



A mural at the community center in Paseban Village, Bayat, Central Java, which is managed by the Titian Foundation (<http://www.titianfoundation.org/>). It was inspired by the Japanese quote “Fall down seven times, get up eight”. Essentially, every rise to the top is built on the backs of countless failures. Grit, determination, and endurance are the key to success.

Hacking hope, good morning entrepreneurship

“Man never made any material as resilient as the human spirit.”

-Bernard Williams-

“Adventure is out there.”

-Ellie Fredricksen, Up (2009) by Pixar-

Heyokha's Sharks

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Hacking hope - good morning entrepreneurship

Open-sourcing the American Dream

"Take your idea behind the barn and shoot it!" Something we may think- but not say- when people come to our office looking for an investment. Yet in Shark Tank, the world-famous reality TV show where entrepreneurs are courting a panel of investors for funding, the "sugar daddies" do not bother with sugar-coated feedback. Take the infamous Kevin O'Leary. He seems to have no qualms calling an idea stupid, mercilessly kicking people out, or even undercutting the other investors.



Source: ABC



It would be a lie to say it doesn't amuse us, as Shark Tank has become part of the lunch diet at Heyokha. Aside from the intriguing business ideas and hilarious punch lines, we came to enjoy the show feeling amazed by the million-dollar successes coming from a diverse set of people with mostly no dollar or fancy education to begin with.

"Education doesn't just take place in stuffy classrooms and university buildings, it can happen everywhere, every day to every person."

- Richard Branson-

Everyone can make it



Source: BBC, company website

House wife's, dads, kids, they all appear in Shark Tank. For example, the 9-year-old Mikaila Ulmer, who walked away from Shark Tank with an investment of USD 60k from shark Daymond John. What started as a simple lemonade stand, has become a brand that is stocked in over 500 stores across the U.S. Her company, Me & the Bees Lemonade has recently received a USD 800k investment from a consortium of NFL players.

Another example is Rick Hopper, a 40-year-old guy who used to work for Home Depot for many years and thought of a clever magnetic eyeglass holder. His company, Readerest secured an investment of USD 150k from Lori Greiner in the show, and since then the company recorded over USD 10m in sales.

¹ And mummies...

The beauty of Shark Tank is that it inspires its viewers, displaying that race, religion, education, etc. do not need to be a limiting factor to success. The show repeatedly calls this the “American Dream” of starting with nothing, working hard, and making it. But this dream is not unique to Americans and due to technology, millions of people across the world are now able to take a shot at it.

We mention technology because Shark Tank clearly demonstrates the extent to which digital platforms and technology are empowering aspiring entrepreneurs to start and scale a business. For example, many featured entrepreneurs leveraged crowdfunding platform Kickstarter to fund their initial product development, promoted their products online via social media and search engines, and bypassed traditional retailers by direct selling to the consumer via online platforms such as Amazon, E-Bay, Shopify, etc.

The present opportunity for starting entrepreneurs to obtain cheap and instant access to knowledge, infrastructure, markets, and funding is unprecedented.

While Shark Tank showcases the great potential of “tech-empowered” entrepreneurship in the U.S., the impact will be even more massive in developing markets where barriers to entrepreneurship - and (thankfully) problems to be solved by entrepreneurs - are rampant.

We at Heyokha are convinced that due to technology, we now live in a golden era of entrepreneurship. A time where anybody has the chance to pursue an idea and challenge the status quo. We can’t wait to see this creative potential be unleashed and are convinced that this *Zeitgeist* of entrepreneurship will drastically speed up innovation, especially in developing countries like Indonesia.

In this report, we highlight the importance of entrepreneurship for developing markets, how tech is changing the lives of entrepreneurs and how digital infrastructure will connect to the physical one.

Hope as a mitigant of Anger



As discussed extensively in our [IQ 2016 report](#), we believe that the world is subject to the current *Zeitgeist* of *anger* about rising inequality driven by money printing, *disruption* by technological change and the call for *inclusive growth*.

The picture we painted may have been a bit dark and yet still applicable. However, we see the current *Zeitgeist* of entrepreneurship as an important counterbalancing force. The reason why, is that we believe in the Dutch saying “*Hoop doet leven*”, which means that hope provides the motivation to act.

According to an article² in Psychology Today, hope is important as it allows people to approach problems with a mindset and strategy-set suitable to success, thereby increasing the chances they will actually accomplish their goals. In other words, hope leads to initiative.

You see it in football matches when the team dominated by the other scores the equaliser. It is as if in a sudden moment the dominated team rises up to become the victor and new energy drives the players forward. In Indonesia, we see how students set aside their safe bets on becoming a civil servant to become entrepreneurs. Hope is like the match that sets the forest on fire. We are ready for the heat.

“The bravest sight in the world is to see a great man struggling against adversity.”

-Lucius Annaeus Seneca-

² Scott Barry Kaufman. “The Will and ways of Hope” Psychology Today. 26 December 2011. Retrieved from: <https://www.psychologytoday.com/us/blog/beautiful-minds/201112/the-will-and-ways-hope>

Agents of change – Entrepreneurship as the hidden driver of economic growth

Economic studies from around the world have linked entrepreneurship with rapid job creation, GDP growth, and long-term productivity increases.

Indeed, in the academic explanation of modern growth – the period in which the per capita wealth generation went ballistic in the West after the 1700s - much weight is placed on the innovating role of the entrepreneur as the agent of “creative destruction” and “organisier” of capital and labour.

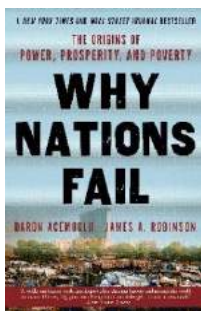
Many academics are of the view that such innovation on the back of entrepreneurship becomes especially more important as economies move from being resource-intensive to knowledge-intensive. A stage many developing markets currently find themselves in.

Of course, it is not like entrepreneurs did not exist before the 1700s. But what is seen as a catalyst for growth during this period, was the introduction of intellectual property rights and the patenting of new ideas and trademarks. This stimulated and rewarded innovation and risk-taking by entrepreneurs.

The thing is that technological discoveries alone do not necessarily lead to innovation, as it may destroy existing business. A classic example is the invention of the digital camera by Kodak in 1975.

Management feared it would cannibalise existing business, so they killed it. In the end, the company got killed by the digital camera itself and filed for bankruptcy in 2012.

This example illustrates that incumbents can have incentives to stall progress and that new entrepreneurs (usually through start-ups) are essential in replacing the old by the new.



In the book *Why Nations Fail*, the M.I.T. economist Daron Acemoglu and the Harvard political scientist James A. Robinson argue that nations do so when their institutions concentrate power in the hands of the few and are thereby incentivised (and effective in) suppressing new entrepreneurial

ventures and technological innovation. Please see appendix IV on page 25 for further discussion.

Developing markets often have a history characterised by the former, so naturally these countries can benefit enormously from entrepreneurship.

Developing markets are in an advantageous position to innovate. For example, leapfrogging – using the lack of existing infrastructure as an opportunity to adopt the most advanced methods – has been an effective approach for developing markets. Instead of developing their own technology from scratch, they can adopt technologies created elsewhere.

Often used examples are how low-income countries that never established a telecommunications landline infrastructure, or a retail banking system bypassed those development stages due to the rise of mobile phones and the innovative financial services now available through them.

For example, according to the 2016 World Development Report, 12 percent of adults have mobile money accounts in Sub-Saharan Africa, compared to just 2 percent worldwide, and 45% of these adults have *only* a mobile money account (no bank account).

Other examples of technologies that are expected to be used in emerging markets to leapfrog are blockchain, cloud computing, and solar power.

“The best way to predict the future is to invent it.”

-Mark Cuban-

In economic development literature, SME's are seen as the vessels for entrepreneurship. Academics and policymakers often refer to the job intensity of SMEs as an indicator of their potential impact on the alleviation of poverty.

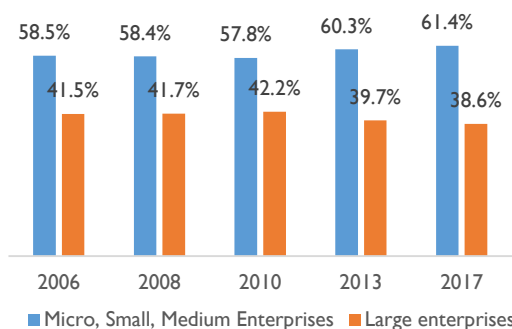
Not for nothing that the World Bank has approved more than US\$ 10 billion in SME support programmes over the period 1998-2003.

Take Indonesia for example. According to an OECD report titled “SME and Entrepreneurship Policy in Indonesia 2018”, 76.3% of Indonesian employment in 2016 is accounted for by small companies employing less than 20 people. That is more than any other OECD country.

Also, in term of contribution to GDP, Indonesian MSME's play an important role (61% in 2017)³.

Indonesian MSMEs are important, contributing 61.4% to GDP and 99% to employment

Indonesian MSMEs and LEs contribution to GDP



Source: Ministry of Cooperatives and SME, National Bureau Statistics

This stresses that to the extent entrepreneurs create jobs, they can contribute to employment and wellbeing in their societies. In low-income regions in particular, entrepreneurs can play a major role in advancing their economies.

In conclusion, history has shown that countries which allow the whole entrepreneurship process to happen - from having an idea, starting a firm, and getting a loan - tend to see more rapid growth and industrialisation. As in developing markets SME's contribute significantly to GDP, empowerment of entrepreneurs is essential.

In the next section, we will show that Indonesia is making tremendous progress in lifting the barriers to entrepreneurship.

“3 traits to a great entrepreneur: drive, passion, and not giving up.”

-Lori Greiner-

³ Kementerian Koperasi dan UKM “Perkembangan data usaha mikro, kecil, menengah (UMKM) dan usaha besar (UB) Tahun 2016-2017.” http://www.depkop.go.id/uploads/laporan/1549946778_UMKM%202016-2017%20rev.pdf

From civil servant to entrepreneur: Indonesia is unleashing its creativity

Indonesia's formal economy has been dominated by few incumbents

Reading in the book *Why Nations Fail* about the examples of post-colonial rulers who created monopolies and blocked the economic incentives of much of its people, we could not help but noticing similarities with Indonesia's not so distant history.

After Indonesia's independence, the prosperity of individuals remained highly dependent on personal relations with leading members of the government.

During the President Soeharto era, Indonesia saw the rise of major groups of politically connected companies who together came to control most of the formal economy.

Despite deregulations that had their monopolies and privileges revoked in the late nineties, the political and economic systems of Indonesia still have features of an oligarchy today.

For example, in 2014 the four largest privately-held Indonesian conglomerates that have assets listed on the Indonesia Stock Exchange (IDX)⁴ are the Astra Group, Salim Group, Lippo Group, and Sinar Mas Group.

Combined, all listed companies controlled by these four groups accounted for 17.50 percent of total market capitalisation on the IDX (total market

capitalisation on the IDX was IDR 5,027.27 trillion or US\$ 430 billion on 15 July 2014).

In addition, with 25.84 percent of total market cap, state-controlled listed companies (SOEs) also remain very dominant.

You can imagine that this was not the most inspiring period for entrepreneurs, who had little chance to make it big in markets already divided among giants.

Instead, middle-class hopes for a stable income and secure future have typically rested on a job as civil servant, which guarantees life-long employment and an early pension⁵. Not exactly an environment that cultivates innovation...

Things are changing in Indonesia.

Not only is Indonesia's current president, Jokowi, the first who does not belong to the traditional (political, religious or military) elite; tech is also rapidly changing the playing field for aspiring entrepreneurs.

Young entrepreneurs breaking through barriers on the back of tech, connectivity, and a supportive government

The proliferation of smartphones and the creation of digital applications enabled young entrepreneurs to by-pass the existing SOE- and conglomerate-



Indonesian Millennial Superheroes: William Tanuwijaya (Tokopedia), Diajeng Lestari (HijUp), Jonathan Sudharta (Halodoc), and Nadiem Makarim (Go-jek)

Source: Kalimat.id, Moneysmart.id, Otcdigest.id, vbprofiles.com

⁴"Top Listed Indonesian Conglomerates with Largest Market Capitalization" Indonesia Investments, 17 July 2014. retrieved from : <https://www.indonesia-investments.com/news/todays-headlines/top-listed-indonesian-conglomerates-with-largest-market-capitalization/item2226?>

⁵ Yatun Sastramidjaja and Suzanne Naafs. "Youth employment prospects and aspirations." Inside Indonesia, 6 Apr 2015, retrieved from: <https://www.insideindonesia.org/youth-employment-prospects-and-aspirations-3>

dominated market structures and spawned four unicorns in just three years' time.

We are talking about ride-hailing company Go-jek, travel site Traveloka, and market places Bukalapak and Tokopedia. New unicorns are expected to rise in the underdeveloped education and healthcare sectors, with the potential to leapfrog Indonesia's development.

"I hope that Go-jek will be talked about 10 years from now – 20 years from now – as the company that proved technology is actually the key enabler in unleashing an economy, in making it leapfrog into the next stage of societal evolution"

-Nadiem Makarim, founder of Go-jek-

This, of course, could not have happened without a supportive government. While governments in other countries like Hong Kong prohibited ride-hailing companies under the pressure of incumbents, the Indonesian government has resisted such pressures, trying to balance the needs of both the public and the drivers.

The fact that the Indonesian government has not succumbed to the pressure of incumbents, illustrates that things have changed. Even in the recent presidential debate, unicorns and decacorns have made a prominent entrance.

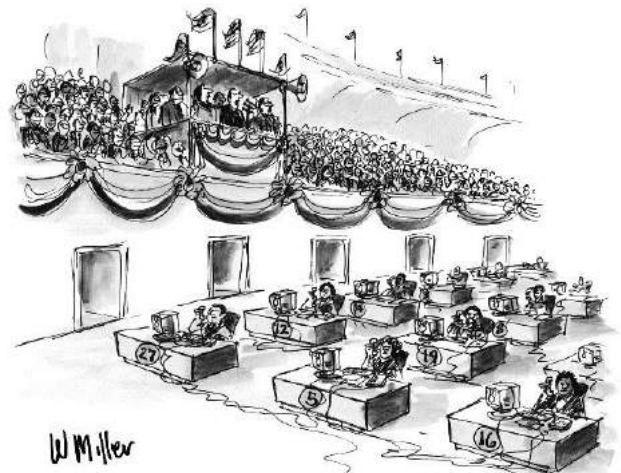


76 year old muslim scholar, Jokowi's Vice President candidate, Maruf Amin mentioned that Indonesia soon will have a decacorn (a start-up valuation with over US\$ 10bn). Source: Tribbunnews

To further support Indonesia's digital ecosystem, the government has developed several programmes. These include SMEs Go Online; Farmers and Fisherman Go Online; and Nexticorn, which aims to provide start-up founders with access to suitable investors. The government also promises to strengthen its e-commerce roadmap and digital certification this year.

Indeed, the role of Indonesia's government has shifted and instead of being just a regulator, it is more and more playing the role of a facilitator.

As an aside, Indonesia has made a jump in the World Bank Ease of Doing Business Index ranking from 129 in 2011 to 72 in 2017 and also aims to solve land ownership issued by having all plots of land certified by 2025.



"Ladies and gentlemen, start your companies!"

CartoonStock.com

The success of tech in Indo has inspired many, initiating a positive feedback loop

In economic literature, entrepreneurs fulfil an essential role not only because they bring new goods to the market, but also because they generate information about the profitability of new activities. They illustrate how new technology can be applied.

Well, we have indeed witnessed here in Indonesia how the four mentioned unicorns have fuelled optimism over the digital economy, inspiring the Indonesian youth and attracting investors. In the

Jakarta Post⁶, Steven Okun, ASEAN representative of the Emerging Market Private Equity Association, was quoted saying that, if anything, it was the four unicorns that sparked investment in Indonesian start-ups.

While before Indonesian academics were primarily send off to work for the government (85% (!) of Gajah Mada University graduates between 1952 and 1963), mobile commerce start-ups now rank as the best companies to work for among millennials - see Greybox below.

In addition, the Indonesian success stories have inspired many young Indonesians to become entrepreneurs. According to a 2018 survey of 1,400 millennials by IDN Research Institute, an independent institution that studies millennial behaviour in Indonesia, a staggering 69.1% of millennials want to be entrepreneurs.

Also, it's worth noting that according to the Ministry of Cooperatives and SMEs, Indonesia's entrepreneurship ratio⁷ doubled from 1.55% in 2014 to 3.1% in 2017. What a change from the majority wanting to be civil servants not too long ago.

The Indonesian shift in career aspirations

Not surprisingly, according to an article⁸ on Inside Indonesia, Indonesian middle-class hopes for a stable income and secure future have typically rested on a job as a civil servant, which guarantees life-long employment and an early pension.

Funny fact: there are indications⁹ that as many as 85% (!) of Gajah Mada University graduates between 1952 and 1963 found employment with the central government, while only 3% of these students went into private business.

This is a stark contrast with the findings of a recent survey¹⁰ conducted by Jobplanet among 470,000 people across Indonesia from November 2015 to October 2016, which revealed that mobile commerce start-up Sale Stock topped the list of best companies to work for, followed by e-commerce platform Blibli, Tokopedia and homegrown ride-hailing app company Go-jek.

And working for start-ups has become more desirable than working for big corporates such as Astra or Unilever according to Jobplanet.

Many young adults feel the impact of start-ups such as Go-jek and Grab on their lives and are becoming inspired to create their own start-ups to solve other problems.

We clearly feel this new vibe when we visit co-working spaces, pitching events and popular tech conferences like Tech in Asia Jakarta, where Indonesian youth gathers to hear the Tech Super Stars speak.



Participants flooding 2018 Tech in Asia Jakarta
Source: Heyokha

With so many highly motivated young talents now working together to solve Indonesia's problems, we feel Indonesia's development is to accelerate beyond levels experienced before.

⁶ Norman Hasono. "What are unicorn companies?" The Jakarta Post, 19 Feb 2019, retrieved from: <https://www.thejakartapost.com/news/2019/02/19/what-are-unicorn-companies.html>

⁷ Number of non-farm entrepreneurs that have permanent business facility, excluding street vendors, peddlers, and home businesses.

⁸ Yatun Sastramidjaja and Suzanne Naafs. "Youth employment prospects and aspirations." Inside Indonesia, Apr 6, 2015, retrieved from: <https://www.insideindonesia.org/youth-employment-prospects-and-aspirations-3>

⁹ Smith, Theodore M., and Harold F. Carpenter. "Indonesia University Students and Their Career Aspirations." Asian Survey, vol. 14, no. 9, 1974, pp. 807–826. JSTOR, www.jstor.org/stable/2642745.

¹⁰ "Jobs in start-up companies most attractive for Millennials" Jakarta Post, 16 December 2016. Retrieved from: <https://www.thejakartapost.com/news/2016/12/16/jobs-in-start-up-companies-most-attractive-for-millennials.html>

How is tech (digital infrastructure) is changing the lives of entrepreneurs

As illustrated by the Indonesian case, technology has removed barriers to success for entrepreneurs, inspiring a nation to improve their lives.

Yet, friction still exists. According to a survey by the Indonesian National Statistics Agency¹¹, the limiting factors to business most often mentioned by respondents is obtaining funding (38.4%), conducting marketing (29.0%) and obtaining raw materials (23%).

We believe that tech is solving these major limiting factors, and thus the golden era of entrepreneurship has just started. In this section, we discuss in more detail how tech is reducing barriers to entrepreneurship by providing improved access to:

- Knowledge and skills;
- Markets;
- Business infrastructure;
- Funding.

Here we go.

Instant access to knowledge and skills

Technology has significantly improved the accessibility and affordability of information. There are countless providers of free online content and with internet-connected smartphones, learning new things is just one tap away.

Today, we are also seeing the culture of more information sharing. For instance, on Eventbrite we can find countless free seminars ranging from makeup- to programming and data science classes. In co-working spaces, there are many start-ups willing to teach and share information for free, covering a very wide range of topics.

Even companies have opened up and are sharing how they do things. For example, Go-jek has a YouTube channel called Go-learn that comprises a few dozen videos on a variety of topics from learning data science to surviving in the workplace.

Go-jek even promotes the use of (and publishes projects in) open source code repositories like

GitHub to contribute to Indonesia's coding community.

In summary, there is a vast availability of tutorials and free online videos that teach just about anything. Learning is now only limited by our motivation.

A funny example we witnessed first-hand with our office helper. Here at Heyokha, we spoil ourselves with at least 2 cups of coffee per day. While our coffee did not look any good in the beginning, we soon started noticing intricate patterns in the milk-foam of our cappuccinos.

Turns out that our office helper developed a passion for making coffee and spent a lot of his free time watching YouTube videos on how to improve his coffee and to do latte art! Lucky us!



Latte art by our self-taught Barista

Source: Heyokha

Not only has learning become very easy and affordable, but tech has also provided small businesses (cross-border) access to creative skills through the emergence of the gig economy.

For example: Need to make a marketing brochure? Just go to GetCraft and get a freelancer to do it for as cheap as Rp300k (US\$21) per design.

¹¹ "Profil Industri Mikro dan Kecil 2017" Badan Pusat Statistik, 15 August 2018. Retrieved from: <https://www.bps.go.id/publication/2018/08/15/68ace0c15b5bad8f9adb8cc9/profil-industri-mikro-dan-kecil-2017.html>

Tech powering the gig economy

The platform economy is increasingly visible in many countries with the presence of global businesses such as TaskRabbit, Foodora, Uber, Airbnb, and Grubhub, to name a few. In addition, many national platforms bring opportunities for gig workers, opening a wide range of opportunities for people to take on part-time or short-term gigs.

The gig economy is about finding online or on-site service jobs (such as translations, deliveries or dog-sitting) via Internet-based platforms

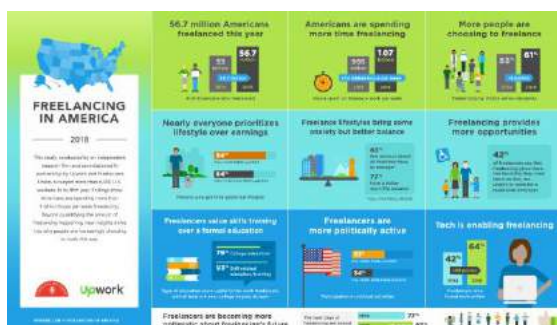
Both freelancers and company's benefit. On the one hand, gig platforms allow freelancing talents to become their own boss/entrepreneur, often getting higher (or additional) income and having more flexible hours than when working as a full-time employee.

On the other hand, gig platforms provide companies access to talents that may otherwise not be available to them locally, or for which they would not have a budget to hire on a full-time basis.

According to GEM data¹², the highest rate of the gig (and sharing) economy by far is in South Korea, with more than 20% of adults involved in such activities.

A 2018 study by Upwork and Freelancers Union shows that in the US, more than 1 in 3 people freelanced and the percentage of full-time freelancers increased from 17% in 2014 to 28% in 2018.

This growth was contributed by technology; in 2018, 64% of freelancers found work online, up from 42% in 2014. Also, 42% of freelancers said that they are unable to work for a traditional employer.



Source: Upwork

Surprisingly, the data indicates that gig entrepreneurs are nearly absent in Indonesia. This makes us wonder where all the ride-hailing drivers are allocated to...

Access to markets across the world

Tech has certainly levelled the playing field for small businesses, and one of the clearest forms of help is access to markets through online sales channels. We saw many entrepreneurs in Shark Tank generating millions of dollars in revenue by selling their products online.

Not only does online direct access to consumers reduce the dependency on distributors and retailers (and their willingness to grant you shelf space), but it also allows the seller to retain significantly higher margins.

Having an online presence has become very cheap nowadays, if not for free. For example, Shopify enables merchants to set-up and run their own customisable e-commerce platforms for only US\$29 per month. Just click, drag & drop; no coding skills required. Also have offline presence? No problem, as the platform also has a free POS module available to process your offline sales.

If business owners are too busy to set-up a website, an alternative approach would be selling through e-commerce platforms, like Amazon and Taobao.

While airlines and hotels are complaining that aggregator platforms are eating their margins away, this is not happening in e-commerce platforms up till today. Despite having a huge market share, Taobao in China takes almost zero commission from the 10 million merchants on its platform. Similarly, in Indonesia, the top 3 C2C platforms (Tokopedia, Shopee, and Bukalapak) are not charging any commissions to their merchants.

The story of Kylie Jenner, the youngest ever billionaire

One of the noteworthy success stories comes from Kylie Jenner. She started her company Kylie Cosmetics in 2015, initially selling lip products on social media.

¹² Niels Bosma and Donna Kelley. "2018/2019 Global Report" Global Entrepreneurship Monitor.

At just 21 years old, Forbes recently valued her at \$1bn, making her the youngest ever self-made billionaire, replacing the title previously held by Mark Zuckerberg at 23 years old.

With the help of tech, Kylie Cosmetics were able to generate \$360mn revenue in 2018 with an ultra-light business model. She outsourced manufacturing to a local private label manufacturer, while sales are processed through Shopify's e-commerce platform. Also, marketing is done mainly on social media, leveraging on her massive 120mn social media following on Instagram and Snapchat.

What is intriguing is that at such size, the company only has seven full-time and five part-time employees with almost zero spending on traditional marketing. This story highlights the significance of tech for budding entrepreneurs.

Indonesian merchants booking success with digital platforms

In Indonesia, the restaurant industry is still largely dominated by street vendors, a.k.a. *warungs*, which has been helped significantly by food delivery services.

The leading food delivery service Go-food has over 250,000 merchants on its platform. Of which, 85% are small restaurants with only 1 or 2 outlets. And after joining Go-food, merchants' sales volume on average increased by 3x.

There are two examples we'd like to highlight.

Bu Nanik fried banana is arguably one of the most successful Go-food stories. Back in 2015, Bu Nanik was just an ordinary street vendor with about 20 orders per day on average.



Source: Heyokha

After becoming Go-food partner, she now has about 1,500 orders daily, of which 80-90% comes from Go-food. On an ordinary afternoon, Go-food drivers need to queue for 30 to 60 minutes just to get their fried banana. With a long queue of drivers in front of her stores, drivers are provided with snacks and drinks while they wait.

Kopi Kenangan has recently got sudden attention after receiving \$8mn in venture capital funding. Their success is facilitated by food delivery services.

Kopi Kenangan reached the top three ranking in both the Go-food and GrabFood platforms and got close to beating Starbucks both in terms of orders and rating. This contributed significantly to their success.

In their first year, Kopi Kenangan opened 16 locations, and now, after 1.5 years, they have 39 locations, aiming to reach 130 by December 2019.

Interestingly in China, Luckin Coffee who just launched in late 2017, has quickly grown to 2,000, and plans to open 2,500 location in 2019. By end of 2019, they will have more outlets than Starbucks who opened their 1st outlet in 1999.

Access to business infrastructure without the need for capex

The success of online marketplaces ultimately depends on the success of merchants listed on their platforms. Thus, after successfully gaining huge market share in China's e-commerce space, Alibaba's focus is now to empower its merchants by providing additional business services such as marketing tools, logistics, fulfilment, payment, and financial services.

	FY2018	FY2036
Consumers	642MN ⁽¹⁾	2 BN
Merchants	10MN SMEs	10MN Profitable SMEs
Job Creation	36MN ⁽²⁾	100MN

Alibaba's long-term vision is not to increase the number of merchants, but to make them more profitable.

Source: Alibaba 2018 Investor Day

This is not happening only in China. Indonesian e-commerce giants are also venturing into this path. For instance, Tokopedia is evolving its ecosystem to infrastructure as a service:

“In the first nine years, Tokopedia focused on building the biggest marketplace in Indonesia providing the physical and digital product. Entering the tenth year, Tokopedia will turn our ecosystem into infrastructure-as-a-service (IaaS) where logistics, fulfilment, payment, and our financial service will enable trading, both online and offline.

It’ll expand Tokopedia’s scale and network while increasing operational efficiency for millions of business and partners,” said William Tanuwijaya, Tokopedia’s co-founder and CEO.

Tech has also fuelled the emergence of many software-as-a-service companies, ranging from cloud services, accounting tools, payment- and POS systems, to big data analytics and business intelligence tools.

There is also the ‘shared economy’, where assets are shared for the use of the many, including ride-hailing and co-working spaces.

All these initiatives have significantly lowered capital requirements and the cost of running a business. So, starting a business in this era is as cheap and easy as it gets.

Access to funding

Limited access to funding is a critical barrier to growth for small businesses. This is even more prominent in developing countries where many businesses are informal, have no bank accounts and have trouble obtaining legal title to their assets.

In Indonesia, access to bank loans was typically only available to those who have a bank account. And given that only 48.9%¹³ of the Indonesian adult had a bank account in 2018, this means that 51.1% had no access to bank loans at all!

More specifically, there is a big *Micro Small and Medium Enterprise* funding gap of \$165bn (19% of GDP), according to SME Finance Forum.

No wonder that a staggering 98% of Indonesians use their personal savings to fund their entrepreneurial venture according to GEM data¹⁴.

But things are changing. Nowadays every eligible person with an internet connected smartphone can have access to funding, albeit in limited amounts, thanks to plenty of fintech ventures that are trying to provide loans.

Currently, Indonesia’s fintech industry comprises 88 registered platforms according to Indonesia’s financial services authority. In aggregate, total loans disbursed by Indonesia’s fintech industry in 2018 amounted to US\$ 1.6bn according to Indonesian Financial Services Authority (OJK). A small, but rapidly growing number.

Unlike banks, these ventures are typically not relying on collateral, but rather on data-driven credit scores.



Fintech lending platform, JULO provides credit based on borrower data obtained through their mobile app

For instance, Indonesian peer-to-peer (P2P) lending platform JULO determines a borrowers’ credit score by using data obtained through their mobile app and third-party data vendors such as telecom companies.

Another Indonesian example is P2P lending platform Amarta which determines borrowers’ credit score based on the borrower’s psychology and personality traits, including attitude, goodwill and confidence, according to its CEO Andi Taufan.

Although currently fintech lending rates are not as good as banks, these small businesses now have access to much-needed funding to run and grow their business. Compared to few years ago, most small businesses have no reasonable means to access to funding or even basic working capital.

¹³ World Bank. “The Little Data Book on Financial Inclusion 2018: Indonesia.” Global Findex, 2018. Retrieved from: <https://globalfindex.worldbank.org/sites/globalfindex/files/countrybook/Indonesia.pdf>

¹⁴ Caroline Daniels, Mike Herrington and Penny Kew. “Global Entrepreneurship Monitor 2015/2016: Special Report on Entrepreneurial Finance.” Global Entrepreneurship Research Association, 2016. www.gemconsortium.org

As digital lending is data-driven, e-wallet companies and large digital platforms with their access troves of data are expected to be in the best position to provide credit. AliPay's Jiebei and Meituan's merchant financing are perfect examples of this.

Given the above we believe that digital lending in Indonesia will soon accelerate driven by the large digital platforms and e-wallet penetration.

We believe that Go-jek, as the biggest Indonesian tech ecosystem that also happens to own the biggest e-wallet platform, is very well positioned to become one of the leaders in this industry.

Indonesia e-wallet is accelerating rapidly

As we wrote in our [2Q 2018 report](#), Go-pay has expanded its service outside of their ecosystem in April 2018 by providing QR code payment service for offline merchants.

This allows them to collect the much-needed data from its e-wallet users to penetrate the fintech industry, just like AliPay and WeChat pay in China.

Currently, there is an intense competition in the offline payment space between the two biggest e-wallet companies in Indonesia: Go-jek and OVO. Both are giving massive cashbacks to customers to use their payment system.



Source: Vivanews

These promotions have successfully increased the usage of e-wallets in Indonesia. According to data from Bank Indonesia¹⁵, in 2018 the number of e-money transactions grew by 3.1x compared to 2017, and the value of e-money transactions increased by 3.8x.

The special empowering role of ride-hailing companies in developing countries

In Indonesia, Go-jek has provided a taste of entrepreneurship to over a million of its partnering drivers. As a comparison, Astra International, the biggest Indonesian conglomerate only has 226 thousand people working full time across its 226 subsidiaries.

In addition, Go-jek's other business verticals, namely Go-food and Go-send, have provided substantial help for entrepreneurs.

In Jakarta alone, there are approximately 500,000 online motorcycle taxi drivers, amounting to an astounding 5% of the city's population, and a majority of them are full-time drivers. This highlights how tech has created millions of gigs and significantly contributed to the rise of entrepreneurs in Indonesia.

Looking at the success story of Go-jek in Indonesia, we saw opportunities in ride-hailing apps in African countries and Bangladesh. These countries have similarities to Indonesia, namely a dependency on traditional motorcycle taxis, a high population density, and an attractive economic backdrop. We believe that there is a disruption opportunity for ride-hailing apps which will create huge entrepreneurial opportunity.

Scramble for Africa, job creation in the last frontier

Africa has recently come under the spotlight as many countries, namely Russia, China, and the US are scrambling for influence in the region. For example, Chinese president Xi Jinping pledged to invest US\$60bn in Africa while speaking at the 2018 forum on China-Africa Cooperation.

Meanwhile, between 2005 and 2015, trade and investment between Russia and Africa grew by 185%. And to counter Russia and China, the US recently announced a new program called "Prosper Africa," aiming to support American investments in the region.

There are several similarities between the market in Africa and Indonesia, namely large populations,

¹⁵ "Payment system statistics - e-money transaction" Bank Indonesia. Retrieved from: <https://www.bi.go.id/en/statistik/sistem-pembayaran/uang-elektronik/contents/transaksi.aspx>

congested cities, lack of infrastructure, and low banking service penetration that presents disruption opportunities for a “super” app such as Go-jek. Safeboda started out in Kampala, the capital city of Uganda, which has 1.4mn population and is plagued by heavy traffic and many traffic incidents.

Uganda loses 10 people per day in road traffic crashes, the highest level in East Africa.

The solution for its heavy traffic, like Jakarta, exists in conventional motorcycle taxis called Boda Boda (just like the word “Ojek” in Indonesia). According to Uber Africa’s General Manager Alon Lits, there are nearly 2 million weekly motorcycle taxi trips happening in Kampala per week.

However, conventional motorcycle taxis are often unsafe, require the client to negotiate prices and drivers often (claim to) have no change. We believe these presents an attractive market for a ride-hailing app and e-wallet, such as is the case in Indonesia.

Yet, various other ride-hailing companies have recently begun penetrating the market, without a clear winner in sight.

The emergence of ride-hailing services has created a massive entrepreneurial opportunity; Safeboda started 2018 with only 1,000 drivers and by end of the year, they have more than 8,000 drivers registering over 1 million rides a month.

To further push boundaries, from operating in just Uganda, Safeboda has expanded to neighbouring country Kenya. They are setting their goals to be across East Africa over the next few years.

As they grow rapidly, the company has launched a training facility for Boda drivers and targets to have

30,000 drivers in 2019. Safeboda has improved the lives of many Boda drivers and facilitated safer and more convenient transportation for millions of passengers in Africa.

The story of Ricky Rapa Thomson, from a motorcycle taxi driver to a start-up co-founder



Source: PC Tech Magazine

Ricky Rapa Thomson, one of the founders of SafeBoda, a ride-hailing app in Africa, is a noteworthy entrepreneurial feat. Ricky had a rough childhood, was a school dropout at an early age, and made a living as a motorcycle taxi driver, called Boda Boda, which is the backbone of transportation in Uganda.

Witnessing the high number of fatal accidents including one that struck his close friend, he decided to act and solve this problem. He bought a second helmet and asked his passengers to wear it during each ride.

Since then, he garnered good reviews and countless referrals and recommendations. This led to his business idea to start SafeBoda in 2014, a ride-hailing platform that emphasises safety.

Economy			Population and urbanisation			Financial and digital inclusion			
Countries	GDP per capita (current US\$)	GDP growth (annual %)	Population, total (in mln)	Pop. density (people per sq. km of land area)	Urban population (in mln)	Urban population (% of total)	Account at a financial institution or mobile-money- service provider	Individuals using the Internet	Mobile cellular subscriptions (per 100 people)
							(% of pop. ages 15+)	(% of total)	
Kenya	1,508	4.9	49.7	87.3	13.2	26.5	81.6	26.0	80.4
Nigeria	1,969	0.8	190.9	209.6	94.3	49.4	39.7	25.7	83.0
Tanzania	936	7.1	57.3	64.7	18.9	33.0	46.8	13.0	72.1
Uganda	604	4.0	42.9	213.8	7.2	16.8	59.2	21.9	55.0
Bangladesh	1,517	7.3	164.7	1,265.0	58.9	35.8	50.0	18.2	83.4
Indonesia	3,847	5.1	264.0	145.7	145.7	55.2	48.9	25.4	147.7

Source: World Development Indicators, World Bank, retrieved from <http://databank.worldbank.org>. Data with respect to internet use and cellular subscriptions are related to 2016, while the other variables are related to 2017.

Home to 165mn people: Ready to Rock

Bangladesh, home to 165 million people and the fifth largest mobile market globally, is another attractive market for a ride-hailing / super-app platform. In the past decade, the Bangladesh economy has consistently grown and beat most regional peers; their GDP growth averaged at 6.6% and is expected to record an impressive 7.8% growth in 2018.

Economic reforms, strong human capital development, massive infrastructure investment, and an attractive foreign investment landscape has successfully contributed to the strong growth.

This economic backdrop is interesting, yet, there are no major players entering the motorcycle ride-hailing industry. Pathao has the first mover advantage in this area and has financial backing from a strong strategic partner.

Started by three fresh graduates from a local university who are frustrated by the congestion in the capital city, Pathao has emerged to become the leading ride-hailing platform in the country. The success did not come instantly as they have endured four failures before they started Pathao in 2015.



Hussain M Elius, co-founder of Pathao spoke at TED. Click [here](#) to watch.

Source: tedxdhaka.com.bd

The journey in building Pathao was not easy either considering that unlike in Indonesia or East Africa, there was no culture of motorcycle taxi before.

They went on the ground and pushed this concept to the market. Since there is a clear need for an

alternative solution in commuting, the service expanded very quickly.

In November 2017, Go-jek participated in their series A round which has helped them to expand to multiple services such as Pathao food and Pathao cars. According to Techcrunch¹⁶, Pathao is valued at over US\$ 100mn based on their pre-series B US\$10mn round led by Go-jek.



Source: Thedailystar.net

We believe that Pathao is in a good position to become the leading ride-hailing platform in the country and to successfully replicate Go-jek's success in Indonesia by expanding verticals into food delivery and e-wallet.

Most importantly, the company will create an enormous entrepreneurial opportunity for millions of Bangladeshis. According to the founder and CEO, drivers on its platform were able to make more than twice the average salary in Bangladesh.

“Pathao is not my first venture. I had tried four other businesses, but those didn’t click. In between 2008-2013, my friends and I started a music streaming site, a CNG ride-hailing platform, a car ride sharing platform and finally, a venture of resource scripting. Then in 2015, we started Pathao.”

-Hussain M Elius, co-founder of Pathao-

¹⁶ Russell Jon (April 2018), “Bangladesh’s version of Go-Jek raises over \$10M in a round led by Go-Jek”. Retrieved from: <https://techcrunch.com/2018/04/27/bangladeshs-version-of-go-jek-raises-over-10m-in-a-round-led-by-go-jek/>

Connecting the digital to the physical

While digital infrastructure is important for entrepreneurs, they also need access to physical infrastructure with wide coverage. For example, fintech / e-wallet ventures need a physical network for top-up and cash-out transactions and e-commerce merchants need a logistic infrastructure to fulfil orders.

We believe big minimart operators such as Alfamart and Indomaret - which together provide access to over 30,000 stores across the archipelago - should benefit from entrepreneurs that need vast physical distribution networks.

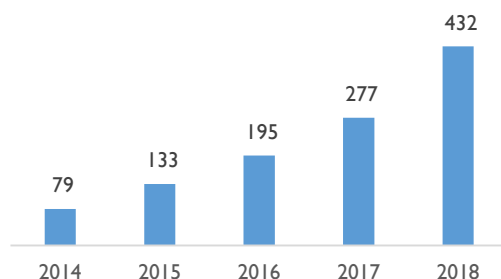
At the moment, Alfamart has been benefiting from becoming a top-up and payment point for many internet companies such as those engaged in e-wallets, e-commerce, gaming, travel, P2P lending, and many more.

Ultimately, we foresee Alfamart's vast network to be turned into a one-stop-shop of everything ranging from payment, top-up, and pick-up/drop-off point. In summary, they will be the key retail network to work with for O2O activities.

Since we wrote about Alfamart in IQ17, Alfamart's fee-based income has grown by 56% YoY in 2018. This is still mainly from becoming the payment and top-up point for several companies and already comprises 70% of Alfamart's income before tax.

Alfamart fee-based income has been growing rapidly and is one of the key earnings drivers

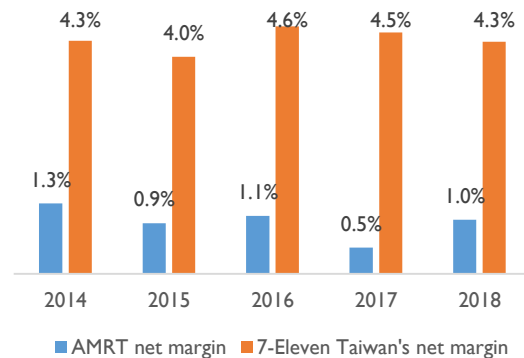
Alfamart's fee-based income, IDR billion



Source: Company data

This indicates higher operating leverage once the fee-based income kicked in

Alfamart and President Chain Store Corp net profit margin



Alfamart net profit margin is lower than 7-Eleven Taiwan which means higher operating leverage

Source: Companies data

However, this is just the initial stage in monetising Alfamart's store network. To further push fee-based income, they will start rolling out pick-up point services for e-commerce firms in 2019. To date, they have signed an agreement with top 10 e-commerce player in Indonesia.

In 2018, Indonesian e-commerce transactions are estimated to amount to US\$ 12.2bn according to a Google-Temasek report¹⁷. Assuming Indonesian average basket size is around US\$ 17 based on Shopee data, that means the no. of e-commerce orders is about 718mn per annum.

If we assume that Alfamart charges Rp 5,000/order (US\$ 0.35) and 10% of e-commerce users choose to pick up their order at Alfamart, additional fee-based income would amount to some IDR 359bn, or about 60% of FY18 expected net income.

This figure will grow rapidly as it will follow e-commerce growth. A real-life case of such success already exists in the 7-Eleven Taiwan operator named "President Chain Store Corp" (2912 TW). We elaborate on the next page.

¹⁷ Google Temasek (November 2018), "e-Conomy SEA 2018: Southeast Asia's internet economy hits an inflection point. Retrieved from: https://www.thinkwithgoogle.com/qs/documents/6870/Report_e-Conomy_SEA_2018_by_Google_Temasek_121418_cpsLjIQ.pdf "

Case in Point: President Chain Store Corporation (2912 TW)

President Chain Store is the largest convenience store firm in Taiwan, operating 7-Eleven franchises with about 5,200 stores in total. Their stores serve as important hubs for many lifestyle needs in Taiwan.

	Taiwan	Indonesia
E-commerce as % of retail sales	16.0%	8.0%
E-commerce market size, US\$ bn	42.7	12.2
Population, mn	23.6	264.0
GDP per capita, US\$	25,534	3,847

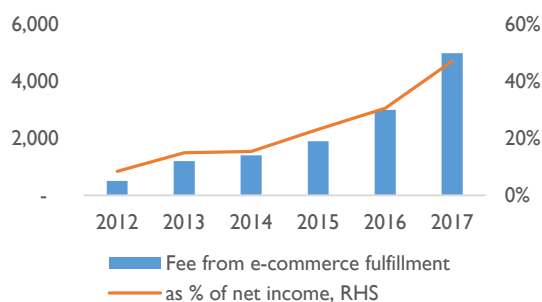
Source: Bloomberg, Heyokha

Similar to Alfamart, 7-Eleven Taiwan provides a wide range of payment services. In 2010, they started rolling out e-commerce and parcel delivery services allowing customers to send parcels and e-commerce orders to specific stores at their convenience.

In 2017, President Chain Store handled 200mn e-commerce packages and reported TWD 5bn (US\$

Fee from e-commerce fulfilment become increasingly important to 7-Eleven Taiwan

Income from e-commerce fulfilment in TWD million



Source: Company data

162mn) fee from e-commerce fulfilment services. Today, this service has become the key earnings driver for the company, contributing to almost 50% of the company's net income.



Source: FedEx

It is interesting to see that people in a country as developed as Taiwan, still prefer to pick-up their e-commerce orders at convenience stores – as opposed to having it delivered directly to their address.

We therefore think that in Indonesia - a country with limited infrastructure and a messy address system – the potential for Alfamart is massive. Please see appendix II on page 19 for more details.

Enjoy reading our reports? Check out our [website](#) for more!

-The End-

On counting our blessings and tech start-up investing

Published on [our blog](#) on 19 December 2018

Counting our blessings



One day in San Francisco, a rare taxi trip took an interesting turn. If I had not spoken to the cab driver, a Russian man, I would not have heard his captivating story.

He was one of many who were attracted to the idea of moving to America, the land of opportunity. In the year 2000, he was so convinced that Russia was a lost cause, that he left his prestigious job as a pilot in Russia and took his wife and 14-year-old son to the USA to pursue his lifelong dream of becoming a computer programmer.

The second he stepped foot on 'the land of the free', he took a coding class at a local college. Because of his limited ability to speak English, he became a taxi driver to earn some money in the meantime.

Unfortunately for him, by the time he graduated college in 2001, the dot-com bubble had burst. Even if he had other skills, the prospects for a 40-year-old newly graduated programmer looked unattractive when other choices were abundant.

As the sole breadwinner, he had no choice but to continue driving taxis. To this day.

This man has every reason to feel as if the world is unfairly against him.

Firstly, because now, after experiencing first-hand the dot-com bubble burst, the taxi industry is being challenged by services such as Uber and Lyft. He estimated 40K Uber and Lyft cars compared to 2K taxis available in SF.

Secondly, he left his prestigious position as a pilot, and must work long hours driving a cab.

Thirdly, many of his friends who remained in Russia are doing very well. He probably felt guilt and regret leaving Russia just to face major changes in the industries that he has been working in.

But this man is a happy chatty one. Instead of focusing on what went wrong, he focuses on what went right in his life.

Apparently, his son inherited his interest in coding. His son graduated from a coding school and now works at a tech company in Palo Alto, as an engineer.

There is no trace of bitterness from this man, even when telling me about his successful friends in Russia. Rather he is grateful for his son's opportunities.

We can choose to be happy or not by focusing on counting our blessings instead of focusing on the 'mistakes we made in life'.

The choice is ours and I want to start counting my blessings again.

Tech start-up, prepared for a wild ride?

We recently attended two (separate) start-up events in Jakarta and were amazed by the enthusiasm and energy of the start-up participants.

In contrast to just a few years ago when Heyokha started, hope and optimism now abound. Simply hard not to share the buoyancy as the young (and not so young too) talents are encouraged by the success of Gojek, Traveloka, Tokopedia, and Bukalapak. Some brave souls even decided to sell their businesses to fund their start-ups' dreams and ideas.

We are obviously very pleased to see the development on the ground in the tech space in Indonesia. Nevertheless, many start-up founders seem to have the idea that the tsunami of money to fund start-up ideas will go on forever.

At one of the events, we noticed a lack of enthusiasm at the 'How to control your tech

expenses” presentation and overwhelming enthusiasm at the “Road to IPO” presentation.



“How to control your tech expense” simply does not create a buzz in high-octane start-up world.

Source: Heyokha

While we respect many founders’ shoot-for-the-moon attitude, we also think the startup’s “less exciting” aspects, such as managing expenses, are just as important.

One obvious challenge for the start-up industry is the extreme volatility as described by the story of the Russian cab driver above. This volatility will only be exacerbated by the ongoing reversal of the wall of money from the world’s central banks.

One fine example of how liquidity factors affect tech valuations is the case of Sea Limited (SE US). Sea is the only listed tech play in Southeast Asia with two significant business arms: Garena, a game publisher/developer and Shopee, an e-commerce platform.

Sea’s market cap is only US\$ 3.9bn as we are writing this blog, which is close to Garena’s (before they rebranded to Sea Limited and Shopee was only a tiny part of the total business) Series D in 2016 (US\$3.75bn).

This means that the market is not attaching any value to its e-commerce business, Shopee. If we were to value Garena at 15x EV/EBITDA (a slight discount to NetEase), Garena alone would be worth US\$ 4.4bn which means Shopee valuation would be negative –US\$300mn!

Meanwhile, Indonesia’s leading e-commerce company, Tokopedia recently raised funding at a US\$ 7bn valuation. If we were to use the same

multiple which is approximately 1x EV-to-GMV, Shopee alone would be valued at US\$ 10bn.

We are not advocating that one or the other is mispriced, rather highlighting that the huge difference in valuations is largely attributable to a difference in liquidity in the private and public market at this point in time.

We are also not forecasting a tech sector reckoning to follow in the private tech space, but simply want to remind ourselves that it is not always sunshine and rainbows in the tech start-up world.

The life of the Russian taxi driver in San Francisco above bears testament to life in tech. Count our blessings but be prepared for the worst.

E-commerce leveraging on retailers' network

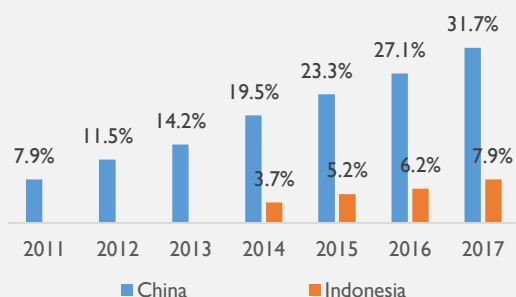
We have seen this trend playing out in China, one of the most developed e-commerce markets. Chinese e-commerce giants have been aggressively acquiring retail chains to leverage their store network. As we mentioned in our previous [4Q 2017 report](#), Indonesia will follow the Chinese e-commerce market trend.

Since our report, the amount of deals led by Chinese internet giants has stepped up investment:

- *Lazada received another US\$ 2bn – Mar' 2018 from Alibaba.*
- *Tokopedia raised US\$ 1.1bn from Alibaba and Softbank – Dec' 2018*
- *Tencent, Google, JD.com, and other investor invested US\$ 1bn in Go-jek – Jan' 2019*

Indonesia is around the same level on e-commerce penetration as China was in 2011

Online retail as % of total retail sales in Indonesia and China



Source: CLSA

Given that Chinese internet giants have significant stakes in the top 5 Indonesian e-commerce platforms, we believe that they will have a significant influence in shaping the Indonesian e-commerce landscape.

As Indonesia does not have adequate logistics infrastructure, e-commerce players have to rely (even more) on the biggest retailers in the country, which are the minimart operators. This is especially true if Indonesian e-commerce players aim to grow further outside of the Greater Jakarta Area.

Based on a recent article by [The Economist](#)¹⁸, many people in remote areas do not have a proper address as their roads are nameless and their houses unnumbered.

Some even have to rely on local landmarks—"the house by the big tree", for example. Even in big cities, many streets have the same name. This problem can be easily solved by using minimarts as pick-up points.

Minimarts have the closest proximity to Indonesian neighbourhoods. For instance, Alfamart stores cover about 215mn Indonesian population (81% of total population) based on their geographical presence.

People living in the outer islands of Indonesia experience more frictions when ordering online. Not only are delivery costs higher, but it also takes longer for products to arrive.

If a customer from Medan orders goods from Jakarta, it will cost about 30% of their basket size, assuming average basket size is US\$ 10/order. And it will still take 3-4 days to arrive.

Average delivery times

	2015	2017	2018
Jakarta	2 days 21 hours	2 days 18 hours	2 days 10 hours
Surabaya	5 days 10 hours	3 days 9 hours	3 days 6 hours
Medan	6 days 8 hours	4 days 6 hours	3 days 19 hours
Overall	4 days 20 hours	3 days 11 hours	2 days 20 hours

Based on a survey by CLSA, average delivery time is about two and a half days in Jakarta and 3-4 days in other 1st tier cities such as Medan and Surabaya.

Source: CLSA

By leveraging on Alfamart's store network, we believe it will not only translate to lower logistics cost but also faster delivery.

Picking up orders in Alfamart stores will be significantly cheaper as merchants no longer need to ship out to multiple hard-to-find locations in the same area/neighbourhood.

¹⁸ The Economist (January 2019), "Indonesia binges on e-commerce". Retrieved from: <https://www.economist.com/business/2019/01/12/indonesia-binges-on-e-commerce>



Many e-commerce platforms have started to provide delivery services (for merchants) and pick up through Alfamart/Indomaret.

Source: Heyokha

O2O platform as a quick fix for Indonesian last-mile delivery

Logistic networks, especially for parcel delivery, rely on two main components: hubs and deliverymen. We believe that the combination of minimart chains serving as hubs and motorcycle ride-hailing apps providing deliverymen, is the perfect last-mile delivery solution for Indonesian e-commerce firms.

We already see that e-commerce players are offering instant or same-day delivery services through Go-jek and Grab, at relatively similar prices as next day delivery services through traditional express parcel delivery firms.



All major e-commerce platforms are working with Go-jek/Grab for instant and same-day delivery services

Source: Heyokha, Tokopedia

Kurir Pengiriman

Pilih Kurir Pengiriman

Same Day

GO-JEK	Rp 20.000
Maks. 6 jam	
Grab	Rp 19.000
Maks. 6 jam	

Next Day

JNE	Rp 18.000
1 hari	

Perkiraan tiba dihitung sejak pesanan dikirim

Go-jek/Grab can provide same day delivery at nearly the same price as JNE (Indonesian leading parcel delivery company) next day service

Source: Tokopedia, Heyokha

These O2O platforms can easily roll out across the country without investing heavily on branches or recruiting deliverymen. In our view, O2O platforms combined with minimarts' extensive networks could be a deadly combination disrupting the existing logistics solutions.

Given the above, we think that O2O platforms like Go-jek and Grab will greatly benefit from e-commerce's robust growth. We will closely monitor the development.

On the ground: New Retail in China

Published on [our blog](#) on 10 September 2018

Here at Heyokha, we spend a lot of time analysing Chinese tech and e-commerce opportunities and most recently have focused on the disruption of the brick-and-mortar retail space by Chinese tech giants.

They have been driving innovation and vertical integration in the retail space. So, when we recently had a chance to visit Chengdu and Chongqing, we jumped at the opportunity to see some of the new retail concepts for ourselves.

Unmanned store concepts

In the heart of Chongqing, we stumbled upon a bright orange freight container that turned out to be an unmanned convenience store called "Wow!".

The concept is backed by SF Holdings (002352 CH), a US\$ 30bn Chinese logistics company listed on the Shenzhen stock exchange. Having never been in an

unmanned store before, we took the opportunity to see how it works. Here is how to shop:

Step 1: Scan the QR code with your WeChat app to enter the shop;

Step 2: Pick the desired RFID-tagged items from the shelves;

Step 3: Place the items inside a basket at the payment terminal, which then causes a screen to list the items in the basket and the total price;

Step 4: Scan the QR code to pay using Alipay or WeChat pay.

Simple and Fast.

While unmanned stores may have first been envisioned by Amazon, they have become one of the latest trends in China. Several start-ups are now operating unmanned convenience stores, like BingoBox and Well Go.



Unmanned store concept, Wow!

Currently, BingoBox is the biggest chain, operating about 200 stores across 29 Chinese cities. It seems that investors buy the story: in January 2018, BingoBox raised US\$ 80mn fund led by Fosun Capital.

New supermarket format: Yonghui Super Species

We also checked out another innovative retail concept called Yonghui Super Species. It's operated by Yonghui Superstores (601933 CH), one of the largest Chinese supermarket chains that have both Tencent and JD.com as shareholders.



Inside a Yonghui Super Species' store in ChongQing (top), an in-store screen showcasing product delivery by drone (bottom)
Source: Heyokha

This new concept combines shopping with dining, allowing customers to choose their favourite ingredients, such as salmon or prime beef, which are then prepared for in-store dining.

The concept also leverages technology to enhance the shopping experience. For example, WeChat can be used to obtain product information by scanning the product QR code. The app can also be used to check-out without the need of visiting the cashier.

Products can be ordered online, and – while we haven't tried it – in-store videos displayed the option to have the products delivered via drone.

The Yonghui Super Species concept will be a key element in the company's expansion strategy, going head to head with competition from e-commerce and Alibaba's "New Retail" strategy that aggressively bets on the integration of online to offline commerce.

Leveraging of pop-and-mom stores by JD and Alibaba

During our stay in Chengdu, we spotted a number of JD convenience stores. With this new concept, called JD Xintonglu新通路, the company aims to bypass the multi-layer network of distributors and agents by selling the products of brand owners directly to consumers via a network of JD branded mom-and-pop stores.

Adopting a franchise model, the company plans to roll out 1mn convenience stores in the next five years.



Mom-and-pop stores in China that partnered up with JD (left) and Alibaba (right).

Source: Heyokha

We also came across mom-and-pop stores that serve as pick-up points for Cainiao, Alibaba's

logistics arm. We visited one of these stores in Chongqing and it seems this would be faster and cheaper to roll out as compared to smart lockers (a locker where the customer can pick up their e-commerce delivery), particularly in the suburban and rural areas.

Interestingly, the trend of bypassing the multi-layers of distribution and leveraging on the retail network as an e-commerce collection point has also started in Indonesia.



Mom-and-pop stores in Indonesia that partnered up with Alfamart (left) and Indomaret serve as a collection point of Zalora (right).

Undoubtedly, the one who is able to bypass all the distributors and agents is the biggest retailer. In the case of Indonesia, that would be the minimarts. Alfamart, Indonesia's leading minimart chain, supplies directly to these traditional shops ("warung") at Alfamart's purchasing price plus logistic costs.

Currently, Alfamart has partnered with more than 80,000 warungs. This collaboration has won the approval from the government and the hearts and minds of the SMEs while allowing Alfamart to gain valuable insights about spending patterns in the traditional channel.

Meanwhile, Indonesian apparel e-commerce, Zalora is leveraging on Indomaret, another Indonesian leading minimart chain, as a collection point.

First "unmanned" JD store in Indonesia

Excitingly, we also learned that JD recently opened its first unmanned convenience store in North Jakarta, Indonesia. The store is located on the third floor of PIK Avenue, a brand-new shopping mall situated in an affluent area that is popular for its great dining options.

Upon arrival, we noticed the store received great interest from mall visitors, with at least a dozen people inside the store, despite the requirement of

having a JD app installed on our smartphone. This app is linked to our credit card.



The JD unmanned store in PIK Avenue, Jakarta, Indonesia
Source: Heyokha

Except for the store interior design, we noticed many similarities with the Wow! Store in Chongqing. In both store concepts, identity verification and payment process are conducted through an app on our phone. Meanwhile, the products that we intend to buy are identified using RFID tags.

The major difference is in the check-out process. In the Wow! store, we need to place the products in a basket/box before it is added to our digital shopping cart.

Whereas in the JD store, we simply carry the items and step into a small room called the Scanbox, saving us from the hassle of putting our products into a specific box for checkout.

Having said that, the Wow! store was truly unmanned, while we counted at least six employees in the JD store. So, that's not so unmanned for an unmanned store....

Understandably, they need some staff to assist customers like the concept of an unmanned convenience store is very new in Indonesia. Nevertheless, it should be moving towards a purer unmanned model in the future.

JD's products were competitively priced. Pringles crisps were sold for IDR 12,000, while the same product is being sold at Indomaret, one of Indonesia's leading convenience stores, for IDR 22,500. This represents a 47% discount!

The JD store also offered a popular snack, Malkist Crackers (Malkist Rasa Abon Sapi) for IDR 7,000, 10% cheaper than Indomaret's offer at IDR 7,800. Obviously, the attractive price could be one of JD's marketing tools to lure customer to shop in their unmanned convenience store.

Obviously, an unmanned store also means fewer people can be employed. While we are not sure that the government will support such a non labour-friendly store, the unmanned concept nevertheless has emitted plenty of buzz. At the very least, it is a great PR exercise for JD.

Wrapping it up:

It is apparent that the Chinese tech giants are not only carving up the digital space in China and beyond, but have also set their sights on the physical retail area where they are driving both innovation and the integration of supply chains.

By having exposure/presence in physical retail, Chinese tech giants will get a better picture of the wider retail market. We believe this initiative is still largely underappreciated given that it is still in the early stage.

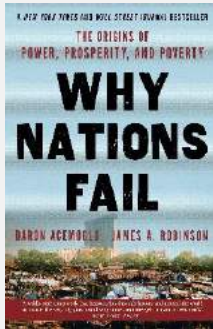
However, looking at the speed at which new technologies are adopted in China (i.e. e-wallet's QR code and bike-sharing), we would monitor "New Retail" initiatives very closely.

With the presence of these Chinese tech giants in Indonesia, we would not be surprised to see a similar trend of online/offline convergence in Indonesia.

The latest move by JD in Indonesia indicates that the trend towards new retail has already begun...

Whether Indonesia will soon adopt many unmanned stores or not, the trend towards "New Retail" concept will only accelerate from here.

Why Nations Fail



In the book *Why Nations Fail*, the M.I.T. economist Daron Acemoglu and the Harvard political scientist James A. Robinson make a strong case for entrepreneurship.

They show that sustained economic growth in the past is almost always accompanied by technological improvements and innovation, spear-

headed by new entrepreneurs and businessmen applying new ideas.

As such, nations that created an environment where entrepreneurship could flourish (through inclusive economic and political institutions) are much better-off today than their counterparts that were dominated by institutions aiming to protect current interests and the status quo, thereby blocking sustained progress.

The key is that institutions should allow for what economist Joseph Schumpeter called “creative destruction”. Meaning that new firms should be allowed to take business away from established ones.

However, powerful groups often stand against economic progress, in fear that their economic privileges will be lost.

In many developing countries, entry barriers will play a crucial role for aspiring entrepreneurs.

These barriers include expensive licenses that need to be obtained, red tape that have to be cut through, politicians and incumbents who will stand in their way, and the difficulty of getting funding from a financial sector that often has ties with the incumbents they are trying to compete against.

This is why facilitating entrepreneurship in these countries is paramount.



HEYOKHA
BROTHERS

----- Appendix V -----

Heyokha reading list

For us at Heyokha, the following books have been valuable lessons on entrepreneurship, to better navigate the changing world and to understand new angles. They have helped us learn from history, people's experiences, and incredible success stories. We were also inspired by concepts and frameworks for efficient management, and building better systems. We wish you a wonderful journey reading these books just like we did.

