

BOI LABS

START UPS JOURNEY



 BOI
RESEARCH



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KEY FINDINGS



Key Findings

Macro Outlook



Opportunities

Indonesia remains an attractive place for investment in South East Asia. Sound economic policy and demographic bonus have contributed to a healthy, if not spectacular growth of around 5% in the last few years.

The government has been pushing for improvement in infrastructure and ease of doing business to attract more investment. Dozens of sectors have also been liberalized to open up the economy for foreign investments.

Consumer confidence remains consistently high which bodes well for Indonesia's consumption-driven growth in the future.

Indonesia has been spending 20% of its budget on education in a bid to improve the quality of its human resources.



Challenges

Despite a push in improving infrastructure and ease of doing business, Indonesia is still lagging behind its neighbours in these 2 aspects, causing investors' reluctance to invest in the country.

The looming trade war between world's major economies. This could threaten Indonesian exports, especially its commodities which depend heavily on the demand of countries like China.

Weakening rupiah resulting from US interest hike makes foreign borrowing and import expensive. Especially worrying as the imports are needed for infrastructure development and manufacturing.

Low quality structural transformation where agriculture jobs shift to low level services, instead of manufacturing sector which has higher productivity.

Key Findings

Business Outlook



Ease of doing business has steadily improved. As of 2017 Indonesia was ranked 70 in the world, a quick 40 ranking jump from the previous 3 years.

Indonesia has a rapidly expanding middle class, estimated to be around 63 million strong today and predicted to double to 120 million by 2022.

Fast-growing internet and smartphone penetration, with more than 100 million people owning a smartphone, putting the country well-positioned to function in a digital-based economy.

The growth of internet and smartphone penetration make virtual e-commerce and digital health services as one of the sectors that is expected to grow even further in upcoming years.



Improvement has been made in addressing red tape, but it still takes months to establish a business in Indonesia.

Corruption remains rampant. This creates uncertainty among investors who plan to invest their money in Indonesia.

Poor education results in poor human resource quality. Indonesian graduates (high schools and universities alike) lack workplace-ready skills and require intensive training before they can be fully employed.

Way Forward

Macro & Business Outlook



With its consumption-based economy and large size domestic market, invest in business remains appealing. Attractive sectors for investments include retails sectors in food and beverages, chemicals and pharmaceuticals, and electronics.

Potential in digital economy is huge. Startups should look to create products or services that take advantage of the latest technology to effectively address pressing issues (unbanked people, poverty in agriculture etc).



Based on interviews with start ups, there is a general consensus that there is still a huge potential for start ups in Indonesia. E-commerce, education and health are potential industries in the upcoming years as the government has been spending money on these sectors. The Indonesian government has doubled its spending for the establishment of start ups incubators to support the growing of local startups. Investments are expected to grow in the future as investors and venture capitalists will get tax incentives of up to 100% for maximum of ten years if they invest in small-medium enterprise.



Find local partners who already have good track records to help navigate the difficulty of doing business in Indonesia.

Build business in designated industrial areas as regulations are simplified and supporting infrastructures (roads, port, electricity) are already available.

Key Findings

Start-ups Challenges



Bureaucratic
hurdles

Starting business in Indonesia is **still more difficult and takes more time** than neighboring countries, but start ups have understood this and usually **hire professionals to deal with** setting a company. **Spending 2 to 3 months or more for setting up a company** is seen as a given.



Finance

Start ups still **don't plan the financial aspect** thoroughly and rely **on private money**. Many startups don't survive because they can't find financing needed to run the business. The majority of local start ups still rely on friends/family for financing.



Office Space

Jakarta offers instant access to a big market, but **opening up an office** in this city is **very expensive**. The rent in the designated business zone is too steep for many. Alternative options for office are sorely needed.



Sales

Although all founders and entrepreneur in this research mention that their sales keeps on growing, majority of them are still **not profitable but expect to meet BEP** 3 to 5 years after they start the business. The **low brand equity and high competition** are the main factors of **below profitable sales**.



Talent
acquisition

Indonesian graduates are **not the most workforce ready**. Indonesian universities don't provide enough **practical skills** that will be useful in the workplace.



Capacity
building

More than half of the start ups **provide training to their employees**, mainly focusing on **technical skills**. Meanwhile few companies are unable to arrange regular capacity building due to **limited time and lack of people available**.

WAY FORWARD

STARTUP



01

Be Inspired!



- Get inspired by well-know entrepreneurs
- Seek the gap (opportunity/problems)
- Think creatively
- Frame your idea

02

Ideation



- Discuss and test your business ideas
- Research your market and competitors
- Get feedback from (like-minded) entrepreneurs
- Get feedback from potential clients or customers
- Reflect and reframe your ideas

03

Developing Business Model



- Understand the fundamental know-how of starting the business
- Find out your core competences
- Visualize your target
- Estimate yours cost, margin, and price range
- Look at distribution or marketing channel
- Prepare a prototype
- Look for feedback



Building unwanted products/services

04

Setting up Funding



- Find Co-Founder
- Prepare a business plan, especially financial projections
- Develop your presentation and pitching skills (if you look for investors)
- Establish business connection

05

Put into Action



- Register your business
- Arrange the administrative stuff
- Search and talk with potential employees
- Pitching with potential clients
- Comprehensive market research (competitors, business trends, share of wallets, etc)



- Hire wrong people
- Choosing wrong platforms
- Forgetting the sales
- Lack of focus

06

Launch Your Product/Service



Products:

- Look for distributors
- Look for suppliers
- Look for factories/machines
- Register for patent

Services:

- Choose a supplier
- Choose a server
- Develop content
- Register for copyright



- The launch is too slow/early
- No specific target users

Valley of Death



- Capital requirement from government
- Cash flow shortage
- Taxes and reporting

07

Keep Growing



- Maintain your engagement with users/customers
- Always improve your quality
- Expand your network
- Set your grow target and aim it!



- Sacrificing users to get more profit
- Loyal users or customers leave
- Less focus on customers
- More competitors
- Fights between founders

Way Forward

External Support Needed



Bureaucratic hurdles

- Government should do more active socialization to inform entrepreneurs on the procedure to establish a new business.
- Provide a one door registration system with user-friendly interface with a clear and consistent procedure where potential businessmen wouldn't have to go different offices to submit the necessary documents.



Finance

- More events/workshops to introduce start ups to investors or venture capitalists.
- A trustable platform/network where start ups can connect with interesting investors or venture capitalists.



Office Space

- Municipalities or local government should ease the permit or license to open an office outside the business zone.
- More options for affordable co-working space.

RESEARCH OBJECTIVES

STARTUP



Research Background

At BOI we believe in practice what your preach. That is why we encourage our researchers to do their own research, next to the work we do for our clients. We like our people to show of their skills and work. Anybody at BOI can start their own BOI Labs project, whether they are a trainee of a senior research executive.



BOI Labs

It is part of our effort to continuously encourage research, improve the skills of our executives and stimulate research we like.

Research about start ups has been chosen because Indonesia has a growing middle class market, but it seems that a lot of start-ups are failing or struggling within a few years. Therefore, it is interesting to find out what start-ups need at the moment in Indonesia and how they can overcome their struggles.

The objective of this study is to outline the current situation of start ups in Indonesia. BOI focused on finding insights within the following topics:



**Bureaucratic
hurdles**



Finance



**Office
Space**



Sales

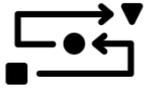


**Talent
acquisition**



**Capacity
building**

Methodology



Desk research
In-depth interviews



n = 23
Jakarta, Bandung and
Denpasar



Working in start ups
Start up is less than 5 years

The study interviewed start ups that establish between 2014 and 2016 with an average number of employees around 20 people. The core competences of the start ups varied from e-commerce, digital/content marketing, manufacturing, or consultant.

Position	Gender	Study background
 64% CEO	 64% Men	 53% Economy & Business
36% Other position	36% Women	33% Communication & International Relation
		14% Engineering

MACRO
OUTLOOK

STARTUP



Macro Outlook

Strong economic growth



Indonesia is almost 40% of the ASEAN economy (GDP) and its largest growth driver.



World's 15th biggest economy, expected to be among the biggest 5 by 2030.



The country's overall economic growth in the end of 2017 is 5.07% and is forecast to reach 5.3% in 2018.



Indonesia owns 3 of ASEAN start-up Unicorns: Go-Jek, Tokopedia, and Traveloka.



63 million strong upper and middle class population which is expanding rapidly.

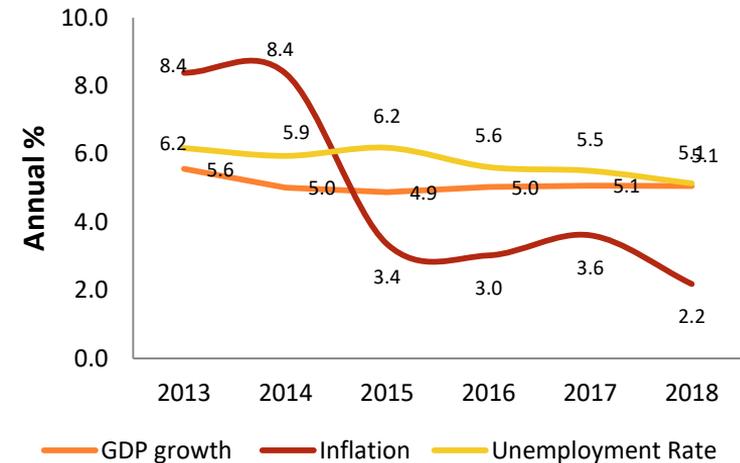
Macro Outlook

Strong economic growth

Indonesia's GDP growth is continuously accelerating and is predicted to grow 5.3% (yoy) in 2018, with the main sources of growth coming from manufacturing, construction, trade and agriculture.

The country is expected to get more push from direct investments due to government's infrastructure development plan. This is also supported by the fact that three international rating agencies (Fitch, Moody's, S&P) has elevated Indonesia's sovereign rating to investment grade.

Indonesian consumer confidence index reach up to 128.1 (June 2018), which recorded as the highest score



	2012	2013	2014	2015	2016	2017	2018*
Current economic index	110.2	111.6	110.2	94.0	102.9	115.1	120.8
Consumer confidence index	116.4	116.5	116.5	107.5	115.4	126.4	128.1
Consumer expectation index	122.6	121.3	122.8	121.0	128.0	137.6	135.4

Macro Outlook

Potential Growth



Demographic Bonus

Demographic bonus

With its young population, Indonesia can reap the benefit of a bonus demography, having substantially more people at the workforce as its tax paying base.

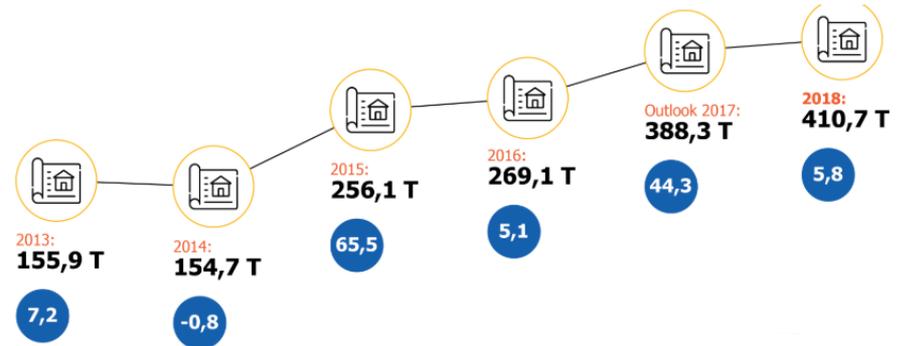


Infrastructure Spending

Large infrastructure spending

One of Indonesian government's signature policies is to improve the country's depleted infrastructure (from toll roads, ports, power plants, etc) to improve connectivity, reduce logistic cost and increase investments.

State Budget Allocation for Infrastructure



Sources:
State Budget 2018

Macro Outlook

Potential Growth



Banked Population

Banked Population

Indonesian government target financial inclusion to reach 75% in 2019, which is double the amount of 2014. The government also revised their National Strategy of Financial Literacy in order to increase market confidence, especially in the financial services industry.

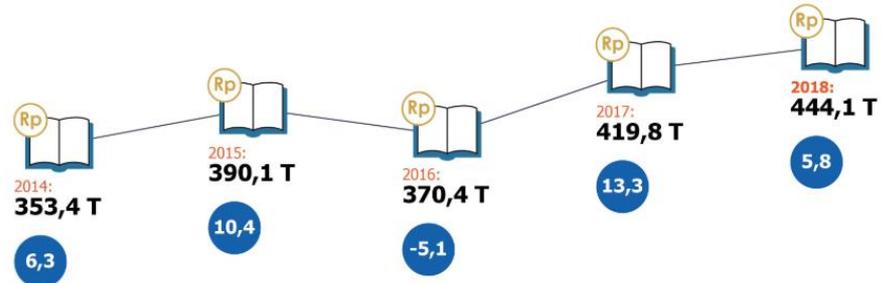


Education spending

Spending on education

Spending on education continues to take around 20% of the state budget. Although this massive spending hasn't resulted yet in improvements in the quality of education in Indonesia, which still ranks behind its neighbors like Malaysia, Singapore, Thailand or Vietnam.

State Budget Allocation for Education



Sources:
State Budget 2018

Macro Outlook

Upcoming and current hurdles



Trade
War

Trade war between USA and China puts pressure on Indonesian export. Both China and USA are Indonesia biggest export destinations. But with China lowering its Yuan, this would make its export cheaper and at the same time lower its ability to purchase imported goods (including from Indonesia).



Exchange Rate
Volatility

Rupiah depreciation are expected to persist. Interest hike in the US would cause investors to pull their money out of the emerging markets (including Indonesia) to be invested in the US which is considered a less riskier bet. This would put huge pressure on the rupiah as investors sell their Indonesian assets.



Structural
Reform

Indonesia is undergoing a low quality structural transformation. The country surplus workers on agricultural sectors moved to low-end services jobs, such as drivers and domestic helpers rather than modern sector of the economy with higher productivity (e.g. Manufacture industry).

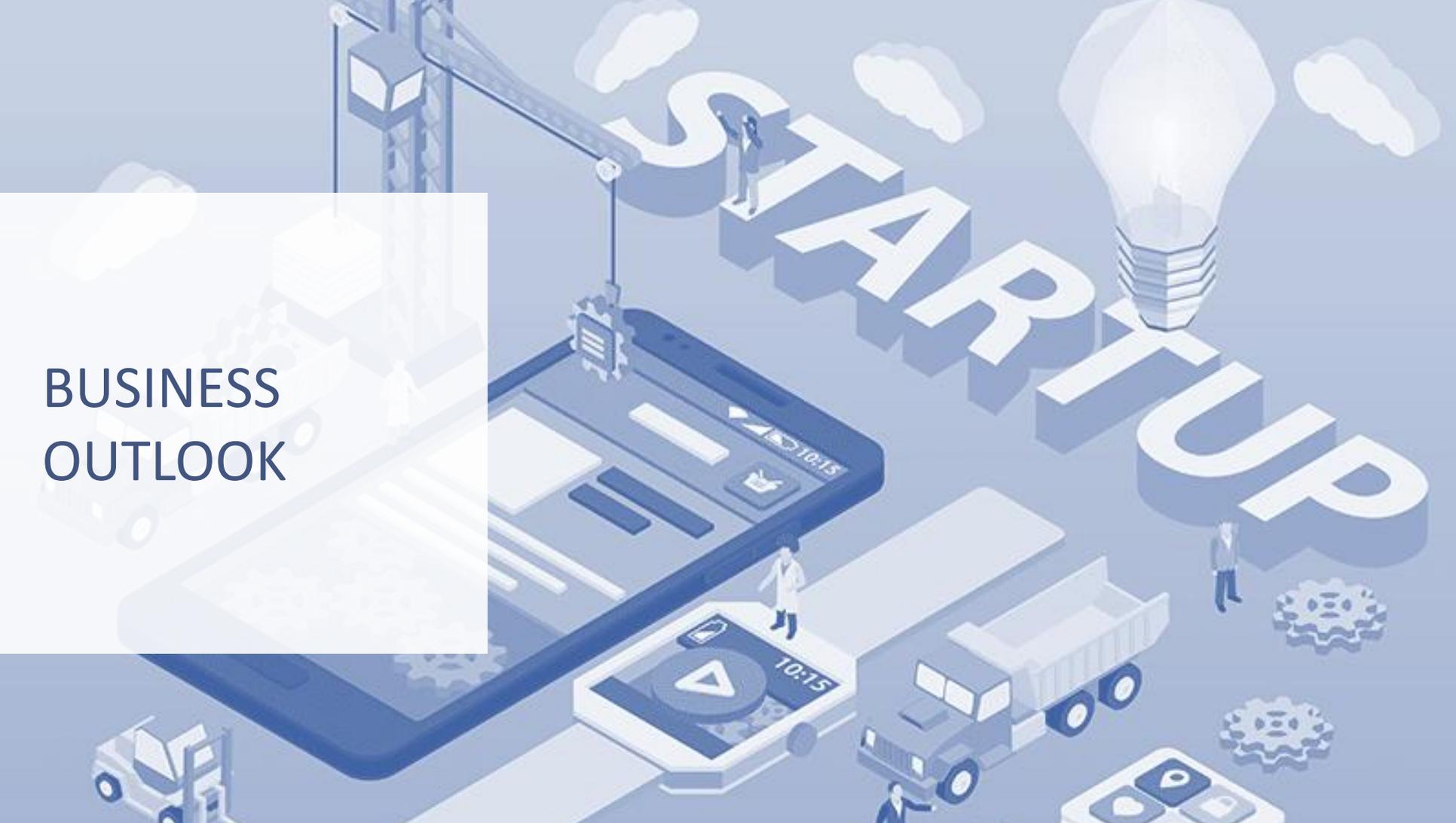


Underdeveloped
Infrastructure

Despite significant increase in infrastructure spending, overall Indonesia's infrastructure is still inadequate. As a result high logistic cost and lack of electricity remain serious issues for businesses.

BUSINESS
OUTLOOK

STARTUP



Business Outlook

Encouraging business environment



Ease of
Business

Improvement on ease of doing business

Following his promise on making it easier to do business, government has launched several programs to speed up the process of doing business. While there has been improvement, doing business in Indonesia is still considered difficult.



Networking

Growth in internet and smartphone penetration

Penetration of both internet and smartphone have reached around 100 million people providing a strong platform for the country's growing digital economy.



Potential
Sector

Potential sectors

The strong middle class population trigger a higher spending on consumption. Business that can offer comfortable experience to their customer will be the leader. Thus, sector such as digital health services, virtual commerce and retail are expected to grow in upcoming years.



Middle
Class Growth

Strong middle class

As of 2016, it was estimated that 63 million Indonesians fall into the middle class category. By 2021, this number is expected to double to 128 million people.



Indonesian bureaucracies are usually top heavy.

In general, the Indonesian government requires a lot of documents for the majority of the registration processes, either for starting a business, registering new products, import documents, etc.



Corruption acts as a major deterrent to business and investment.

Indonesia is ranked 97th in Transparency International's Corruption Perception Index (CPI*) for 2018 with a score of 37, which means Indonesia is still perceived as a corrupt country. The score is way below Singapore (6th - 84), Brunei (32th - 62), Malaysia (62th - 47).



Business culture in Indonesia focuses on relationship building,

with an emphasis on family and a hierarchical culture. Therefore, most of business negotiations are not straight to the point (indirect communication) which can pose challenges to foreigners.

The business survey shown that in general, Indonesian government fiscal and overall regulation still hinders investment activities, along with financing difficulties from banks

Impediments to Investment Plan



Sources:

Business Survey by Indonesian Central Bank Q2 2018

CPI: Index that ranks 180 countries and territories by their perceived levels of public sector corruption according to experts and business people, with 0 as highly corrupt and 100 is very clean

Business Outlook

Challenges

From the 70 countries studied, Indonesia's PISA scores which measure science (S), reading (R) and mathematics (M), Indonesia ranks in 62, well below of other Asian countries with scores well below the average.

Country	Overall Ranking	Science	Reading	Math
Singapore	1	556	535	564
Vietnam	22	525	487	495
Thailand	56	421	409	415
Indonesia	62	403	387	386

Note: The PISA (Programme for International Student Assessment) score designed by OECD to evaluate educational system of 15 years old students by assessing the performance of 3 fields which are science, math and reading.



Indonesia is one of Southeast Asia's least educated countries. Although for the last 5 years, 20% of government expenditures are for education, this hasn't resulted in improvement in quality. As a consequence, Indonesia's PISA scores are still low compared to its neighboring countries.



Higher education institutions (HEI) focus more on attracting clients (potential students) instead of future employers. In a 2008 survey by the World Bank, 2/3 of the employers complained that finding employees for professional and manager positions was difficult or very difficult.

START UPS
JOURNEY

STARTUP



Start Ups

Opportunities

Once 'hot' sectors are already saturated and highly competitive, in the upcoming years there are still sectors with untapped especially in technology, education, and healthcare due to the fact that government allocate big budget on this sector.



Indonesian government is investing up to \$10 billion for creating 1000 'technopreneurs'. This plan was part of *National E-commerce Road Map*, which also include a program of micro credit for app developers and business incubators, equal tax treatment for foreign e-commerce business, etc.



Indonesian government doubles up its spending on start ups incubators up to \$ 27.6 million. This year, government plan to establish more incubators and support more programs on business mentorship.



Investors or venture capital firms will receive a 10%-100% tax cut for five to ten years. This incentives only applicable for investment between IDR500 billion – IDR 1 trillion.



Huge potential on education and healthcare industries. Start ups can utilize the state budget of IDR 400 trillion on education and IDR 100 trillion on healthcare, cause as for know the competition in this industries is still low.



The definition of small and medium enterprises is changed into those with annual revenue of less than Rp 50 billion from Rp 5 billion previously. Unfortunately this new regulation has included change in the taxation of these SMS companies.

Start Ups Journey

Start ups landscape

Indonesia is seen as emerging market thanks to its high population and high consumer spending. This persuaded many businesses to set up companies in Indonesia. In this country, most of entrepreneurs (start up) are benefiting from the shift in consumers lifestyle, e.g. the proliferation of coffee shops or cafe and e-commerce business.

Start ups should do more than just riding the wave of the current market trends, but more importantly they should understand the needs of the consumers to create a solution that can last longer than the cyclical lifestyle trends. Aspiring start ups should see beyond what's hot now and look for what has big potential growth in the longer term and ideally one that offers solutions to the country's problems.



Starbucks' presence in Indonesia has contributed to new habits of drinking coffee, eating snacks and hanging out at coffee shops among young adult Indonesians. In addition to coffee and snacks, these young adults also expect reliable internet connection.

This new lifestyle leads to a unprecedented growth of coffee shop or cafe across Indonesia. As a result, the market becomes saturated, as more and more entrepreneurs open coffee shops while the market size hasn't grown as fast.

As a result, many don't survive. An important lesson here for entrepreneurs here: do thorough research and don't just jump on the bandwagon.



E-commerce has experienced something similar. Touted as one of the country's hottest sectors, money poured in both from local and foreign investors. Following the initial successes of Tokopedia and Bukalapak, other e-commerce platforms showed up: Elevation, Alfcart, Cipika, etc.

But eventually natural selection took its' course and only those with a combination of good product/ service quality and deep pockets survive and thrive until tomorrow.

Start Ups Journey



New business
(Start up)

In general, there are seven (7) stage on starting a business (start up) from getting inspired until maintaining and keep growing the business. The duration will be different on each individual, especially on the first two stage.

Afterwards, is the realization stage on which the period will be depend on what type of market, the product and service offered to customers.

⌚ 6 months – 1 year ⌚ 1 year – 3 years ⌚ 2-5 months ⌚ 3 months (services)
⌚ 1.5 years (products)



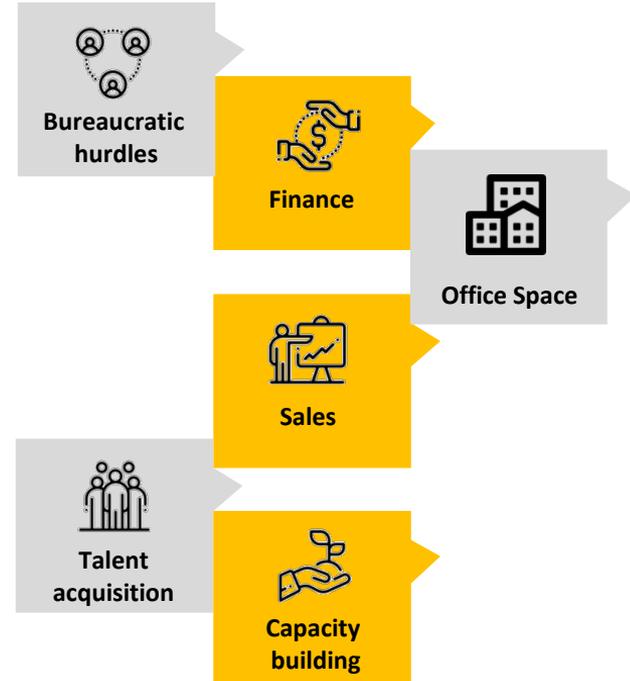
Start Up Challenges

Despite government's effort to create a more supportive and business-friendly environment, in reality there are many challenges facing startups from the very first idea generation to finally get their business started.

BOI Research conducted research among 23 startups to document this process to get an idea not only on the necessary steps that need to be taken, but also on the potential pitfalls or hurdles that startups business encounter along the way.

During the process, start up players can found dozens of hurdles, but in general most of hurdles can be categorized into bureaucratic hurdles, finance, office space, sales, talent acquisition and capacity building.

To summarize the results, on each hurdles there are explanation of current situation, the problems faced and, if any, the external support needed.



START UPS CHALLENGES



**Bureaucratic
hurdles**



Finance



**Office
Space**



Sales



**Talent
acquisition**



**Capacity
building**



Current situation



2 months

Indonesian entrepreneurs only need maximum 2 months to officially register their business and none of them complain about the long period



5 months

Foreign entrepreneurs needs longer time (5 months) due to unclear information about the right documents and requirements

All of the entrepreneurs interviewed hire a notary or an agent to take care of the registration process.



Problem



Lack of clear information accessible to the public regarding requirements and procedures for starting a business



Inconsistent information available regarding to procedures of starting a business



Limited financial incentives from the government to support new small business growth



Support needed!



More active socialization to inform the procedure of establish a new business (incorporation)

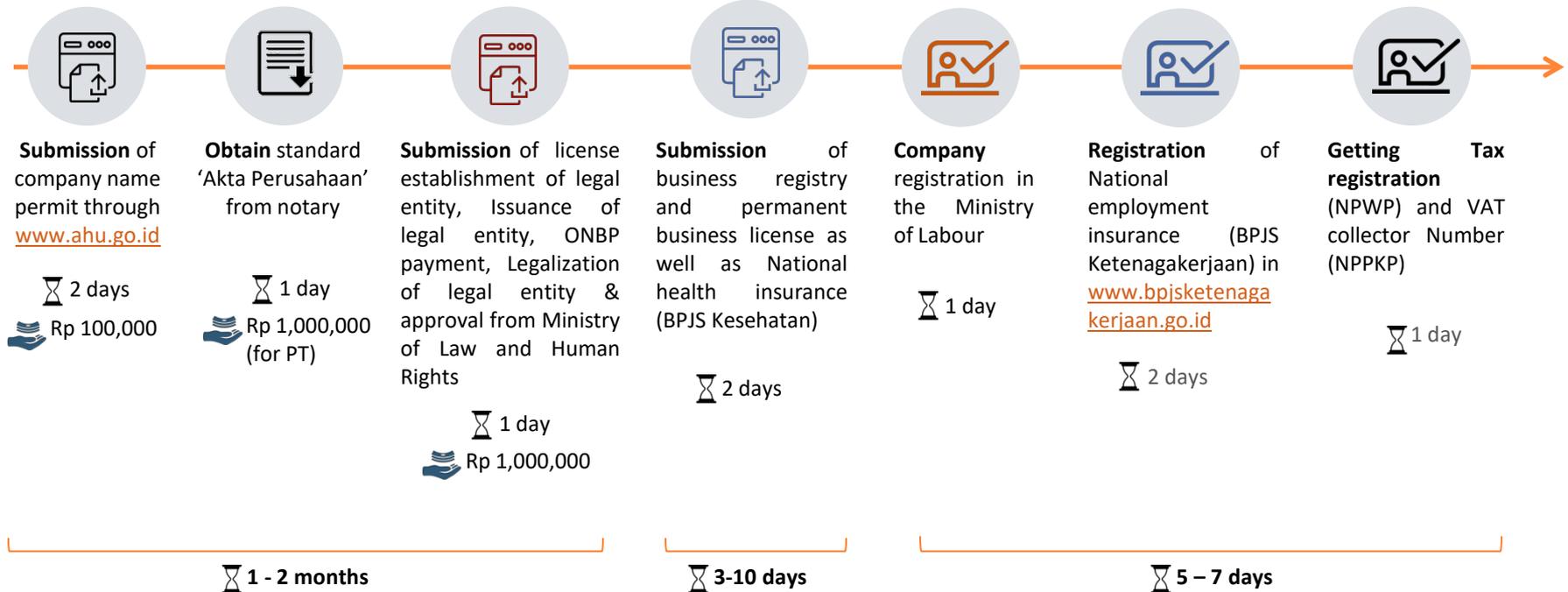


A consistent and simplified procedure that can be accessed through a user friendly platform

Bureaucratic Hurdles

Regulation - Local Business Entities

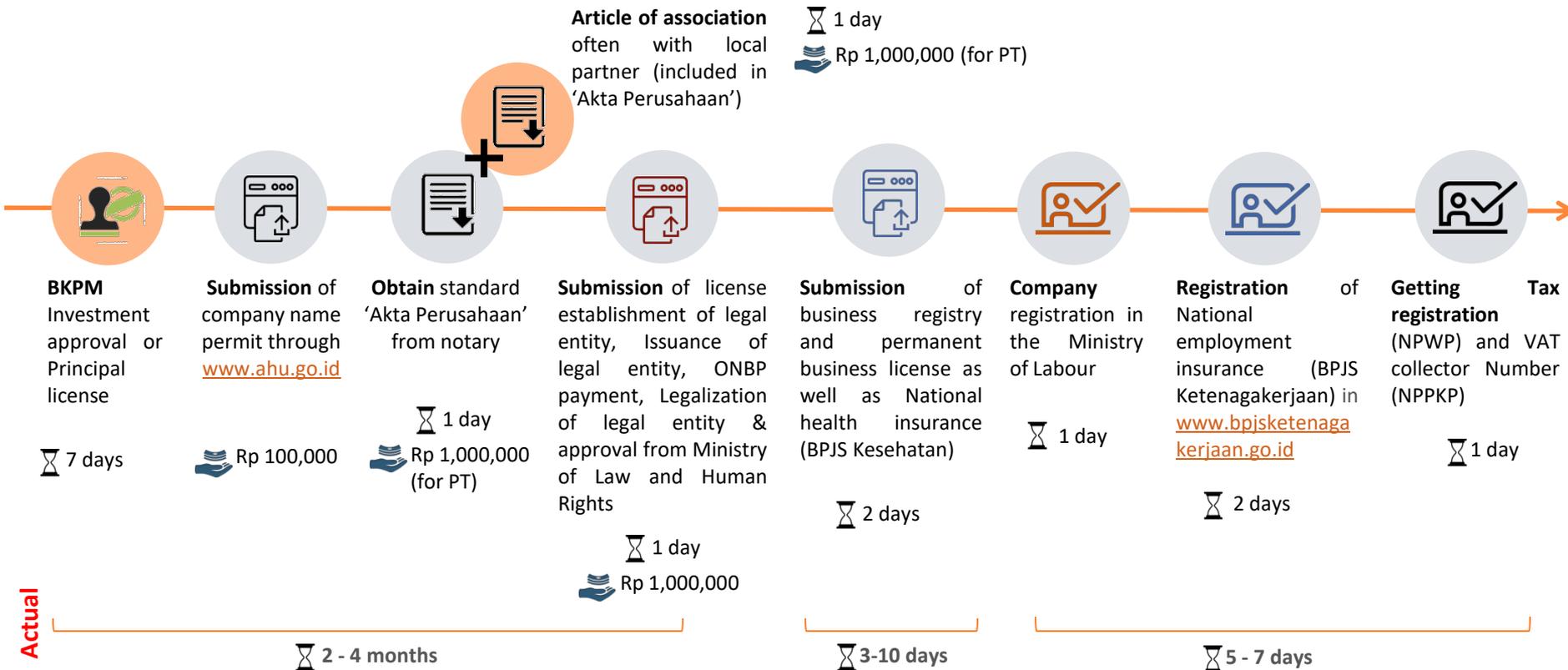
Based on *Ease of Doing Business* survey done in early 2017, the result indicates that the Indonesian Government has simplified the procedure for starting a business from 13 to only 7 procedures, which includes:



Bureaucratic Hurdles

Regulation - Foreign Business Entities

For foreign entrepreneurs that want to start corporations in Indonesia, 2 additional documents and a minimum of 2.5 billion rupiah paid up capital must be prepared.





Current situation

Majority of entrepreneurs interviewed indicate that the biggest cost is salaries, therefore some of them try to be address this by hiring employees based on project (part-time).



Think that additional finance is crucial to grow and scale ups their products/services



Problem



Poor cash flow management, as the founders sometimes lack expertise of managing operational costs



Lack of access to financial investors (for Indonesian start-ups) due to underdeveloped business models



Investor preference to invest in more mature start-ups



Support needed!



Majority of foreign entrepreneurs mention external support is unnecessary because they've received enough from their investors



More than half of Indonesian entrepreneurs request either event or platform where they can reach investors/venture capitalist and introduce their business.



Current situation

Jakarta seen to be a favourable place to open new office because it offers a single largest market in Indonesia. Most potential customers and clients are located in this capital city.



Alternative office space

-  Own Home
-  Co-working space / virtual office



Problem



Expensive renting rate with small space offered



Poor liveability due to traffic, pollution, and flood.



High cost of living compared to other metropolitan city



Support needed!



There's a need from municipalities to make flexible office zone area or to ease the permit or license to open a office outside business zones



More options for affordable co-working space, as co-working spaces offer many benefits for start ups

- Possibility to expand networking
- Enabling discussions/ brainstorming with other startups
- Creating opportunities for collaboration with other startups

Number of co-working spaces in prime locations

Area	Co-working spaces
Jakarta	68
Bodetabek	10
Yogyakarta	12
Bali and Lombok	21

With many of the co-working spaces located in Indonesia's major cities, however the concept is still very new which makes entrepreneurs do not realize the benefit of working in the co-working place instead of renting own office.

Type of co working spaces

Studio

Small collective of individuals and/or small businesses, in a co-working space.

Network

Dispersed group of individuals and/or business – tends to be sector or place specific.

Online platform

Uses only online methods – website, social media to engage with a dispersed audience.

Centre

Large scale building which may have other assets such as a cafe, bar, cinema, maker space, shop, exhibition space.

Cluster

Co-located creative individuals and businesses in a geographic area.

Alternative

Focused on experimentation with new communities, sectors and financial models.



Current situation



Not yet profitable but expect to meet the Break Even Point 3-5 years after start of business.



Problem



Low brand equity and high competition make it hard to attract clients or customers



Products and services don't match with market needs

"If we don't succeed in certain projects, it's hard to achieve sales. So we need to get a good reputation by always succeeding in the projects that we do".

– CEO

"We don't face big problems, although we don't reach our traffic targets, so it's tough. The reason why we can't reach it because we face challenges to create inspirational and relevant content for our target audience."

– General Manager



Current situation

The biggest hurdle in the first year is to acquire talent mostly due to low brand recognition and lower salaries compared to established companies/start-up Unicorns.



A way to find talent:

- ✓ Personal network
- ✓ LinkedIn
- ✓ Jobstreet
- ✓ Tech in Asia
- ✓ Other online platform



Problem

Under-qualified talents



Hard to find IT engineers with sufficient knowledge on website software or back-end development



Hard to get talent that fits with start-ups working environment



Lack of creativity and critical thinking (*foreigners' perspective*)



Lack of fresh graduates qualified for the jobs

High salary expectations



Big companies or start-ups Unicorn influence the salary expectation of medium size company.

“A way to keep new talent, especially locals, is by giving them clear instructions and pay them well. We try using a commission based system as a way to encourage them.”. – CEO

“To engage the millennial generation, it is necessary to build a good company culture that is challenging and flexible/casual in the same time.” – CEO



Current situation

Majority of the companies provides:

-  Regular training
-  Informal discussions
-  Sharing knowledge session with advisors
-  Attend external training event, workshop
-  Online courses



Problem



Hard to make a regular time slot to train and share expertise between employees due to the dynamic environment of start-ups



Lack of people who can allocate time to transfer their knowledge to new employees

“We utilize the Balai Diklat space which was provided free by the local government. While, we only need to provide the curriculum.” – CEO

“We have a regular training based on the current needs. It can cover technical skills, marketing, or how to manage event. Is either from internal or we invite external people based on our network.” – CEO

An isometric illustration of a startup ecosystem. The word "STARTUP" is written in large, 3D, white letters across the top. Below it, various icons represent different aspects of business: a crane lifting a stack of boxes, a lightbulb, a smartphone with a play button and the time 10:15, a truck, a forklift, a gear, and a person standing next to a smartphone. The background is a light blue gradient with stylized clouds.

START UP DO's and DONT's

Before starting a business in Indonesia, there are several things that should be considered:

In general

- Get legal advice on how to establish a company in Indonesia
- Report taxes and investments correctly by hiring accountants or tax advisor
- Choose your (local) business partner carefully
- Be aware of cultural differences between ethnicities among Indonesians (e.g. gentle approach with ethnic Indonesians and more assertive approach with Chinese Indonesians)
- Be aware of subtle hints and non-verbal clues during business meetings

Local business

- Be clear with your business activities and business classification
- Ensure enough time for company set up preparations
- Focus on having a clear business model instead just trying to get investments from VC
- Make a clear budget of how to manage money, especially for self-funded business
- Take time to recruit and develop talents

Foreign business

- Get legal advice and actively ask around on how to establish a company in Indonesia
- Ensure enough time to set up companies, actual time needed is usually way longer than what the government promises
- Understand that “yes” can be interpreted as no, maybe, yes
- Be aware oh how religion affects culture

Before starting a business in Indonesia, there are several things that should be avoided:

In general

- Assume that hospitality and friendly behaviour = successful business deal
- Expect negotiations to be easy
- Be aggressive or overly assertive when negotiating
- Expect bureaucracy with the government to be quick
- Give bribes
- Use unprofessional agent to register the company

Local business

- Overestimate the availability of competent talent
- Create similar business model with existing start ups
- Start with too small capital or depend too much on your own money (bootstrap)
- Focusing only on sales

Foreign business

- Expect the (local) government will provide co-working space for startups
- Be naïve of complexities, be prepared for the long haul
- Opt for a shelf company in the last minute
- Do not give, because the capital requirement is too big