PERSPECTIVES OF LEADING ASEAN COMPANIES ON THE CONSUMER MARKET (INDONESIA & PHILIPPINES)

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SUMMARY

- Consumption in both Indonesia and the Philippines is driven by middle-income consumers and millennials. While in Indonesia, powerful emerging companies in the digital domain are creating platforms, this stage has not yet been reached in the Philippines.
- Leading existing companies in Indonesia are placing growing emphasis on highly novel services offering local experiences. Powerful emerging companies are seen as strong competitors in acquiring startups and talented people.
- In the Philippines, leading existing companies are eager to expand their influence in the digital domain, including seeking business opportunities in operating general e-commerce sites leveraging their real retail networks, and looking to create mobile payment ecosystems.
- The two countries are at a stage where they seek collaboration with Japanese companies in creating new business that is not merely an extension of existing businesses.

Indonesia and the Philippines, two ASEAN countries with large populations that are both enjoying relatively steady economic development, are attracting attention as promising consumer markets. Similar to other ASEAN countries, conglomerates and other leading local companies have a strong presence in both these countries. Japanese companies that are interested in expanding business in Indonesia and the Philippines can learn a lot from these companies with their intimate knowledge of the local market. This report, which is based on a local fact-finding survey, including interviews with leading companies, presents the trends and perspectives of these companies and their understanding of the issues, and provide suggestions for Japanese companies.

MARKET OVERVIEW

Middle-income consumers and millennials drive consumption as Indonesia and the Philippines enter the modernization phase

Indonesia and the Philippines, two ASEAN countries with large populations, recorded GDP growth rates of 5.2% and 6.2%, respectively, in 2018, and GDP growth is forecast to continue at least at 5% and 6.5%, respectively, over the next five years (IMF forecast April 2019). Despite domestic currency weakness and concerns over inflation, high growth is expected to continue in both countries.

Indonesia is the most populous ASEAN country (approx. 270 million), followed by the Philippines (approx. 110 million), and both countries have per-capita GDPs in excess of USD3,000 (Indonesia USD3,871, Philippines USD3,104) (Fig. 1). These two populous countries, which occupy a position between the more economically advanced countries, Singapore, Malaysia, and Thailand, and the CLMV (Cambodia, Laos, Myanmar, Vietnam) countries, can be said to have entered the stage of modernization.

Fig. 1 Indonesian and Philippine economic indicators

		Indonesia	Philippines
Total GDP (USD billions)	2018	1,022	331
GDP per capita (USD)	2018	3,871	3,104
Population (thousands)	2018	269,536	108,106
Median age (years)	2020	29.3	25.2
Percentage of millennials	2020	31.4	31.7

Source: Prepared by MGSSI based on IMF and UN data

Youth is also an advantage in both countries' arsenals. According to a UN forecast, the median age in Indonesia and the Philippines in 2020 will be 29.3 and 25.2, respectively, and millennials will account for 31.4% and 31.7% of their respective populations[1]. Both countries will continue to enjoy this democratic dividend phase. Moreover, about 70% of all households in both countries are in the middle-income class (households with an annual disposable income between USD5,000 and USD35,000). At the same time, a situation is emerging where consumption is being driven by a middle class made up primarily of millennials.

Differences in the competitive environments due to the presence of powerful emerging digital companies

Under these circumstances, one of the factors that differentiates the competitive environments and the strategies of leading existing companies in the two countries is the emergence of powerful new companies (unicorns) in the digital domain. Powerful emerging companies in the Indonesian market offer a variety of services and systems and are making their mark as platform providers that gain consumers. On the other hand, the situation has not yet reached that stage in the Philippines.

There are six unicorns (unlisted companies valued at USD1 billion or more) in Southeast Asia, four of which are in Indonesia and one each in Singapore and the Philippines (Fig. 2). By industry, it is particularly noteworthy that several unicorns have emerged in ride-hailing services and EC (e-commerce)[2].

Fig. 2 South East Asian unicorns

Company	Value (USD billions)	Country	Industry
Grab	14	Singapore	Ride-hailing service
GO-JEK	10	Indonesia	Ride-hailing service
Tokopedia	7	Indonesia	EC
Traveloka	2	Indonesia	Travel tech
Bukalapak	1	Indonesia	EC
Revolution Precrafted	1	Philippines	House sales

Source: Prepared by MGSSI based on data from CB Insights

[1] The term "millennials" generally refers to people born between 1980 and 2000. The millennial populations cited here refer to people between the ages of 20 and 39 in 2020.

[2] The Philippine unicorn is Revolution Precrafted (valued at USD100 million). The company's core business is the sale of prefabricated houses. It is unlikely that it will become a platform provider with widespread coverage in consumer related areas.

In ride-hailing services, the competition between Indonesia's GO-JEK, which has grown into a decacorn valued in excess of USD10 billion, and Singapore's Grab is at its most intense in the Indonesian market[3]. Not only the local company GO-JEK, but also Grab has found a willing market in Indonesia, and it is concentrating its management resources and has made clear that it intends to enhance its services. Both companies are making efforts to enhance their "verticals[4]", actively seeking release of peripheral services such as e-money and food delivery on their own platforms, and collaboration with other industries such as finance and retail.

In the Philippines, Grab is the only leading ride-hailing service, and it continues to expand its services[5]. GO-JEK has not yet succeeded in acquiring a license to enter the Philippines market because it would violate foreign capital regulations. The situation is different from that in Indonesia where fierce competition to become the leading platform provider has an impact on each industry that cannot be ignored.

In the EC sector, two domestic unicorns (Tokopedia and Bukalapak) rank first and second for the most visited websites in Indonesia (Fig. 3). On the other hand, in the Philippines, Singapore-based general EC companies Lazada and Shopee occupy the top spots, and local EC companies have a minimal presence[6]. A look at the rate of growth of the EC market also reveals large differences, with the Indonesian market recording an average annual growth rate of 94% between 2015 and 2018 compared to 42% for the Philippines (Fig. 4). This indicates that the market is strongly driven by local unicorns that specialize in EC.

Fig. 3 Indonesea/Philippines EC ranking (Q4 2018, number of website visits)

Indonesia				Philippines			
	Website	Country	Visits (10,000/month)		Website	Country	Visits (10,000/month)
1	Tokopedia	Indonesia	16,800	1	Lazada	Singapore	32,820
2	Bukalapak	Indonesia	11,600	2	Shopee	Singapore	16,026
3	Shopee	Singapore	6,768	3	Zalora	Singapore	2,192
4	Lazada	Singapore	5,829	4	eBay	US	953
5	Blibli	Indonesia	4,310	5	BeautyMNL	Philippines	787

Source: Prepared by MGSSI based on data from iprice

Fig 4. Indonesia/Philippines EC market scale and growth

		Indonesia	Philippines
Market scale (USD billions)	2015	1.7	0.5
	2018	12.2	1.5
CAGR（Compound Annual Growth Rate, %)		94	42

Source: Prepared by MGSSI based on data from Google and Temasek

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3 In Indonesia, frequency rate of using ride-hailing apps is comparatively high in global terms. Providers of these apps are in an advantageous position for developing platforms from the viewpoint of securing contact with consumers.

4 "Verticals" refers to individual services in specific sectors that are built onto a horizontal platform to support the platform's competitiveness.

5 From 2019, Grab will undertake an expansion of its e-money services in the Philippines.

6 According to iPrice, the Singapore-based companies Shopee or Lazada lead the rankings for most visited website in the Philippines, Thailand, Malaysia and Vietnam. Apart from Singapore, Indonesia is the only country where domestic companies occupy the top two spots for the number of website visits.

TRENDS AMONG LEADING EXISTING COMPANIES

Indonesia – Competition with powerful emerging companies for startups and recruitment

The conglomerates and other leading existing companies are making it clear that they are targeting middle-income class and millennials to expand their business. To keep up with rising incomes and the accompanying changes in taste, each company is moving in the same direction. This means responding to the trend of consumption based on intangible values such as experience, meeting the need for more specialized business categories (hypermarkets and supermarkets providing a wide-ranging product lineup and low prices, mini-supermarkets whose strength is their fresh produce, convenience stores, drugstores, furniture stores, etc.), and introducing high value-added products in response to the growing sophistication and diversification of food.[7] In particular, emphasis on highly novel services that offer field experiences that cannot be reproduced in the digital domain appears to be growing year by year.

These circumstances have led to a trend among the big conglomerates to use powerful emerging companies to provide high value-added services. In March 2019, Sinar Mas Land, a real estate subsidiary of leading conglomerate Sinar Mas, and Grab announced a strategic partnership. Grab will provide services in the urban development area being developed by Sinar Mas Land in the Jakarta suburbs, including a ride-hailing service based on more accurate mapping information, as well as single-seater personal mobility devices. Sinar Mas Land needs Grab's technology to build an integrated transportation system.

With respect to the EC sector in which specialized unicorns have become behemoths, none of the conglomerates that are strong in the real retail sector have announced that they intend to get involved in the running of general EC services themselves. Venture capitals (VC) investing in general EC operating companies and specialized unicorns consider it already difficult for leading existing companies to become platform providers in the EC sector for reasons such as the continued need for huge amounts of investment and the demand for a high level of technical expertise.

In the mobile payments field, there are two leading players: Go-Pay, which was developed by GO-JEK, and OVO, which was launched by leading conglomerate Lippo and in which Grab acquired a stake in 2018. With the fierce competition for market dominance in a mobile payment sector, which involves platform providers such as GO-JEK and Grab, it is widely considered to be difficult for leading existing companies to enter the mobile payment market and compete against the two big players.

The use of consumer data is perceived as an issue by many of the leading existing companies. These companies are at the stage of considering how to acquire and analyze meaningful data in their networks. They have not yet reached the stage of monetizing this data, and they are currently rushing to resolve this. With platform providers having established wide-ranging points of contact with consumers, how to link their customer bases and data (for utilization purposes) will be an issue in the future.

Leading existing companies point out the importance of acquiring digital startups and talented people. The purpose of investing in digital startups is not simply to make capital gains, but rather the aim is to strengthen existing business through corporate venture capital (CVC) investment.

With regard to human resources, it is recognized that securing talented personnel is essential for securing competitiveness, especially in the digital domain. In this connection, while some major conglomerates have pointed to a shortage of human resources, talented Indonesians with experience of studying and working overseas have started returning home encouraged by the country's growth and the rise of startups, and companies are now starting to talk about seizing this opportunity. That said, when it comes to startups and talented people, some leading companies believe that there will be tough competition from powerful emerging companies like GO-JEK, Tokopedia and Grab.

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[7] Jakarta has already reached a saturation point as far as conventional large retail stores are concerned. Companies are looking for space to open new stores in the east of the country.

Because of strong domestic demand, leading Indonesian companies have given low priority to overseas business in the past. Since domestic competition is currently intensifying, the widely held view is that companies will not devote management resources to overseas business for the time being. However, as the selection of leading startups progresses together with the rising valuation, a tendency has emerged for some conglomerate-related VCs to seek investment opportunities in Vietnam and other countries in the ASEAN region.

Philippines – Leading existing companies eager to develop general EC sites

The ASEAN region is home to powerful conglomerates, many of which are owned by overseas Chinese. In the Philippines, there is also a strong presence of conglomerates owned by Filipinos of Spanish ancestry as a legacy of the former colonization of the country by Spain. As a whole, conglomerates are said to be more powerful in the Philippines than those in Indonesia.

As in Indonesia, the focus of these companies is on how to capture the expanding middle class market, and the conglomerates, who have played a central role in the development of modern retailing, also see a large scope for increasing their presence in the digital domain by taking advantage of the fact that they own real stores.

Conglomerates who are particularly strong in retail exhibit a positive stance towards general EC operations. They calculate that if they take advantage of the strengths of their real stores in terms of contact with customers, such as customer experience, delivery, and product procurement, they will be able to gain a share of the market despite being latecomers. Some conglomerates mention the possibility of entering EC marketplaces where goods are sold not only by themselves, but also by third parties. While logistics is cited as a stumbling block to EC development, the aim is to form a complex retail platform that incorporates the digital domain while exploiting the advantage of having real stores[8].

The leading existing companies also have a presence in the mobile payment sector. The two strongest players, GCash and PayMaya, are both subsidiaries of telecommunications companies owned by local conglomerates. Approximately 85% of payments in the Philippines are made in cash, and it appears that both companies believe that there is much room to expand the market for e-money and mobile payments. GCash has started building up its strength using the networks, including the shopping malls, of its parent company, the conglomerate Ayala. In the medium to long term, the company has set its sights on expanding its credit score service for individuals. PayMaya is also focused on building a digital ecosystem by expanding use cases through partnerships with various business operators[9]. It is against this backdrop that the conglomerate SM, which is a powerful force in retail and owns the Philippine's largest commercial bank, announced a partnership with GrabPay in December 2018. The battle for market share involving both leading new and old companies is expected to intensify in future.

In addition, it is Chinese companies that leading Philippine companies view with wariness. Following the establishment of the Duterte administration in 2016, relations with China improved rapidly, and there has been an increase in both Chinese capital and companies in the real estate market and infrastructure projects. The two leading EC companies, Lazada and Shopee, as well as mobile payment providers GCash and PayMaya, have all received equity investment either from China's Alibaba (or from its subsidiary Ant Financial) or Tencent. Although this situation is by no means limited to the Philippines, it seems that the rapid rise in the presence of Chinese companies over the past two to three years lies behind the wariness shown by the leading existing companies.

As in Indonesia, leading Philippine companies share a common awareness of the importance of the

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[8] In Indonesia, a positive spiral has been created in the growth of EC and improvements in the logistics environment. It has been said that logistics have improved significantly over the past two to three years. However, up to now, the same has not been said of the Philippines.

[9] NNA (as of December 20, 2018)

acquisition, analysis, and utilization of data. However, data is not shared sufficiently even between subsidiaries of the same conglomerate. For conglomerates demonstrating an interest in EC, it seems that there is no concrete route for how to combine and make use of customer information accumulated in their real stores and data obtained through EC. This is likely to be an issue going forward.

With regard to human resources, many leading companies refer to the importance of the OFW (Overseas Filipino Workers) who are supporting consumption in the Philippines. Remittances sent home by OFW correspond to about 10% of the Philippines' GDP, and boost the income of the country's middle class. It is also a particular feature of the Philippines that the existence of the OFW is said to provide an important opportunity for domestic consumers to come into contact with trends overseas through Facebook and other social media.

Many leading companies are eager to expand business overseas, and in the ASEAN region, many of them see Vietnam as a promising market for business development. Taking per-capita GDP as an indicator, Vietnam is a rapidly growing economy several years behind the Philippines, and Philippine companies see it as a fertile market where they can make use of their experience to develop business. As far as export markets for food and everyday commodities are concerned, there is strong local competition in China and India, and the African market is said by some to present an easier prospect.

EXPECTATIONS FOR BUSINESS CREATION NOT RESULTING FROM EXTENSION OF EXISTING BUSINESS OR A TIME MACHINE MODEL

Among the ASEAN countries, Indonesia and the Philippines are at a similar stage of development. However, there appear to be differences in the focal areas of their leading existing companies due to factors such as the degree of market dominance of key emerging players in the digital domain. Given this situation, one thing that the leading companies in both countries have in common are high hopes for collaboration with Japanese companies[10]. They have high expectations of Japanese companies, and particularly of Japan's general trading companies with their wealth of knowhow in a wide range of industries, not only from the viewpoint of strengthening existing businesses, but also for introducing new products and services not currently available in the local market, as well as the systems and logistics to support them. Certainly, in the current situation, it is not infrequent for conglomerates and other companies to request Japanese companies to introduce certain types of business (that already exist in Japan, such as retail stores, restaurants, technologies, solutions, etc.). Therefore, collaboration with leading existing companies with networks in local markets will continue to be an effective way for Japanese companies to employ the knowhow and experience gained up to now.

On the other hand, as powerful emerging companies continue to increase their presence in the digital domain and the competitive environment undergoes significant changes, there is a feeling that the leading existing companies that are being forced to respond are experiencing a sense of crisis and rivalry. However, although these existing leading companies themselves recognize the necessity and importance of new initiatives, they do not necessarily have the specific measures and solutions required. What will further increase the expectations of these leading companies in the future is the creation of new business that does not arise as an extension of existing business or a time machine model, that makes use of the wisdom of both parties, and that itself is the added value that Japanese companies should provide through collaboration.

An analysis of the performance (shareholder returns) of Southeast Asian and Indian conglomerates published in September 2018 by the US consulting firm Bain & Co. concluded that the advantages given to the conglomerates by the regulatory authorities such as in preferential treatment, access to promising

[10] The same hopes are expressed in other ASEAN countries as well.

projects, and securing of human resources, are being eroded by the progress of digitalization. In order to maintain competitiveness, it is becoming increasingly important to create business that will be new engines to support future growth, in addition to strengthening and promoting existing core business. Powerful emerging companies are exerting a disruptive influence on the competitive environment surrounding the conglomerates and other leading existing companies and on their future business plans. Against this backdrop, there are high expectations among those companies that new business can be created to support future growth by working together with Japan's general trading companies (sogo shosha) that have a multitude of experience of innovation in business models and have launched many new businesses.

As a final postscript concerning the nature of the relationship with the powerful emerging companies when Japanese companies create new business with the leading existing companies, bearing in mind the customer bases and platforms of these companies, the following two directions are likely: (1) utilization of the platforms provided by the companies, and (2) strengthening of businesses that can only be provided in the real (non-digital) domain. In the case of (1), both GO-JEK and Grab have made it clear in their most recent round of fundraising that they intend to focus further on strengthening the "verticals" such as e-money, food delivery, financing and retailing provided on their own platforms. It is necessary for Japanese companies to create "high selling" verticals based on utilization of their platforms. As for (2), the provision of services such as experience-based services that cannot be provided by digital platforms may be promising.