

Digital Economy in Indonesia: Business Landscape and Market Strategy

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Abstract: The rapid development of the digital economy has changed the pattern of consumer spending and encouraged marketers to actively develop the best strategies for adapting marketing patterns to digital developments. This study seeks to analyze the development and potential of the digital economy in Indonesia and analyze products and commodities that need to be considered adapted to digital marketing. The study results show that marketing and the digital economy in Indonesia have great potential in relation to the development of the national economy, population support, an increasing middle class and the emergence of internationally competitive startups. This study recommends the need for inclusion of local products and commodities to be adapted in digital marketing supply chain management.

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I. Introduction

The digital economy in Indonesia is rapidly growing (Tayibnapiset al., 2018; Jurriëns, & Tapsell, 2017). Developments along with the progress of science and technology and the use of globalized gadgets in the world. This does not deny the economic development in Indonesia is also influential. The development of the digital economy emerged when the development of gadget/smartphone technology began to be used by many people in various circles. Some entrepreneurs have thought to give convenience to consumers (Riyanto et al., 2018). This situation makes a competitive concept that drives companies uplifted by startups who will collaborate and cooperate with various parties including the home industry (Aryanto, 2012). This makes the digital economy often referred to as the

'sharing economy' which helps MSME entrepreneurs enter healthy competition in the world of business and international economic trade (Zekanovic-Korona & Grzunov, 2014). Nowadays, Indonesia is getting ready to realize the largest digital economy in 2020 and is targeting to become the largest in the Southeast Asian region. One of the foundations of national development in the preparation of this stage is the digital sector. The government is targeting transactions through e-commerce activities to reach US \$ 130 billion and creating 1,000 technopreneur with a business value of US \$ 10 billion by 2020.

To achieve the targets set, steps are needed to be able to access a variety of economic sectors to be able to collaborate to strengthen the development of digital economic ecosystems in Indonesia

(Tayibnapis et al., 2018; Aryanto, & Chrismastuti, 2011). One of his efforts is to look at opportunities for digital economic development and productivity in Indonesia and e-commerce benchmarks in other countries (Lee & Das, 2018). The problems that will be faced will be complex in order to realize the government's target of developing the digital economy (Nurdin et al., 2012). Among them are the transformation from conventional businesses to a digital economy, the habits of the population that are not fast enough to be able to adapt to a digital economic system, obstacles faced by startups, protection of buyers/consumers, and the rules/regulations of online transactions (Matt et al., 2015; Janita & Chong, 2013). The rapid development of the digital economy has changed the pattern of consumer spending and encouraged marketers to actively develop the best strategies for adapting marketing patterns to digital economies (Matt et al., 2015). Hence, this study seeks to analyze the development and potential of the digital economy in Indonesia and analyze products and commodities that need to be considered adapted to digital marketing.

II. DIGITAL ECONOMIC GROWTH IN INDONESIA

Indonesia digital economy has the opportunity to develop better from year to year. What is needed for the development of the digital economy is a big push from the government so that Indonesia's digital industry can settle down from other countries (Budiwirmanetal., 2017). The ease of accessing the internet in various regions can be developed and expanded immediately, so that it is not only focused on Java, but also spread evenly in other regions in Indonesia (Tayyiba, 2015). The government also provides various facilities for funding as capital through credit assistance in various banks. Currently the government is focusing on the digital industry so that it can develop rapidly, so that it can

become a 'giant' Asian in the context of international digital technology.

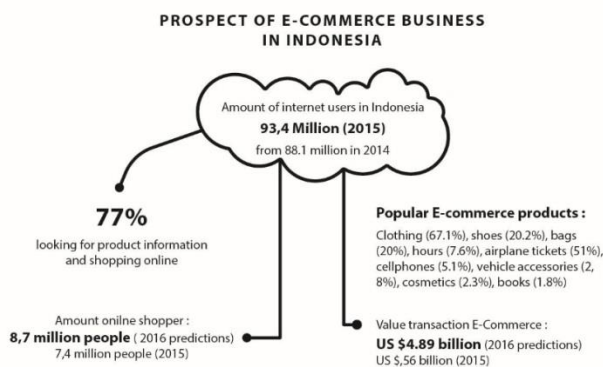
E-commerce is an activity of conducting business transactions or economic transactions (selection of goods, messages, selling/buying, payment and advertising) easily through gadgets/laptops/computers using internet facilities as the main media. Initially the digital economy business in Indonesia began to emerge in 2012 by nine companies (bilibli.com, bhinneka.com, berniaga.com, Blanja.com, Grazer, Kaskus, Tokopedia, OLX, multiplay.co.id). The economic business develops and distributes wealth through e-commerce activities. Some of the activities carried out include extensive education about e-commerce, promotion through various media, developing human resources in the field of informatics, and improving advanced technology that can realize the success of the digital economy in Indonesia (Nugroho et al., 2017).

Basically, e-commerce business models based on service facilities can be divided into three. First, classified e-commerce business is a series of advertising of products/services on a dominee/website does not facilitate the occurrence of online economic transactions. For example: kaskus, OLX.co.id, berniaga.com. Second, marketplace e-commerce business refers to website form that not only helps advertising merchandise, but also facilitates ordering goods, media chat between sellers and buyers, to online payment transactions for online merchants. For example: blanja, tokopedia, bukalapak. Third, retail e-commerce business is an online store with its own website domain address where the seller has a stock of products/services and sells it online to consumers. For example, blibli.com, lazada, and tiket.com.

III. THE GROWTH OF INDONESIA'S DIGITAL ECONOMY AND THE ACTORS

The growth of Indonesia's digital economy began with the development of the internet from 2015. The data shows an increase in internet users, the number of online shopper is also increasing, the products sold are increasingly diverse and the value of e-commerce transactions is increasing (Wahid, 2007; Wahid et al., 2006). This is due to the increasing telecommunications services and digital developments. The year-on-year growth of the value of Indonesia's e-commerce retail business from 2014-2018 is increasing.

Figure 1. E-commerce business in Indonesia in 2015



The development of the digital economy also had a positive impact on the performance of large companies and retail trade, information and communication, and transportation and warehousing.

Digital economic growth in Indonesia is very strong, reflected in online sales from 3 market places that are on an upward trend and recorded growth of above 100%. Digital economic growth not only encourages business activities, but also absorbs informal labor. A fast growing online business also has a positive effect on the use of internet data. Likewise, in transportation and

warehousing, which has a positive influence from the development of online business, from increased advertising spending, transportation services for shipping goods and delivering passengers, and logistics and warehousing services.

In the market share, there must be buyers and sellers from various groups, both individuals and certain groups conducting business transactions for some of the products/services provided. Buyers as consumers and sellers as producers. Consuming activities are all activities that aim to use or spend the benefits of an item/service. Consumption activities have a purpose to meet the needs of physical and spiritual life of the human being.

IV. CHARACTERISTIC OF CONSUMPTION/BUYER ACTIVITIES TO ADAPT DIGITAL ECONOMY

In marketing, goods consumed are economic goods that are willing to sacrifice what is required to obtain these goods. There are some consumer considerations to consume a product. First, it aims to meet daily needs in which the product a useful life that is immediately exhausted or gradually exhausted. Second, use value and exchange value. Use value is the value of goods that can be used to fulfill daily needs. This value is divided into 2 groups that are (a) subjective use value as an individual appraisal of a product that has been used to meet its needs, and (b) objective use value as the assessment of a group of consumers of a product that has been used because of its ability to meet their needs.

The exchange rate is the value of a product because it has the ability to be replaced/exchanged with other products. Subjective exchange rates are individual evaluations of a product because it can be replaced with another product. An objective exchange rate is the assessment of a group of

consumers of a product because it can be exchanged with other goods. This is in line with Gossen Law I. The law stated that if the satisfaction of the needs of an item is carried out continuously then initially it will achieve high enjoyment of the goods but gradually decreases to the level of saturation of the goods (Niehans, 2008). Moreover, Gossen Law II stated that individuals will meet their various needs at the same intensity level.

Furthermore, there are some factors that can affect the level of consumption/buyer. First, salary/wages. The higher the salary/wages of a person, the proportion of money spent is higher, conversely the lower the income the lower the money spent. This is in line with Engel's Law (Dowd, 1992). The law that explains the salary/wages received by individuals with the level of consumption is inversely proportional, the higher the level of salary/wages/receipts of an individual, the lower the share of salary/income used to spend/consumption, and vice versa. Therefore, it is necessary to regulate a frugal lifestyle by arranging household budget, so that the amount of income and expenditure is always balanced.

Second, the price of the product, the amount of product consumed is adjusted to the price of the product. The more expensive the price, the less the amount consumed according to individual needs. Third, living habits/lifestyles, individual attitudes can encourage individual consumption patterns. Habits of wasteful lifestyles then the individual has the potential to become more consumptive. Fourth, local culture, local culture can influence individuals in activities related to the economy and culture in their area.

The pattern of life of consumers in carrying out economic activities can also be influenced by economic law, for example if the price of an item has increased then the amount of demand for that item has decreased, and vice versa if the price of an

item has decreased, then the demand for that item has increased, with a note the other *ceteris paribus* (Hausman, 1988).

Two approaches to consumer behavior such as the law of demand. First, marginal utility is an approach that states that the satisfaction or utility of each consumer can be calculated with money or with other units, so that consumers always try to achieve the maximum total satisfaction. Second, indifference curve approach is a curve that describes the combination of consumption between two types of products, which are able to provide the same level of satisfaction for consumers. Indifference curve characteristics of having a negative slope (slope curve from top left to bottom right), the higher the slope shows the higher level of satisfaction, do not intersect with other indifference curves, and full indifference convex to origin (point 0).

The production process is the process of the stages of production activities to produce goods and services. So that the results of the production process reach the highest point, it is necessary to increase productivity with the identification and extensification methods. Productivity is the ability of a company/business entity to produce a number of goods through the factors of production that are owned for use.

In terms of production activities, there are any actions intended to add value to an item, earn profits or provide services to the community, maintain company continuity and to meet the needs of the community. Production factors used in production activities/processes include natural resources, capital and labor. In digital economy, skilled labor is critical in production process (Wicaksono, & Manning, 2018). Classification of labor, namely physical labor and spiritual labor. Physical labor are all physical activities carried out when the production activities are running. Spiritual

activities carried out when production activities are running, such as leading meetings, directing and motivating employees. Educated labor have formal education process. Skilled labor have expertise/skills in their fields through training and non-formal education.

In terms of capital, by its nature, fixed capital is capital that has a long useful life and can be used repeatedly, such as buildings, warehouses and machinery, while current capital is capital that has a short useful life and benefits of only one production process, such as the main ingredients, supporting materials. According to subject, individual capital is the business capital of one person whose results are in the interest of the owner, such as private vehicles, private buildings, while community capital is business capital from business owners but the results are for the community. According to the source, private capital is the capital of the entrepreneur personally, while foreign capital is capital that comes from other parties. Lastly, skills. Entrepreneurship/individual's ability to combine factors of production in the production process. The abilities that must be possessed by an entrepreneur in the management function.

V. SUPPORTING FACTORS AND CONSTRAINTS OF DIGITAL ECONOMY IN INDONESIA

There are several supporting factors that drive the development of the digital economy in Indonesia (Jurriëns, & Tapsell, 2017). In terms of advantages, Indonesia has natural resources and abundant agricultural products and large domestic consumer demand. It also has abundant labor. The facilities and infrastructure in the field of technology built by the government are growing. In addition, the use of internet devices is increasing (Pangestu, & Dewi, 2017). Technological developments go hand in hand with the growth of the e-commerce industry. Technology companies also prioritize related services/products to support e-commerce, the

services provided are supporting the industrial ecosystem.

The existence of educational assistance by the government regarding efforts to implement technology in various fields. Providing information to the public that shopping online is convenient and especially safe. This is to support the existence of digital economy in Indonesia. There is capital assistance from the government for the development of MSMEs and startups with a certain nominal amount. Usually, it was done through internal and external workshops related to several relevant topics in e-commerce. The existence of digital economy also highly related to payment method. Payment gateway or payment service providers in digital economy ecosystem are systems that accept electronic payments for online transactions and provide secure information transfer facilities from the payment portal (web/application) to the acquiring bank.

Logistics convenience is the part that effectively controls the storage and delivery of goods. Logistics is also one of the supporting factors for the running of the e-commerce industry, the convenience of online shopping in Indonesia which continues to increase. This also increasingly makes the business of freight forwarding services grow.

The skills of labor are also needed to support the digital economy. The more creative creators/young entrepreneurs to create promotional media with images that attract buyers. There is also a marketing partner whose function is to analyze and assist marketing on target.

However, there are also obstacles that are still experienced by Indonesian startups. First, funding. Although the government has provided capital assistance to a certain fund limit, but to set up and make a business requires substantial capital, especially the purchase of domains that are quite expensive. The following is Indonesian startup funding data.

Second, networking. The connection is still low between entrepreneurs and those who can help business development is still weak. Third, team solidity. Sometimes a sense of solidarity between teams that have not gone well can make the business decline. Teamwork is needed to help each other and work together so they are able to develop the business.

Fourth, market acceptance. This happens because the market is not ready, habits (culture) are not suitable, and targets are not ready. Fifth, regulation that hamper are usually about foreign investment and the length of the business licensing proces.

VI. ADAPTING PRODUCT COMMODITIES IN INDONESIA'S DIGITAL ECONOMY

Indonesia's abundant natural and human resources produce many reliable products for export. Increased export products will provide opportunities for more businesses and domestic consumption to become stronger and the opportunity to make Indonesia become a part of the world's top 10 economies. Business economic activities are carried out through exhibitions, real markets and e-commerce. Some of Indonesia's leading products that need to be adapted to digital economy include some products.

First, textile products. In various regions in Indonesia there are many textile manufacturing companies. This is due to the abundant number of human resources. In the textile and textile product industry, the biggest challenges related to production factors are dependence on high imports of raw materials, limited labor quality factors, and limited investment. Second, electronic stuffs. Electronic goods made in Indonesia are increasing, this is due to the spirit of Indonesia to be aligned with other countries in the production of electronic goods such as household appliances and so on. Third, footwear. One of the growing MSMEs and large industries in Indonesia is entrepreneurs who make footwear. Currently undergoing many orders

are leather shoes craftsmen from Cibaduyut-Bandung and SMEs which produce leather shoes with Indonesian cultural motifs (Rahayu & Day, 2015).

Fourth, palm oil. The abundant plantation products on the island of Sumatra make palm oil one of the leading export commodities for Indonesia. Palm can be processed into oil for daily needs. Fifth, rubber. Rubber trees that can flourish in tropical climates make Indonesia the largest rubber-producing country in the world. Sixth, coffee. Indonesia's fertile land makes Indonesia the most delicious coffee bean exporter in the world. The results of Arabica and Robusta coffee which has a distinctive aroma are in demand by coffee lovers in the world. In addition, the growing business of coffee shops that are mushrooming increases revenue and opens up business opportunities.

VII. CONCLUSION

The study results show that marketing and the digital economy in Indonesia have great potential in relation to the development of the national economy, population support, an increasing middle class and the emergence of internationally competitive startups. To increase market expansion and digital economic benefits in Indonesia, several supply chain considerations to increase the absorption capacity of local commodities need to be considered. In this context, commodity producers in Indonesia need to consider market conditions and adapt the right strategy in marketing. Here, they need to choose good quality raw materials and supporting materials, conduct surveys in the market to find out consumers' conditions and tastes, and make promotions more attractive to consumers, and adapt digital marketing strategies. The addition of services and marketing networks is expected to improve product and business performance. In the context of an increase in demand capacity, an increase in production through the extensification method can be applied by adding factors of

production to increase the number of workers, adding capital, buying production machines and increasing the amount of raw materials to be purchased. The production process associated with increasing the use-value of goods and services is mainly related to the use-value of form and place value. In the context of the digital economy, all production activities carried out by companies are differentiated according to their fields in order to be able to precisely adapt digital marketing strategies. In the extractive sector, where the company's activities are to extract natural resources directly, it requires the manufacturing process and packaging of products that are worth selling, and leads to wholesale or retail sales and targeting international or local consumers. For the agricultural sector, namely companies whose activities are related to agriculture, plantations, aquaculture, digital marketing can be applied by considering the types of products marketed are fresh and quality. Here, attractive product packaging is required.

In addition, the digital economy in its development currently relies strongly on the Industrial sector, which is a business entity whose activities are processing raw materials and supporting materials for conversion into semi-finished and finished goods that are able to provide ready-to-sell products. In addition, actors from SMEs are also heavily involved in e-commerce. The development of e-commerce in Indonesia is expected to influence the government to establish policies to protect consumers and implement competitive policies for the business world. In addition, support for supply chain management with the development of various industrial zones is expected to smooth the product cycle and increase producer capacity in producing goods / services. In turn, the development of digital economy and e-commerce can increase productivity and Gross Domestic Product (GDP) so that it has an impact on people's welfare, as well as improving innovation in goods / services in the field of production.

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