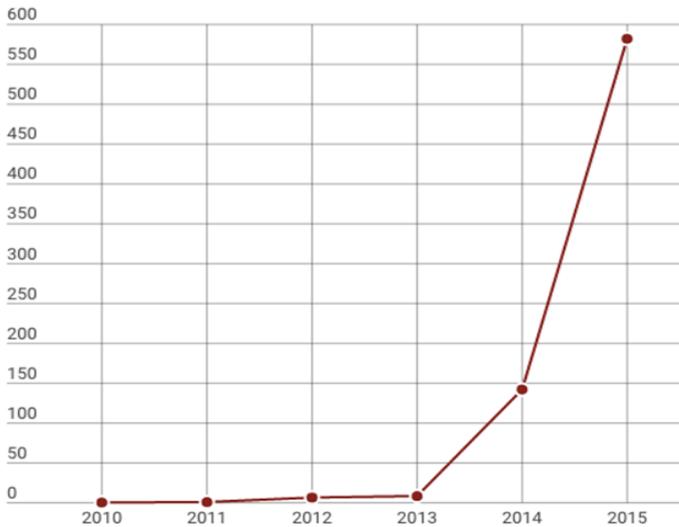
The economic increase is reasonable in SBY era does not have much concern. The news on TV and internet said that the dominant of SBY style in presidential administration more focusing on defend of a state like military, border. When we talk about economic side on SBY era, the economic it can be said in a stable condition. Look in the developer of the Indonesian economy, SBY concern in physical, economic sector, example retail store, the local goods buyer and consumer, and a little bit on startup development. The developer of the startup in SBY era existed in 2010.

Startup in Indonesia was getting better when the era of SBY almost ended, actually in 2010. Treasurer of the Venture Capital Association and Indonesian Startup (in Bahasa: Amvesindo) Edward Ismawan said that, the digital ecosystem startup in Indonesia start since 2010. Started when East Ventures give Tokopedia e-commerce startup a new fresh fund. And at the same time, PT. Telekomunikasi Indonesia also gives a fund for Plasa.com or in present days called as Blanja.com. (Anwar, 2018)

After all of the existence of startup venture capital, there are a little bit develop of the startup in the SBY era. After the developer of a startup in the last of SBY era, there are so many types of a startup in that time, the startup relates to transportation, social group, chatting, until the e-commerce startup.

Database Tech in Asia count the startup infestations that was happened in Indonesia since 2011 is rapidly increasing. Many startups do not write their detail of infestation or the detail of their fund flow in one of Indonesian startup. However, the increase of startup between SBY and Jokowi presidential is different. The startup funding in Indonesia starting frisk insignificant at 2014, which is after president Jokowi won the election. The \$100 infestation that Tokopedia gets at 2014 become the trigger of startup infestation in Indonesia. These phenomena change the

infestation style of the investor of Indonesia. Startup investment that happened before 2014 just only tens of billion, or less than that. (Feischald, 2016)



*Figure 2.4: The Fund increase of Indonesian startup*  
*Source: (Feischald, 2016)*

In 2015, there are \$500 fund flow for Indonesian startup and announced by new startup e-commerce. one of a local startup that gets the investment is MatahariMall, they got an investor in early of 2015 which is there is not an investor looking for this chance investment. At the same time, GO-JEK as a transportation startup also gets the investor for their development. However, how much of the nominal is not

confirmed by G0-jek, but *Forbes Magazine* predicts the investment is about \$200 million.

The developing e-commerce startup of Indonesia in 2016 very high. Komenkominfo (Ministry Communication and Information of Indonesia) there is 93.4 million users of the internet in Indonesia. Meanwhile, the smartphone user is about 80 million. This big chance will be potential to develop digital industry marketing, one of them is e-commerce itself.

## **B. Foreign Startup**

Not only from a local startup that develops in Indonesia, there is a foreign e-commerce startup like Lazada, Amazon, and JD.com also come to Indonesia and make a new startup. JD.com base on Tiongkok China, and their focus on e-commerce startup. Amazon also has the same e-market deal but in European states.

Many Asian market supervisors waited for the existence of Europe e-commerce like Amazon, it is caused because of the dominance of Alibaba in SEA regional. Moreover, Amazon entered the Asian market especially Southeast Asia by Singapore e-market in 2017. "In its first foray into the region, upping the competition among online retailers (Iwamoto, 2018). In this launching of Amazon for SEA, market foresees the increase of e-commerce Europe startup not only concerning in European land, but Amazon believes in defeating Alibaba group in Asian market because Alibaba was entered first in Asian market especially in the Singapore market.

The Asian market like Indonesia, Singapore, Malaysia, Vietnam, Philippines, etc. seeing by Amazon like a huge market that can spread their market in the future era. However, honestly for Indonesian e-market amazon not yet entered. Indeed Jeffrey Preston Bezos as a CEO, developer,

chairman or president of Amazon is also capable of handling and processing e-commerce to be the best e-commerce startup like Amazon in European. However, the core problem of Amazon is same with many regions of the SEA, and Amazon will have to rely on its vaunted experience in managing and delivering inventory to overcome the lack of reliable infrastructure needed for last-mile delivery. And compete with Alibaba when Alibaba was built a good bridge in Asian network. Amazon also has to deal with both Asian cultural and language barriers, as well as a potential regulation complication. (Chadha, 2017)

Jd.com is a company was founded on June 18, 1998, by Liu Qiang Dong and is headquartered in Beijing, China. This startup engaged in the sale of electronics products and general merchandise products, including audio, video products and books. It also offers online sales of home appliances, digital communications, computers, home merchandise, apparel, baby book, food, and others (Forbes, 2018). Mr. Liu started a business in Beijing, primarily engaged in the distribution of magneto-optical products. In January 2004, Mr. Liu launched his first online retail website. He founded the company that eventually became JD.com later that year and has guided the company's development and growth since.

Operated by Chinese e-commerce giant JD.com, Jd.id have same strategic marketing in Indonesia to offers a wide selection of authentic, high-quality Chinese and non-Chinese products at competitive prices and delivers them to customers' doors speedily and dependable.

Adhering to the same core values of authenticity and reliability that define the shopping experience at JD.com, Jd.id aims to provide consumers around the world with an innovative and robust e-commerce platform through close cooperation with domestic suppliers in China.

Jd.id also has the same thing to become the largest e-commerce in Indonesia same with China's, the Jd.com is the largest e-commerce platform by revenue, JD.com offers a world-class set of online retail services to its legion of users, who now number close to 200 million in total.

JD.com listed on the NASDAQ in May 2014 in the exchange's biggest floatation of that year. In 2015 it recorded a GMV of USD 71.4 billion (RMB 462.7 billion) and net revenues of USD 28.0 billion (RMB 181.3 billion), the latter representing an increase of 58% from the year before. (Jd.com, 2016)

As a technology-driven company, JD.com has focused considerable effort in developing a robust and scalable platform which not only supports the company's rapid growth but also allows it to provide cutting-edge technology and services to its partners and customers.

Jd.com is the startup that wants to develop the e-commerce market of Indonesia beside Alibaba. The launch of Jd.id has introduced new growth opportunities for the online retail market in Indonesia. Is it possible to create a big market, because Indonesia is the largest economy in Southeast Asia and the 4<sup>th</sup> most populous country. Jd.id have new technologies used in, the new e-market store that using face recognition, NFC (Near Field Communication), and mobile commerce platform. The new movement retail industry is expected to become more competitive and agile to adapt to changing customer shopping behaviors and expectations.

The new innovation for e-shopping for Indonesian society JD.id expecting the customer experience is becoming more critical than ever to Indonesian consumers and businesses. Indonesia has a large consumer base it makes a reason for a new startup make a new consider innovation around their customer. Jd shows this .id that uses a method of selling online to offline (O2O) platform to break the spells in

delivering a new digitally-enabled customer experience and digital payment experience for the local customers (Elliza & Munindra). Because as we know the largest of Indonesian area, only centralise on Java Island, but the others island people usually did not well known an internet shopping.

Jd.id realise the internet knowledge around Indonesian society even in small and far away from the technology of e-shopping. The innovation of Jd.id has transformed the retail market over the past few years as the country has a young population with increasing disposable income and growing purchasing power. The offer convenience, speed and user-friendliness of JD.id most of the Indonesian people choice it. For instance, JD.id is a retailer in Indonesia that has successfully incorporated online and offline platforms by using the right technologies to engage with their customers. IDC believes the success of the O2O strategy implementation of JD.id on JD.id X and JD.id Virtual correctly focuses on customers' interests and needs, delightful products and the customer journey. Therefore, it is vital for local retailers to provide new, Omni-channel experiences that will appeal to the digital mindset of their customers.

The innovation from JD.id will set a benchmark for the traditional retail businesses to reorient their thinking to place greater focus on the total retail experience to differentiate themselves from competitors. Local retailers should be confident in implementing the right digital transformation strategies that will enable new digital experiences to improve the customer's experience and loyalty.

### **C. Jack Ma and Alibaba.com**

Creates by 18 peoples in 1999 and Jack Ma is the leader, Jack Ma previously works as an English teacher in Hangzhou China, Alibaba Group starting they corporation for small businesses and using the internet-based platform as

leverage for Alibaba group businesses to grow and more competitive in both domestic and global market at the time. Present days, Alibaba Group Holding Limited is Online and mobile e-commerce company in retail and wholesale trade based in China, they do as well as in payment in electronic, cloud computing and network service, Alibaba Also deserves a mobile solution, service of marketing and advertising for a local target.

In the last of 2014, Alibaba noted as a significant chance stock trading. Alibaba more exist in the Global market, and it is achieved because by the great publication stock offering at the New York Stock Exchange on last September 2014 (Alibaba, 2015). The IPO (The initial public offering) of Alibaba price was at \$68 per American depositary share, and it is around 320 million shares because of these Alibaba get a total offering size of about US\$21.77 billion. According to the Forbes website, the exercise options of the offer underwriters increased the total offer size to \$25 billion (Mac, 2014)

Alibaba's main business is selling and make a selling place. The company earns profits of advertising and commission from the product sales of the client. It also makes a big profit in Middle of 2013, Alibaba processed 11.3 billion orders and brought it about US\$248 billion through its main platforms startup, Taobao and Tmall (Larsen, 2014). As written in Alibaba website byline, it seeks to make it easy to do business from anywhere and anytime, the actors of a market can be enabling e-trade and e-commerce among the market participants all around the world of e-commerce and globe within its various internet and technology-based selling platforms. Taobao Marketplace as an online shopping destination, Tmall as a third-party platform for brands and retailers and Juhuasuan are three of its net-based platforms. Alibaba increasing and enhances its e-commerce platform by taking a step further in completing easy access the marketing process through the provision of integrated shipping and

delivery process using third-party logistics service to providers and also operating on the central logistics information system (Alibaba, 2015)

Alibaba provides the technology infrastructure and marketing area to help business leverage of internet power in online ways and doing a trading system between the seller and buyer. It is engaged in developing e-commerce standards in China. It has made significant investments in proprietary technologies and infrastructure in order to support its growing ecosystem. The Company's technology and infrastructure allow the retail store to harness the substantial volume of data generated from its marketplaces and to develop further and optimise the products and also offered service on the Alibaba platform.

Now Alibaba also becomes the world's center for cheap outsourced products that very important in e-market, Alibaba Group leverages on them the central business location and on technology that they have innovated to parlay its global intermediary role in e-commerce and e-trade by connecting businesses to consumers and businesses to businesses in both wholesale and retail e-markets. Alibaba has a big market in Asia, and the role of Alibaba's marketer in China product and services is the mark of central to its global success in e-commerce. As with any competitive market, much of Alibaba's business strength lies in its utilisation of proprietary technology systems that back up its scale enterprises global, it near-seamless flow and coordination of business transactions allowing. These phenomena will be more makes it attractive for Alibaba customers because almost all trade transactions related to the successfully, flow and top rank of e-commerce transactions are integrated or greatly facilitated because the credibility of money transaction aided with relevant information. Moreover, usually in some of transaction Jack Ma also using bargaining in Alibaba to make the best deal of

the seller products price. Moreover, business transacted with relative ease and transparency.

Growing from a small business focus to the global player it is now, by serving specific and profitable market segments, so proprietary Alibaba platforms meet that market needs for different market segments built on the competitive solutions that e-commerce offers Alibaba Group more dominance in the global e-commerce industry. There is an excellent organisation for the segmentation of Alibaba markets or the many markets it wishes to serve, and these segments ride on carefully crafted proprietary solutions that create a single brand monopoly effect within a business model construct that also offers monopolistic industries as well as big businesses to thrive in.

Alibaba's business model of connecting suppliers and producers with buyers and consumers on a global scale centered on the main selling point of selling China products and services to the world is its main strength. By connecting between businesses to consumers, Jack Ma becomes an actor in the Asian market that able to offer a wide range of value-creating business sourcing solutions that significantly enhance business growth and profitability for market participants. The model of Alibaba business builds on supply chain advantages that are common in the conventional retailing trade model.

As a global marketplace that was using an internet interaction between seller and buyer in many platforms, Alibaba group will be affected by an interaction between costumers and supplier, which give a supplied product for sale because for surpass the conventional market. As a competitive market model, however, the significant factors would be a threat of new entrants into the online e-commerce industry, many influenced by Alibaba's monopoly profits, as well as rivalry among existing competitors.

It has become important, crucial issues for Alibaba Group to attract and be affected to the vast number of suppliers and producers who can provide diverse business solutions for a high number of buyers with a diverse range of buy requirements because of Alibaba purposes and aim for the Alibaba business model to succeed. The concept of providing cheap retail business solutions that create higher value added for buyers on the Alibaba platform and able to rests on its ability to bring on to its platforms a great effective cost of a number rather than producers cost product as possible. Whatever monopoly issues do exist in the market, Alibaba still used that method to take a market on the internet. Moreover, also about the over product issues in Asia that made in China, Alibaba still get the supplier for Alibaba opportunity of the market.

Alibaba Group as a company and provides any product is a boundary to make an enhance consumer buyer power so that it will effectively continuing to attract direct customers and business. It is caused by the easy to process of trading by using the startup. Alibaba role as global e-commerce that serves a market in global, however, Alibaba Group profits well from the trade and many others e-commerce actors that do some interaction between users of Alibaba platforms, whether based in China or elsewhere, who see opportunities in both supply chain process as well as the value chain process. the hard work and good value retail store, the commercial success that is Alibaba that will attract new entrants to the e-commerce industry. The hard challenge for a new developing retail store would be to overcome the barriers that Alibaba has causing and effectively set for the markets it has already acquired and this has been made possible through investments in proprietary technologies. Infrastructure investments translate to massive costs that may make an obstacle to entry for many ambitious providers.

The other significant market force of Alibaba for them competitive position would be the threat of substitutes in its business model. The appear wise and ideas of innovative business sourcing solutions would vary significantly impacted on the effectiveness of that solution that Alibaba offered for small enterprise and small retail store that wants a big market in Alibaba. Therefore, critical to this competitiveness is building on the competitiveness of China products on the whole regarding cost-effectiveness and added advantage value for its customers, especially in the light of increased competitiveness of substitute locations for the source.

Jack Ma also took the Asian e-commerce, the e-commerce in Southeast Asia has increased because the business to consumer method, Asian peoples in the next year would be an online buyer of startup e-commerce. Because of that Jack Ma acquire some of the e-commerce of Asia, the example is *Lazada* that based on Singapore since 2016, and *Daraz* that based on Pakistan.

Alibaba Group officially acquisition Lazada by giving a fund US\$1 billion and make Alibaba as a shareholder 67% of Lazada. So because of the significant of Lazada in 2017, Alibaba was increased their stock in Lazada about 83% (Iqbal, 2018). And Alibaba also expands their market to south Asia by acquisition Daraz e-commerce that bases on Pakistan. Is it officially announced in 2018, may, but the details transaction and how much the acquisition value did not explain for general. Also, before in Pakistan, Alibaba came into India market and invested in *Paytm*, which is a payment application in India. (Frandya, 2018)

The existence of the latest investment of Alibaba makes Alibaba will be more confident to compete with JD.com and Amazon in the Southeast Asian market. They will be ready to compete to reach an e-market of 600 million people.

For many small businesses, e-commerce has allowed them to explore new markets and enabled significant growth. However, for some, online trading has not been plain sailing. Many the seller was selling the same product for market in one e-commerce. And they ignorance about originality product that they have, originality, in this case, is about the character having by one account in e-commerce.

Many cases about way too many sellers on e-commerce and the dominated of Alibaba was impacted to the new account that dependent to Alibaba because monopoly of Alibaba has happened. The product that sold in the market usually a specific product that Alibaba did not have it. So a new member of seller defeated by the old seller that exist before because they can get the market before.

Moreover, overflow product also becomes an issue of Alibaba. Most of the product that China makes selling by Alibaba because of they able to produce the product that was happening in society as fast as social need. However, because the overflow of product that made by China the also produce a fake product for sale. And the retail store was only selling a product which social need and is it making an impact on the other producer of the same value product because usually, the price tag is more expensive than the copy.

Alibaba as local China e-commerce uses this opportunity to take over the Asian market to expand their product. They ignorance the retail store and physical store that was selling the same product with a higher price. And the consumption of customer will be increased because they think that the product cheaper than before without thinking the originality and quality of the product.

The discount that Alibaba made is to sale the old stock that still available. Alibaba usually uses the high discount for sell it but is it would be impacted to overflow product in the market and to kill the market of a small physic outlet. Usually,

a small outlet gets their product with a limited number with the average price, and then the product is not sold out at the time.

When Alibaba announce the discount time, the consumer usually preparing for it well. Because consumer knows the price of the old stock of Alibaba is under the retail store. Because of that some consumer shop for the many products if the discount time of Alibaba was happening. And the impact of the discount of Alibaba the physical retail store loss their consumer because the consumer more chosen the Alibaba's product at the time.

Is it would be killing the retail store to selling their product, and they threaten for incurring losses of selling product. However, in the end, the small enterprise cannot be denied the discount time of Alibaba, they did not have the power to change it. As they know the governance knew about it but the regulation from local governance of China more supporting the Alibaba to do this for China developing economic indeed.

Alibaba's dominance in global e-commerce also become one threat for global e-market and many actors that trading in e-market would be increasing competitiveness of alternative cost-effective source locations, It affected and would be compelled to build hard rival marketplaces with which to sell its competitive products if the actor in Alibaba e-commerce has the same regulation. As a business that using a method of outsourcing solution, India is able to compete with China. Alibaba Group must maintain its strength as a provider of quality business solutions, and this will depend in turn on the competitiveness of suppliers on its trading platforms, in quality, delivery, and price, all of which translate to value propositions.

The status of Alibaba to facing monopoly issues in its global scale e-commerce industry carries with it both a distinction for business profitability, and may also be a source

of its weakness. The analysis of the competitive market that was issued by Alibaba, it should be easy to appreciate that the use of proprietary technologies will keep Alibaba Group on track to its goal of sustainable growth. Such proprietary services must be continually enhanced to improve quality of service for its users better so that participants attain real value for remaining loyal, or voluntarily captive, to Alibaba's value proposition for its customer base. Understanding the business processes of business segments, as it has demonstrated to do so, and keeping its business platforms flexible to these businesses whatever the size, would be one way to build on its global strength. This global strength translates to dominance not only in the source location that is China but also in individual business regions and markets which comprise the other side, the buying and consumer side, of the e-commerce trading interface. It is crucial for a global market leader like Alibaba Group to continue to be visible as well on local and regional markets.

Another threat could be increasing regulation from the Chinese government over its market activities as the company wields monopoly market power. Alibaba is as exposed as other U.S.-listed Chinese companies to accounting regulation as well as questions on semi-legal structures that listed companies use to control their mainland operations (Larsen, 2014). Alibaba Group's founder's persona is said to drive the success of the company in currying favors from the Chinese Communist Party. Diversification of its businesses, and locations, as in investing portfolio, will probably mitigate the risk of falling out of grace in a highly-politicised business environment that is China. Even then, Alibaba must craft a succession and longevity plan so that the Alibaba Group and its vast enterprises survive its flamboyant founder and political destabilisation that threaten its desirable place and contribution to China's economy.

Moreover, Alibaba also becomes more powerful not in just e-market, but the superpower of Alibaba actors itself become a partner for politics in the host country of the startup. The ability to control the new regulation about the market in a country. So it makes unbeneficial for a small local enterprise that wants to be a seller in Asian market. Many smalls seller under pressure of the regulation but the prominent actors of the market like Alibaba did not figure it because they care about what they get in a market as big as they can. Is predictable if the political actors in this country will be set to the actors that have power in the economic developing in the country. Even there are many impacts if this would be happening in the next governance system.

In Asia, a Chinese ethnic become an expert of an economy. Since China become more significant to be industrial countries, many Southeast Asian states selling a product that made by China, the stuff cheapest that Europe product. The durability of Chinas product known as cracky products, because they made with cheap materials indeed. However, Asian consumer people ignore the quality product that they bought. Usually, Asian consumer buys what they want even it is from lousy material they still buy it.

The seller that has a significant role to the cracky product evenly from ethnic Chinese sell what consumer want but they did not notice the quality of their product and also they did not tell about the durability of product that they sell to Asian consumers. It is was happened for a long time ago since the Silk Road become a way for a trading system. Silk Road starting from Xian, the capital city of middle Shaanxi China. The trader among Silk Road is firstly spotted by Chinese ethnic, and Silk Road become the main ways of Chinese people to ding a trade into other states at the time. In this case, the trader does not come from other ethnic, chines ethnic is the only one just doing trade into Silk Road. (Adidharta, 2013)

Because of that, Chinese ethnic become the expert one of the Asian economies. They have trader and trading with all of the country, especially Asian states. Also, it has become more dangerous because the Asian slowly would be managed by Chinese actors. Not just it, China products are known as an imitation, cracky, and bad stuff because of the low-quality material that they use. Moreover, they successfully got the Asian market on this day. Is it serious issues that threaten for local Asian states ethnic expect China. They can sell their product but China's ethnic will beaten their product because Chinas product that they have. Slowly China's ethnic that had power in a state would be involved to political system on some state. They can make a regulation in one country that beneficially for them. And sure the local ethnic cannot reject the regulation because they did not have power for that.

