

UOB Business Outlook Study 2023 (SME & Large Enterprises)



 Indonesia Report



Foreword

ASEAN is an interconnected, young, and dynamic economic region of more than 650 million people, offering unique and diverse business opportunities. Amidst market turbulence and uncertainty, ASEAN has weathered recessionary risks well and continues to show strong growth potential.

Today's multipolar world should expect a new post-Covid era of re-globalisation, even regionalisation, alongside a different set of geopolitical objectives. This means new investment opportunities for ASEAN that bring opportunity for business growth.

As a strategic partner to businesses, we have commissioned the UOB Business Outlook Study 2023 (SME & Large Enterprises) to capture key insights from over 4,000 companies across industries and 7 markets, to understand current business sentiments and how we can continue to support their resilience, growth and needs.

The insights cover three key areas:

1. The trends that are shaping the growth of businesses, in the areas of Sustainability, Digitalisation, Supply Chain Management and Overseas Expansion;
2. How companies are adapting to a changing business landscape and adopting growth strategies;
3. How UOB and industry partners can continue to support businesses with their growth ambitions

ASEAN remains competitive - in terms of its cost, young labour force, and infrastructure - all of which are beneficial for businesses. The region's part in achieving sustainable development also requires the need for businesses to strategically look at business sustainability, from day-to-day operations and long-term succession planning, to net zero goals through transition towards ESG goals.

In an awakening region, business leaders need strategic partners with the ambition and capability to build the future of ASEAN. This is especially true for SMEs that form the backbone, specifically, 97% of ASEAN's economies.

As the One Bank For ASEAN, UOB connects businesses with and within ASEAN, and to Greater China, and the rest of the world.

Eric Lian
Head, Group Commercial Banking
Group Wholesale Banking

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Table of Contents

1	Background and Methodology	04
2	Business Sentiments	05
3	Inflation Impact on Businesses	15
4	State of Sustainability and Future Plans	21
5	Current State of Digitalisation	27
6	Supply Chain Management (SCM)	36
7	Interest in Overseas Expansion	41
8	Support from the government and UOB	49

Background and Methodology

UOB conducted a Business Outlook Study in **Indonesia** covering **530 business owners and key executives** from **SMEs and Large Enterprises**.

This study provides a comprehensive understanding of the current business sentiments, inflation impact and outlook among businesses across various sectors in Indonesia. The study also captures insights around key themes such as Sustainability, Digitalisation, Supply Chain Management and Overseas Expansion.

> What



15-minute online surveys



Total of 530 interviews



Data collection:
28 December 2022 - 20 January 2023

> Who



Businesses with revenue between IDR 6 billion to less than IDR 3 trillion



Covers both SMEs and Large Enterprises across key industry verticals



Owners/chief executive level/management level who are involved with business decision making

> Coverage

Cities	Sample
Jakarta	273
Surabaya	88
Bandung	57
Semarang	41
Rest of Indonesia	71
Total	530

Business classification:

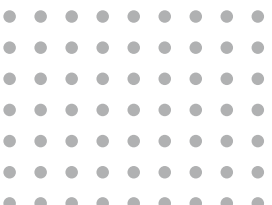
Small Enterprises: Annual turnover IDR 6B to < IDR 110B

Medium Enterprises: Annual turnover IDR 110B to < IDR 3T

Industries	Sample
Manufacturing & Engineering	61
Tech, Media & Telecom	57
Business Services	56
Consumer Goods	55
Construction & Infrastructure	55
Community & Personal	55
Wholesale Trade	55
Real Estate/Hospitality	55
Professional Services	50
Industries, Oil and Gas	31
Total	530



2. | Business Sentiments



> Business environment in 2022



Business environment in Indonesia was more positive than in Singapore, Malaysia, Hong Kong and Thailand.



Over **9 in 10** businesses in Indonesia said the business environment was positive in 2022.

Most positive sentiments (sectors)

100%
Community & Personal Services

100%
Industrials, Oil & Gas

97%
Manufacturing & Engineering

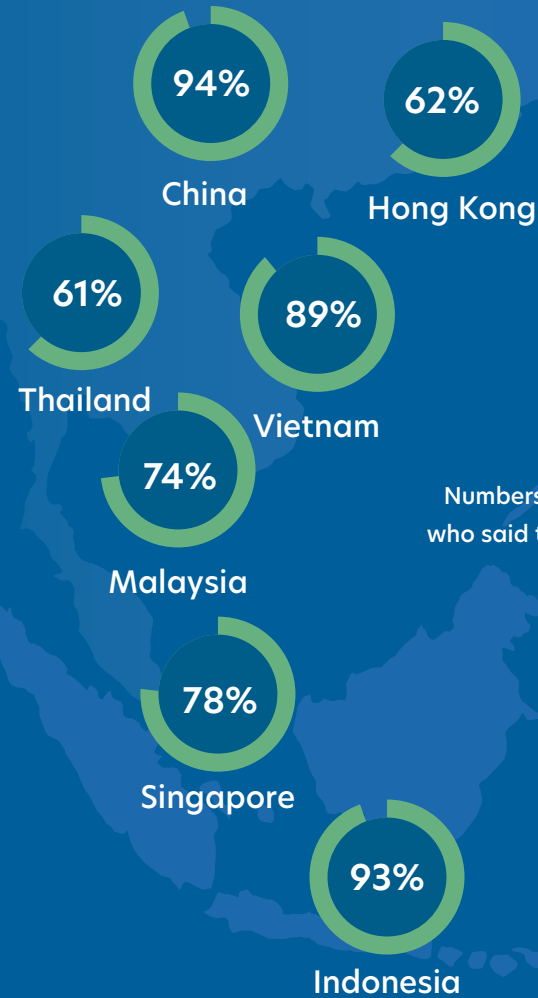
Most positive sentiments (cities)

95%
Jakarta

95%
Bandung

Most positive sentiments (enterprises)

95%
Medium Enterprises



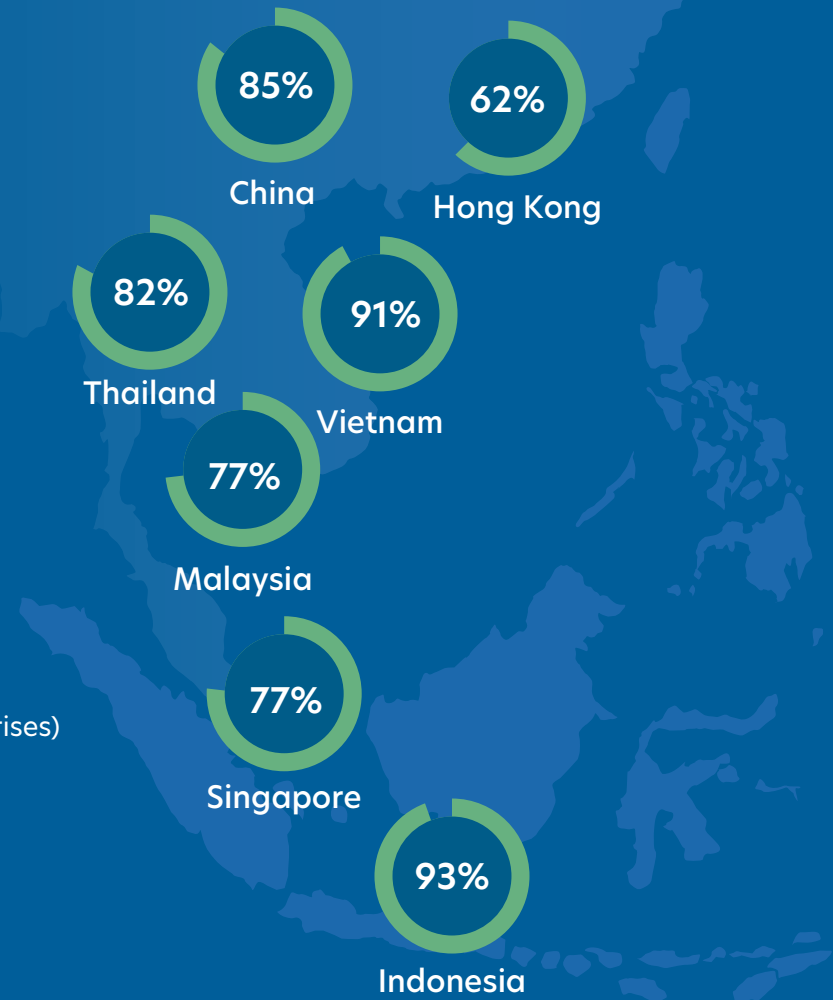
Numbers represent percentage of businesses who said the current environment is somewhat or very positive in 2022

Increased revenue in 2022 has contributed to the positive sentiment among businesses

> Revenue improvement in 2022 vs 2021



More businesses in Indonesia reported revenue growth in 2022 compared with businesses in Thailand, Malaysia and Singapore.



Highest revenue growth (sectors)



Highest revenue growth (enterprises)



Highest revenue growth (cities)

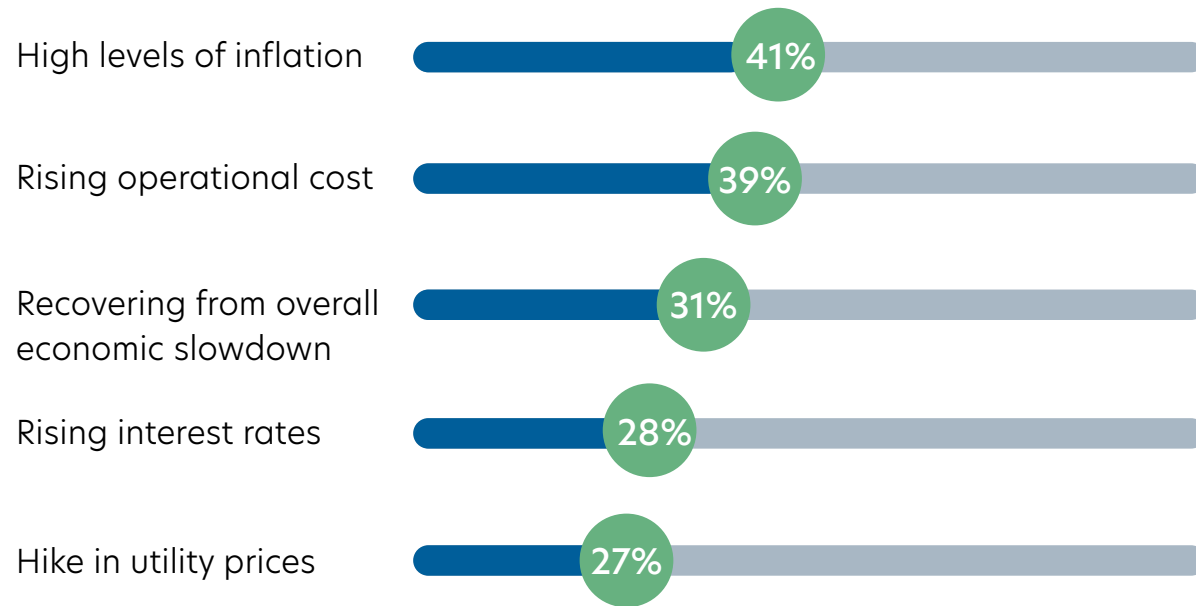


Q) How has your company's revenue changed in 2022 as compared with 2021? Base: Total (530)

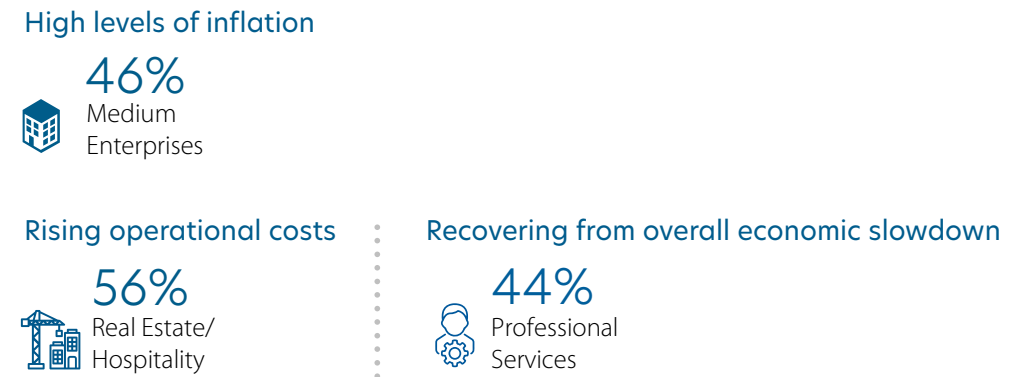
The positive business sentiment is in spite of macro factors like high levels of inflation and rising operational costs impacting businesses in 2022



> Macro factors impacting businesses



> Most impacted sectors/enterprises



High levels of inflation had a bigger impact on Medium Enterprises. The Real Estate/Hospitality sector was impacted more by rising operational costs.

Q) Which of the factors below had the biggest impact on your business in 2022? Select up to 5. Base: Total (530)

These macro factors have led to rising operating expenses and cost cutting

Nearly **1 in 2** businesses in Indonesia say their operating expenses have increased.

> Factors impacting business operations

Increase in operating expenses

45%

Needed to cut costs

35%

Drop in customer demand/revenues

24%

Low productivity among staff due to working from home (WFH) arrangements


23%

Adopted sustainability practices in the company

22%

> Most impacted sectors

Needed to cut costs

48%
 Manufacturing & Engineering

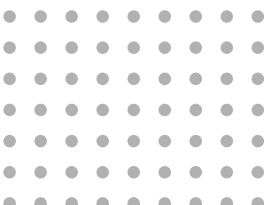
49%
 Community & Personal Services

Q) How have the above factors affected your business in 2022? Base: Total (530)



Business Sentiments

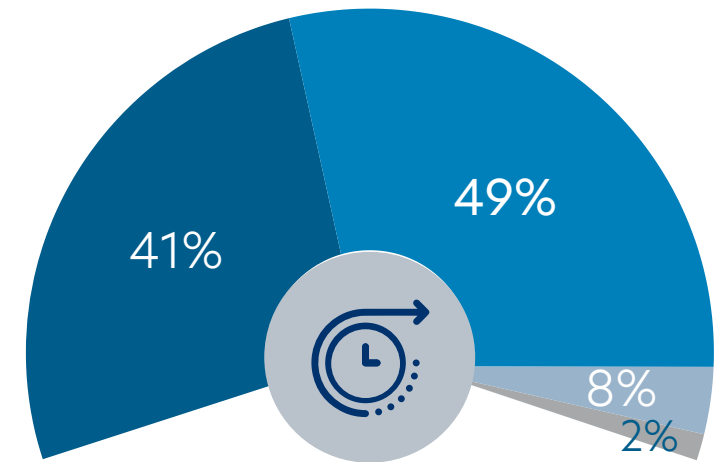
Business Outlook 2023 and Beyond



9 in 10 businesses in Indonesia have a positive business outlook in 2023

> Outlook for 2023

- Very positive
- Somewhat positive
- Neutral/Unsure
- Somewhat/Very negative



Most positive outlook (sectors)

95%
Community & Personal Services

94%
Industrials, Oil & Gas

93%
Manufacturing & Engineering

Most positive outlook (cities)

93%
Bandung

93%
Semarang

Q) How would you describe the outlook for your business in 2023? Base: Total (530)

Digitalising the business, developing new sources of revenue and re-skilling or upskilling talent are key priorities for businesses in Indonesia in the next 3 years

> Priorities in the next 1-3 years



Digitalise the business to raise efficiency
40%



Develop new sources of revenue
37%



Re-skill/upskill existing talent
33%



Reduce costs
32%



Source for new customer base
32%



Improve sustainability of the business
30%

> Priorities by sectors

Digitalise the business to raise efficiency

58%
Professional Services

Re-skill/upskill existing talent

49%
Consumer Goods

47%
Tech, Media & Telecom



Digitalisation is a key business priority as it improves customer service and helps businesses extend their range of products/services to new customers.

Adopting digital solutions to automate processes and improving customer experience are top actions to drive growth

> Top actions for growth



33%
Adopt digital solutions to automate processes



32%
Focus on improving customer service/experience



31%
Extend our range of products and services



30%
Work with industry bodies, government-linked companies or large businesses to explore collaboration opportunities



30%
Use digital marketing tools to build the company's brand



28%
Upgrade equipment/facility to improve productivity

> Most prioritised in

Adopt digital solutions to automate processes

46%

Tech, Media & Telecom

Use digital marketing tools to build the company's brand

44%

Real Estate/ Hospitality

Automation to ease customer service and user-friendly channels for customer interaction will play a key role in improving customer experience

Nearly **7 in 10** businesses are looking to improve automation to ease customer service.

> Capabilities for better customer experience



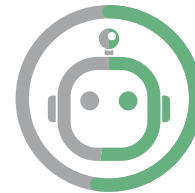
69%

Automation to ease customer service



66%

User-friendly channels for customer interaction



56%

Use of AI, chatbots etc. for real-time interaction



47%

Hyper personalised service/offer for customers

> Most prioritised in

User-friendly channels for customer interaction

77%
Manufacturing & Engineering

Use of AI, chatbots etc. for real-time interaction

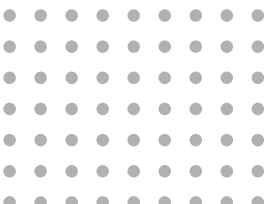
82%
Manufacturing & Engineering

63%
Medium Enterprises

Q) What are the key channels/capabilities that your business needs to improve upon to handle this change in customer engagement expectations? Base: Total (530)



3. | Inflation Impact on Businesses



> Extent of inflation affecting businesses in 2022



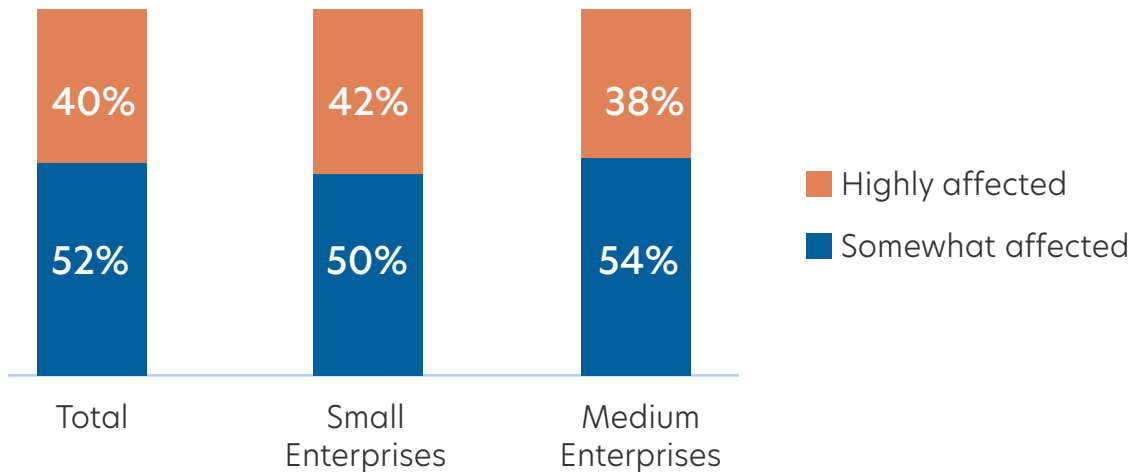
Over **9 in 10**
businesses in Indonesia have
felt the impact of high inflation.

92%

92%

92%

Net affected

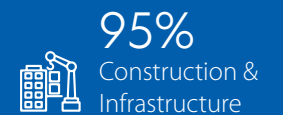


Q) To what extent has high inflation affected your business this year? Base: Total (530)

Both Small and Medium Enterprises in Indonesia have been affected by high inflation.

> Extent of inflation by sectors/cities

Most affected sectors



Most affected cities

93%
Jakarta

93%
Semarang

Many businesses have seen an increase in cost of operations and raw materials

> Impact of inflation on business operations



Increase in cost of operations
74%



Increase in cost of raw materials
63%



Increase in utility costs
43%



Increase in cost of equipment/machinery
33%



Increase in staff salaries
30%



Reduction in profit levels
28%



Over **7 in 10** businesses in Indonesia say that high inflation has led to an increase in cost of operations.

Over **2 in 5** businesses have seen an increase in cost of raw materials.

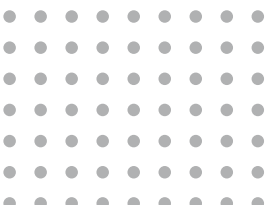


Inflation is also impacting the utility cost of businesses in Indonesia. Businesses in Tech, Media & Telecom and Professional Services have seen a greater impact on rising utility costs.



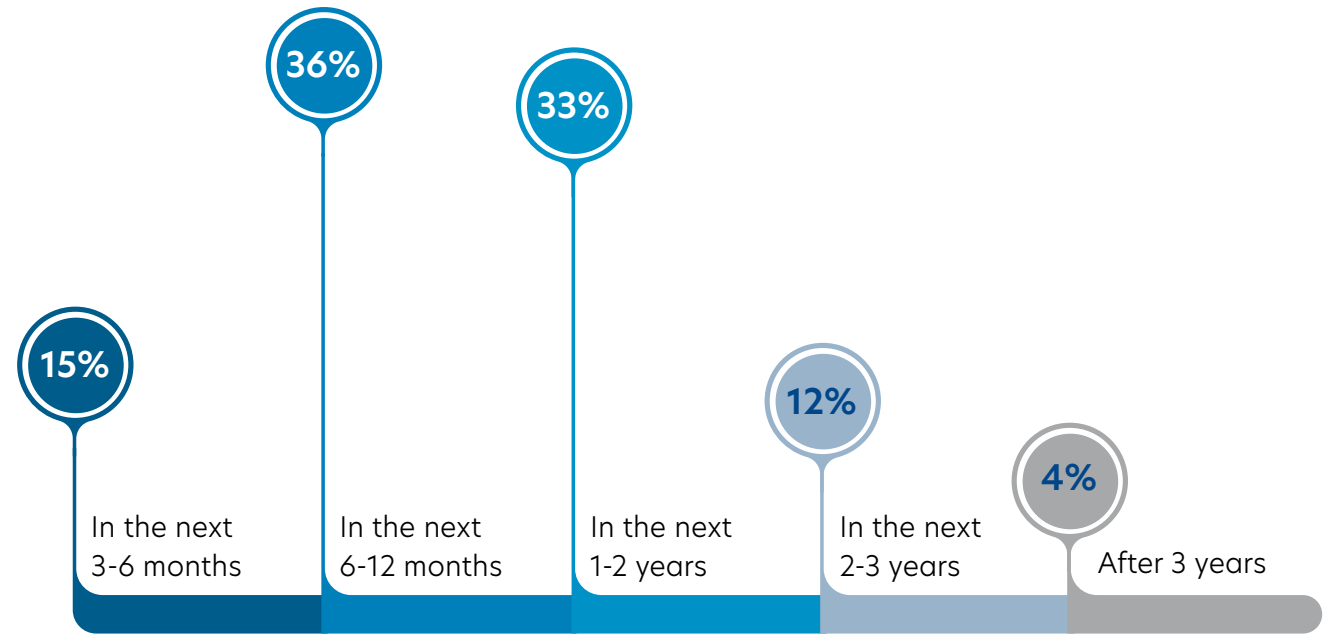
Inflation Impact on Businesses

Inflation Expectation in 2023



Most businesses expect inflation to reduce within the next 12 months

> Expectations of inflation



Most affected sectors

61%
Business Services

54%
Tech, Media & Telecom

53%
Consumer Goods

Most affected cities

55%
Surabaya

54%
Semarang

Most affected enterprises

54%
Small Enterprises

Q) By when do you expect the high inflation to reduce? Base: Neutral to negative perception: (530)

Cost cutting and productivity improvement are key measures to mitigate inflation impact

> Ways to combat inflation

Cost cutting on company activities



Improving productivity to save costs



Digitalisation processes to drive cost savings



Increasing the selling price of our goods/services



Stronger price negotiations with suppliers/vendors



Nearly **1 in 2** businesses are cost cutting on company activities to combat inflation.

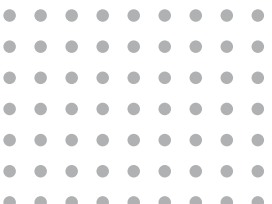
> Differences in combating approach

Stronger price negotiations with suppliers/vendors



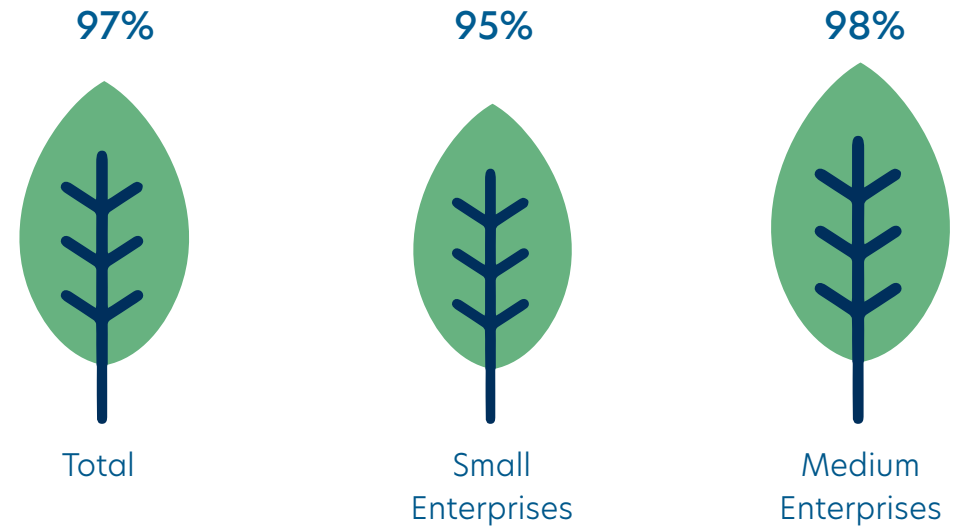


4. | State of Sustainability and Future Plans



Sustainability is important to a vast majority of businesses in Indonesia

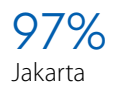
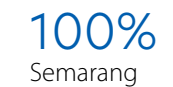
> Importance of sustainability



Leading sectors



Leading cities



Q) How important is sustainability (Environmental, Social and Governance considerations) to your business?
Base: Total (530)

Sustainability helps businesses attract investors, improve their reputation and work with MNCs

Nearly **7 in 10** businesses say that sustainability helps attract investors.

Nearly **3 in 5** businesses say that sustainability helps to improve their business reputation and branding.

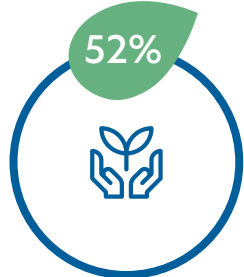
> Drivers of sustainability



Helps attract investors



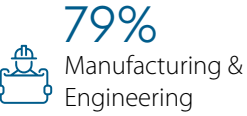
Improved reputation/
better branding of the company



Easier to work with MNCs who care about their sustainability goals

> Stronger drivers

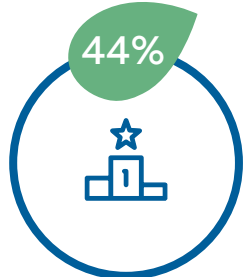
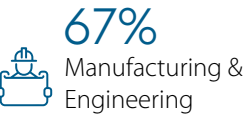
Helps attract investors



Improved reputation/better branding



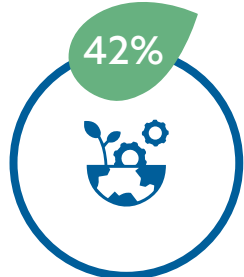
Easier to work with MNCs



Gives competitive edge



To build an environmentally and socially sustainable future for the market

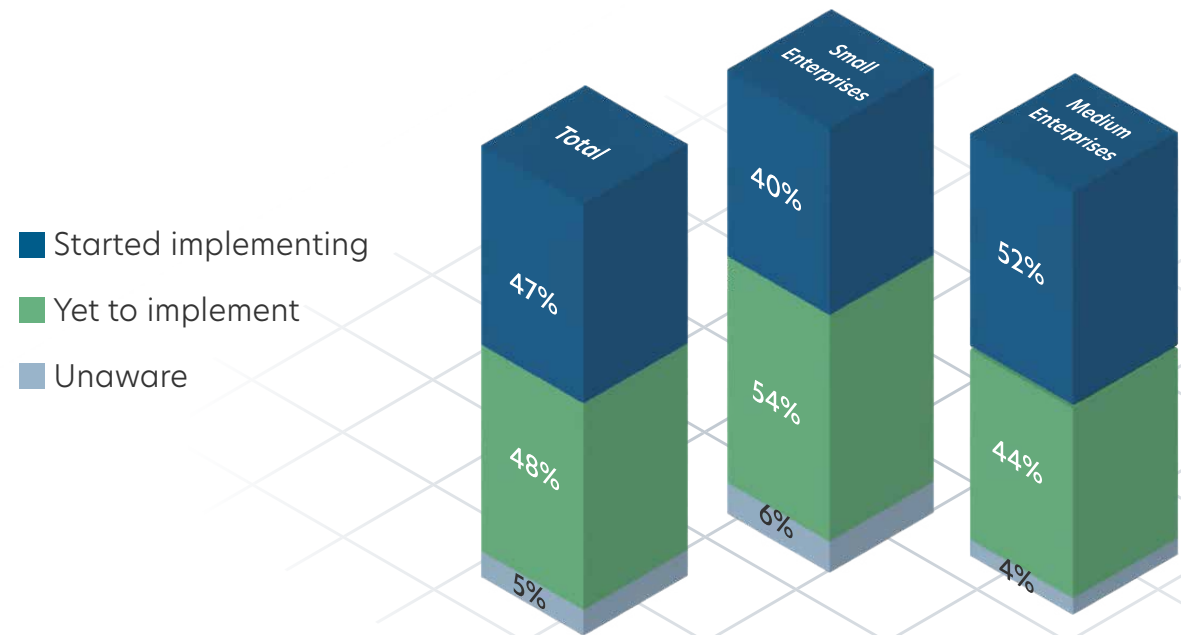


Helps my business fit better into the ecosystem

Q) Why is sustainability important to your business? Base: Those who regard sustainability as important (513)

Yet, less than half of all businesses have started implementing sustainable practices

> Current stage of sustainability adoption



Implementing sectors

60%
Tech, Media & Telecom

56%
Professional Services

49%
Wholesale Trade

Implementing cities

52%
Jakarta

46%
Rest of Indonesia

Q) What stage is your company at today in the adoption of sustainability practices? Base: Total (530)

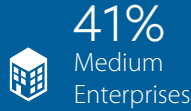
Concerns prevail about negative impact on profits and increase in cost of products/services to end customers

> Key barriers to implementation



> Stronger barriers

May lead to increase in cost of our products/services to end customers



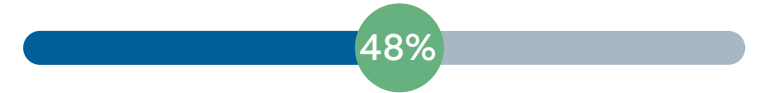
Q) What are the major barriers to implementing sustainability practices in your company? Base: Total (530)

But businesses are convinced about implementing practices like clear operation policies/processes and efficient use of resources



> Practices planning to implement

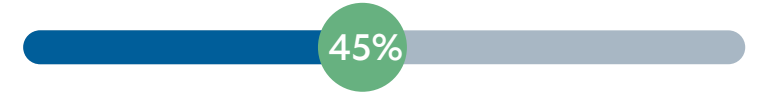
Implement clear operational policies and processes



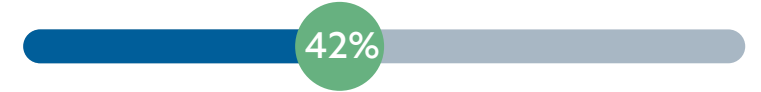
More efficient use of resources to minimise waste



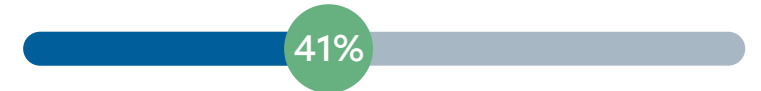
Ensure employee welfare



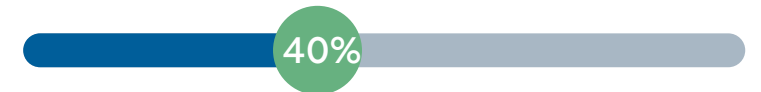
Use energy efficient equipment and technologies



Give back to the community

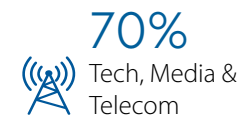


Establish clear corporate governance



> Prioritised areas

Implement clear operational policies and processes



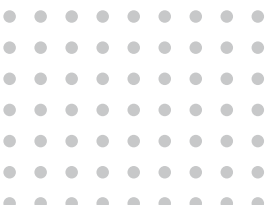
Establish clear corporate governance



Q) What sustainable practices (based on the ESG considerations) do you plan to incorporate within your business in future?
Base: Those who have not implemented sustainability practices (282)



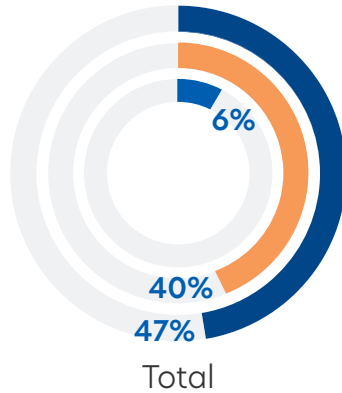
5. | State of Digitalisation



Over 9 in 10 businesses have adopted digitalisation in at least one department

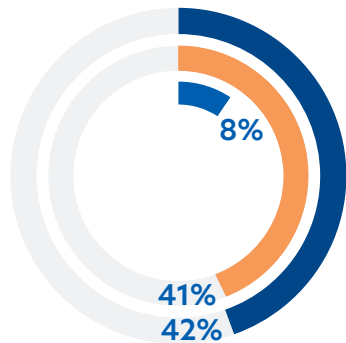
> Current state of digital adoption

Net adopted **93%**



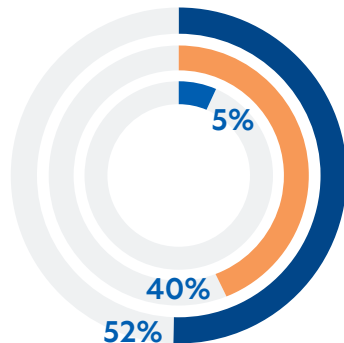
- Adopted in one department
- Adopted across entire business
- Adopted across multiple departments

Net adopted **90%**



Small Enterprises

Net adopted **96%**



Medium Enterprises



Businesses in the Tech, Media & Telecom sector and those from Jakarta are ahead on the digitalisation journey compared to others.

Sectors leading in digital adoption

98%
Tech, Media & Telecom

97%
Manufacturing & Engineering

96%
Business Services

Cities leading in digital adoption

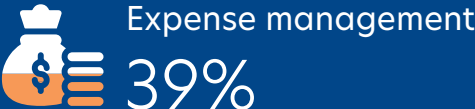
95%
Jakarta

93%
Bandung

Q) What is the current state of digital adoption in your company? Base: Total (530)

Marketing, Customer service and Sales are a priority for digitalisation

> Top priorities for digitalisation

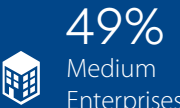
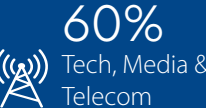


> Priority areas by sectors/enterprises

Marketing



Sales



Q) Which of these processes did your company digitalise specifically to help your business perform better in 2022? Base: Those currently trialling or adopted digitalisation in at least one department (522)

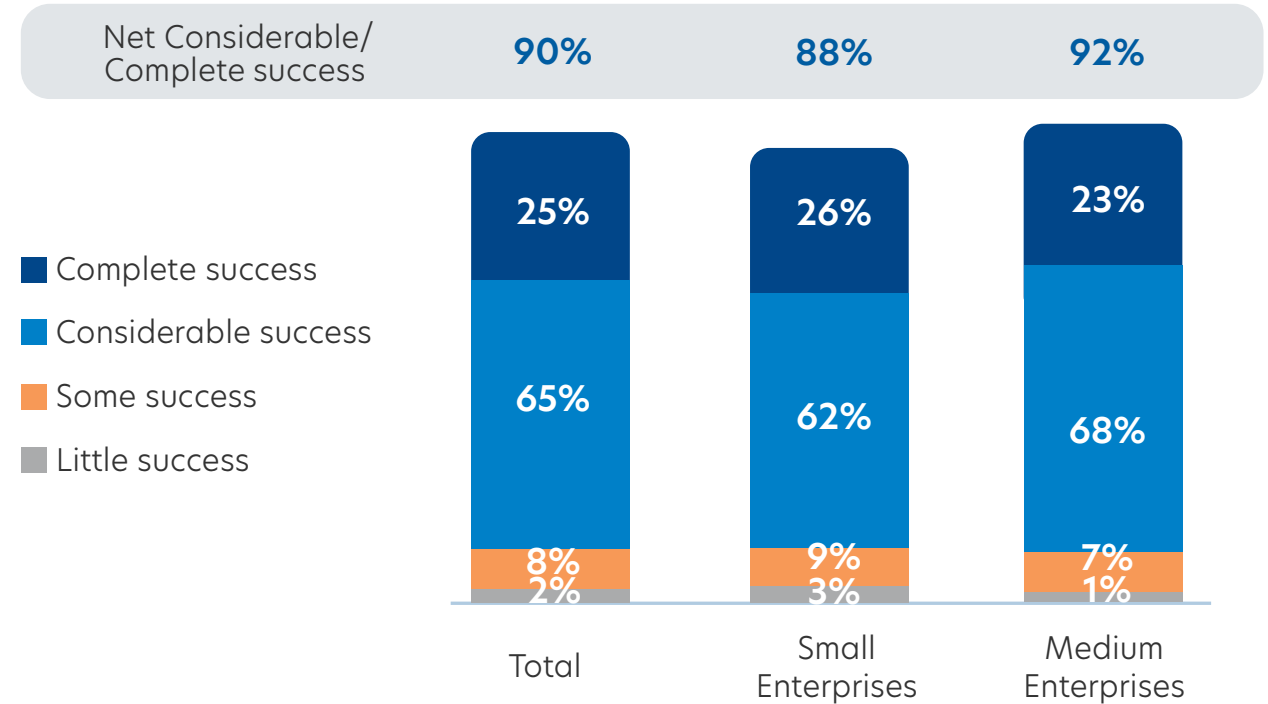


Most businesses that adopted digitalisation have been successful in their efforts

9 in 10

businesses have seen success in their digitalisation efforts.


> Success with digitalisation



More success with digitalisation (sectors)

97%
 Industrials, Oil & Gas

94%
 Professional Services

93%
 Manufacturing & Engineering

More success with digitalisation (cities)

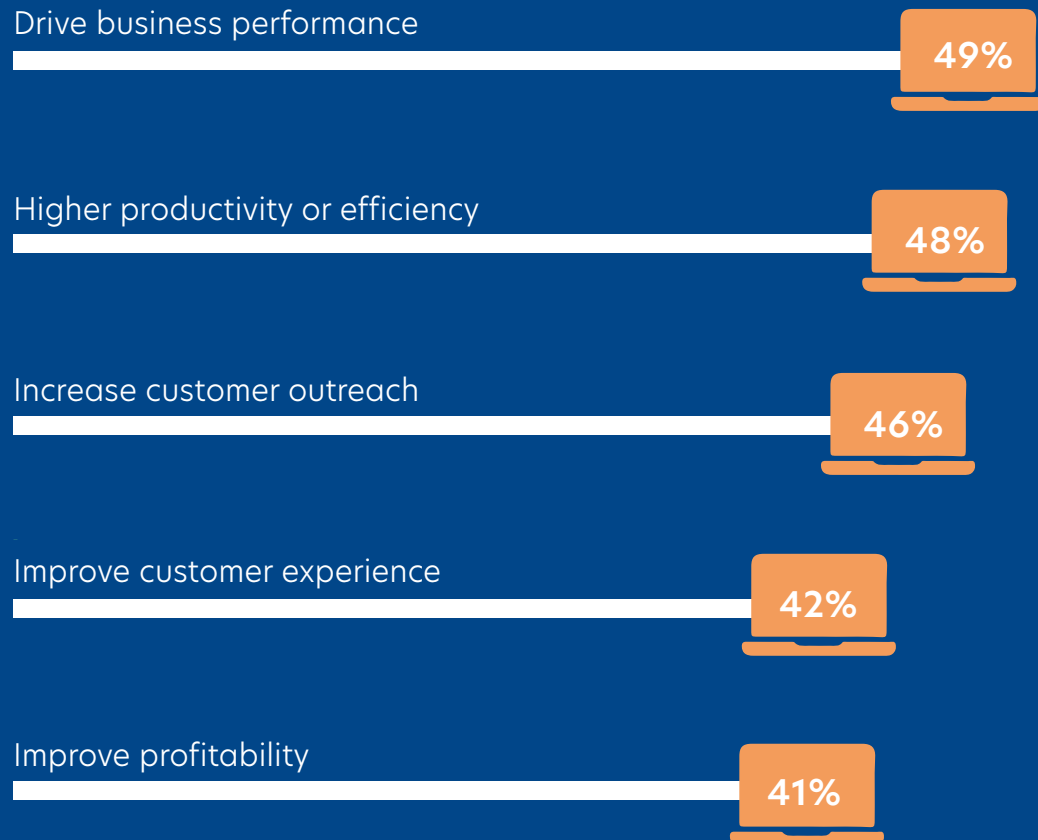
94%
 Surabaya

93%
 Semarang

Q) How much success has your company had so far in its digital adoption journey?
 Base: Those currently trialling or adopted digitalisation in at least one department (522)

Digitalisation has led to better business performance, higher productivity, and increased customer outreach

> Impact of digitalisation



> Most impacted areas by sectors

Higher productivity or efficiency

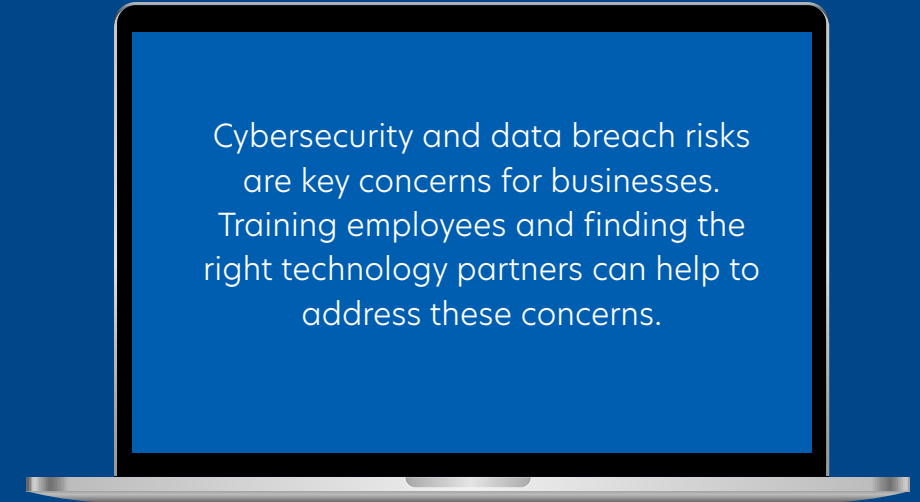
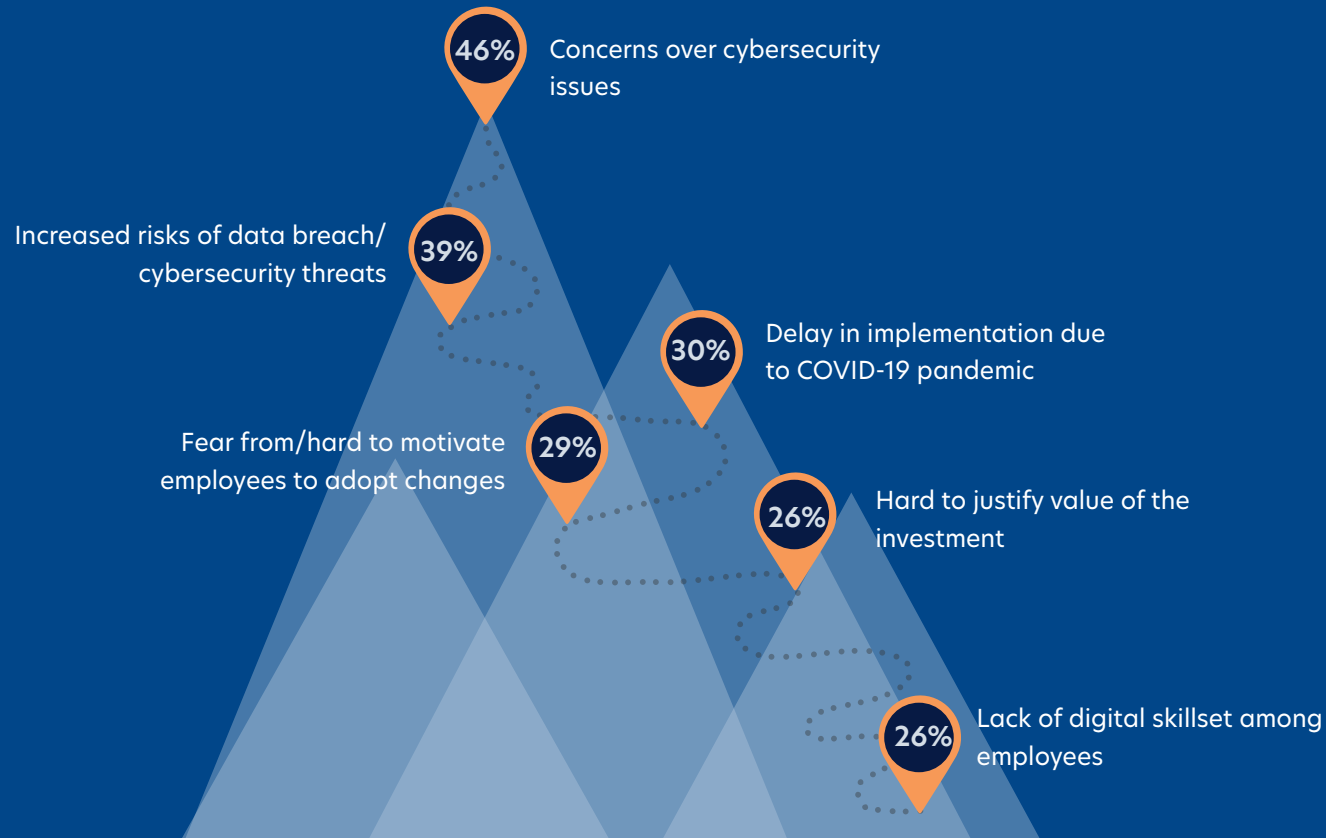


Increase customer outreach



Yet, there are several challenges that need to be addressed

> Top challenges in digitalisation



> Top challenges by sectors

Concerns over cybersecurity issues



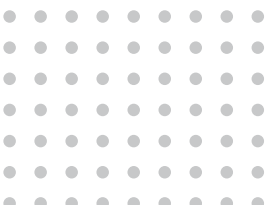
Increased risks of data breach/cybersecurity threats





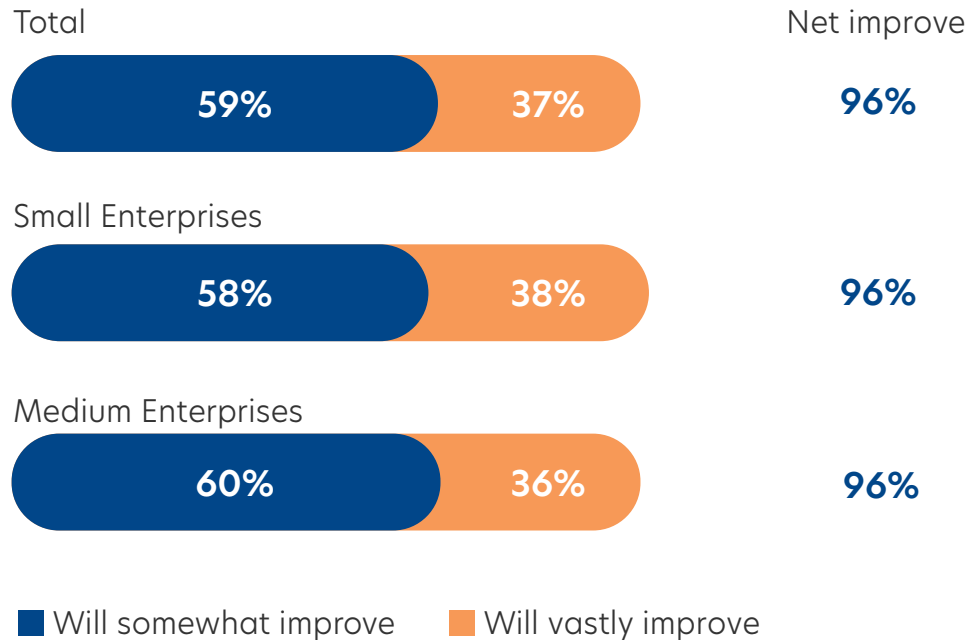
State of Digitalisation

Outlook for 2023



Post digitalisation business outlook is expected to be positive

> Business outlook post digitalisation



Most positive outlook (sectors)



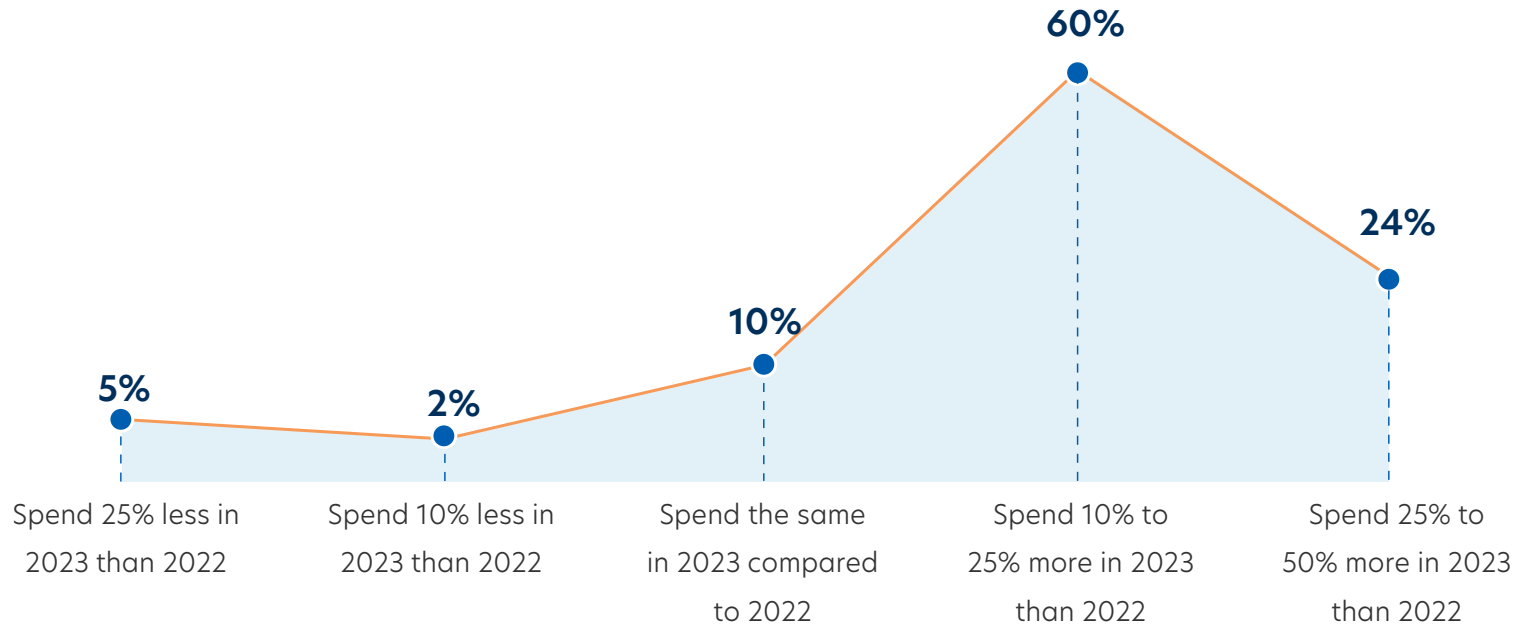
Most positive outlook (cities)



Q) How do you see your company's business outlook changing (e.g. revenue, productivity) in 2023, after digital adoption?
Base: Total (530)

Hence, businesses are continuing their digitalisation journey. Most expect to spend more on it in 2023

> Future expenditure in 2023



84%
of businesses foresee spending more on digitalisation in 2023.



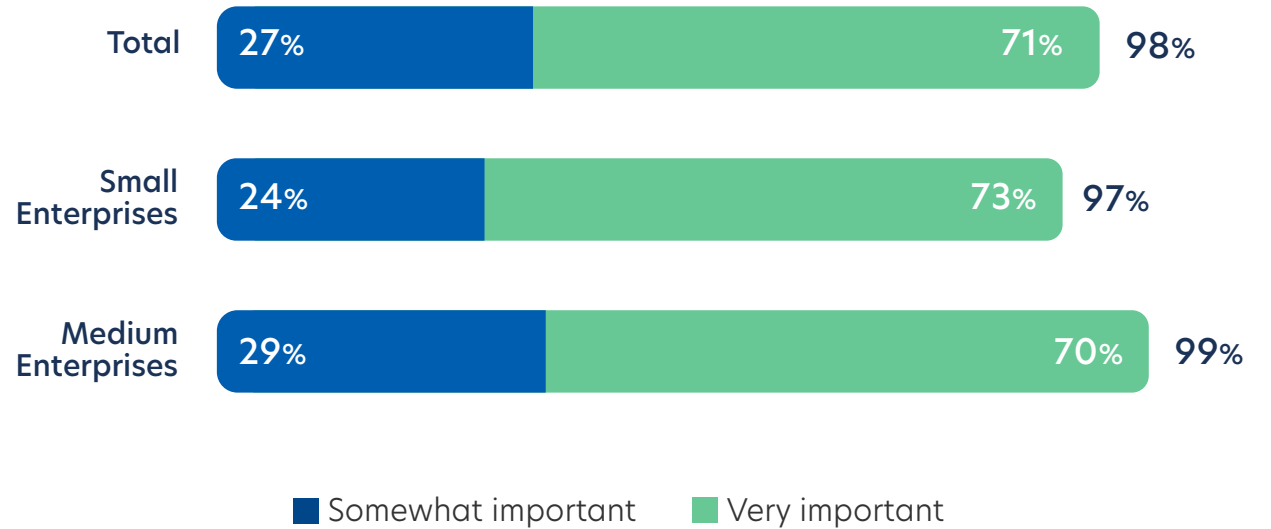
6. | Supply Chain Management (SCM)

SCM is important to most businesses in Indonesia

Over **7 in 10** businesses consider SCM very important.



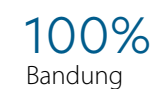
> Importance of SCM



Higher importance to SCM (sectors)



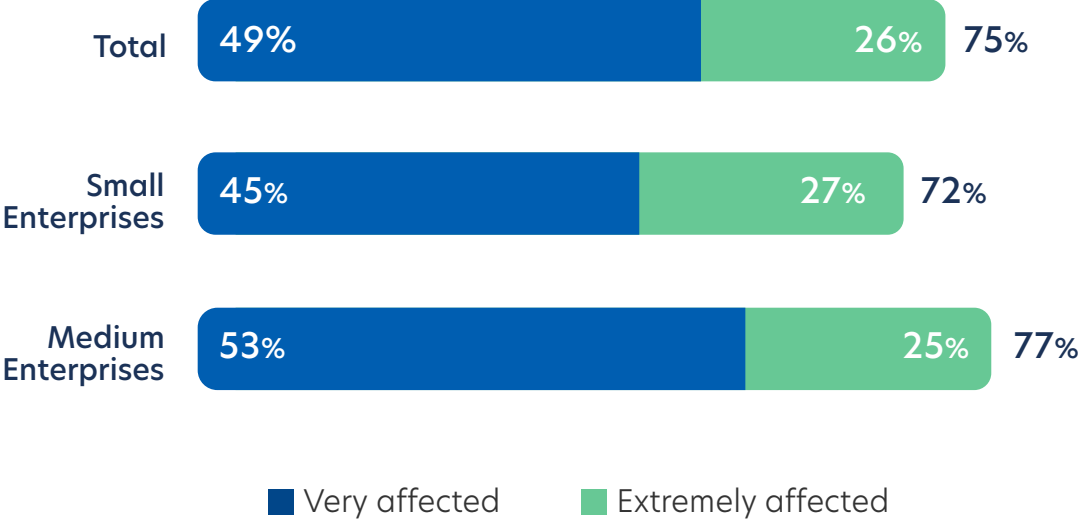
Higher importance to SCM (cities)



Q) How important is supply chain management to your business? Base: Total (530)

Geopolitical tensions are having an adverse impact on supply chains

> Geopolitical impact on supply chains



Nearly **8 in 10** businesses say their supply chain has been affected by geopolitical tensions.

Most impacted sectors



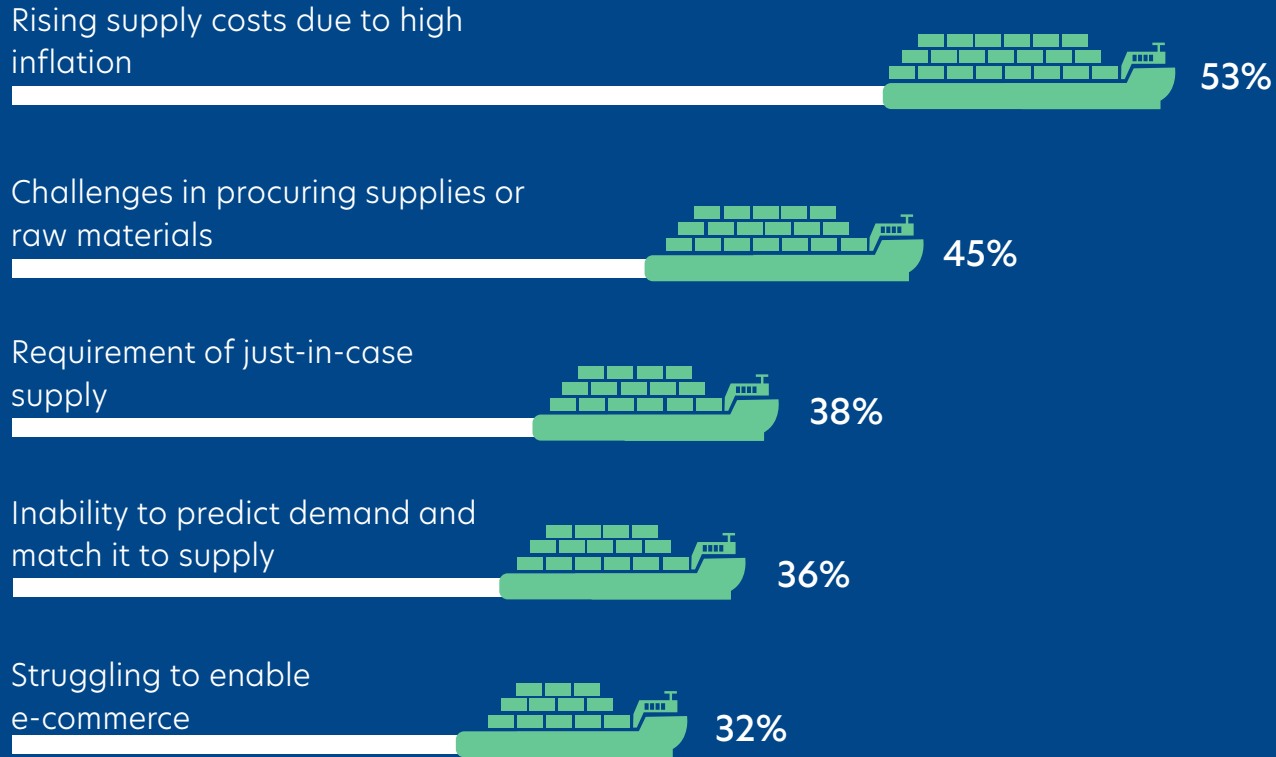
Most impacted cities



Q) To what extent has your company's supply chain been affected by geopolitical tensions such as Russia-Ukraine conflict, US-China trade tensions, or by COVID-19 restrictions etc.? Base: Total (530)

This has led to rising supply costs and challenges in procurement

> Key supply chain challenges



> Higher challenge sectors/enterprises

Rising supply costs due to high inflation



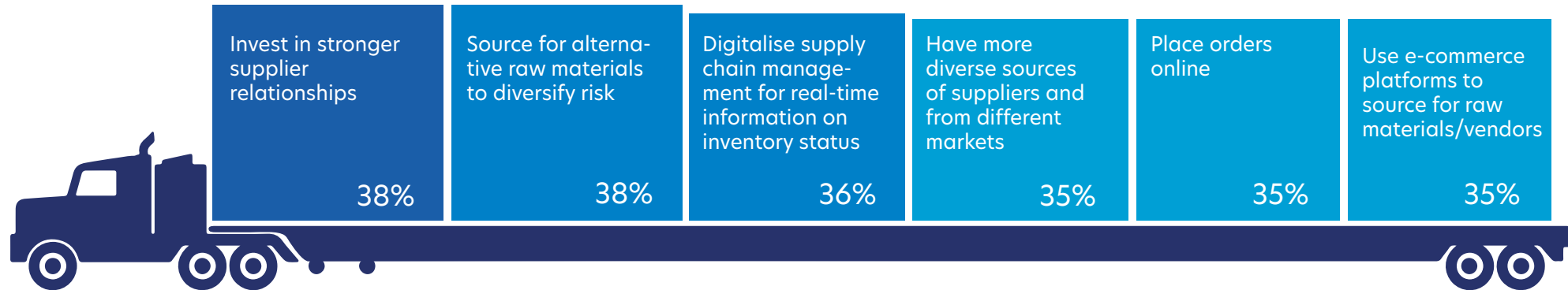
Challenges in procuring supplies or raw materials



Over **1 in 2** businesses say their key supply chain challenge is rising supply costs due to high inflation.

To address these challenges, businesses are investing in stronger relationships and sourcing for alternative raw materials

> Actions for supply chain stability



> Top actions by sectors

Invest in stronger supplier relationships

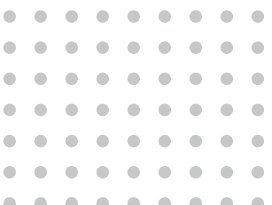


Source for alternative raw materials to diversify risk



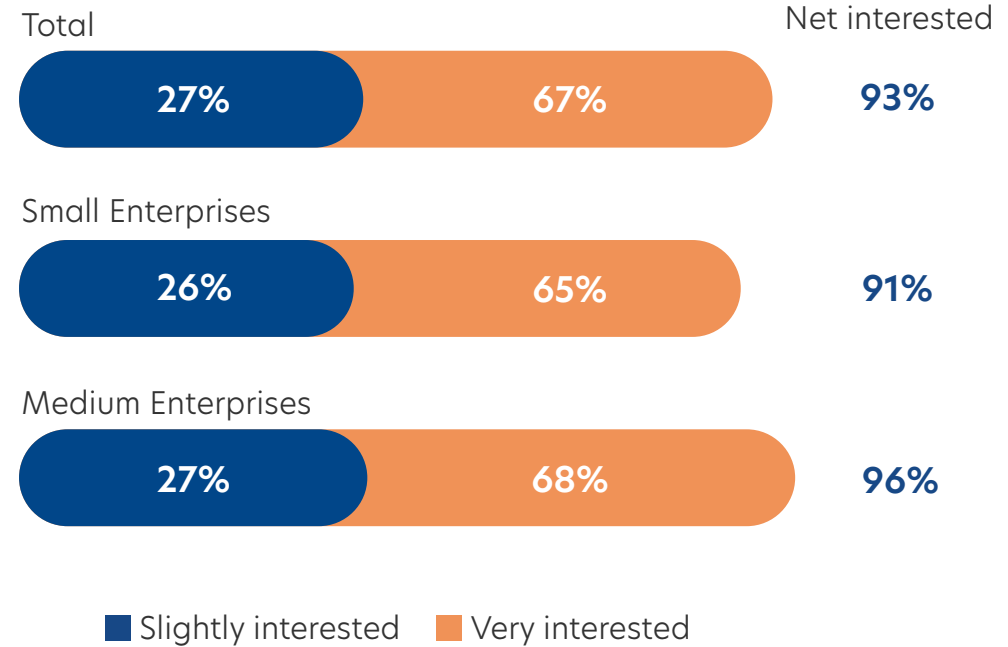


7. | Interest in Overseas Expansion



Over 9 in 10 businesses in Indonesia are interested to expand overseas

> Interest in overseas expansion



Most interested sectors

100%
Professional Services

98%
Business Services

98%
Wholesale Trade

Most interested cities

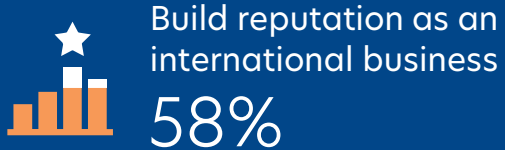
96%
Jakarta

95%
Semarang

Q) How interested is your business in expanding overseas in the next three years? Base: Total (530)

Interest in expansion is fuelled by a desire to grow revenue, improve profits and build an international reputation

> Motivators for overseas expansion



> Top motivators by sectors

Grow revenue



Improve profitability



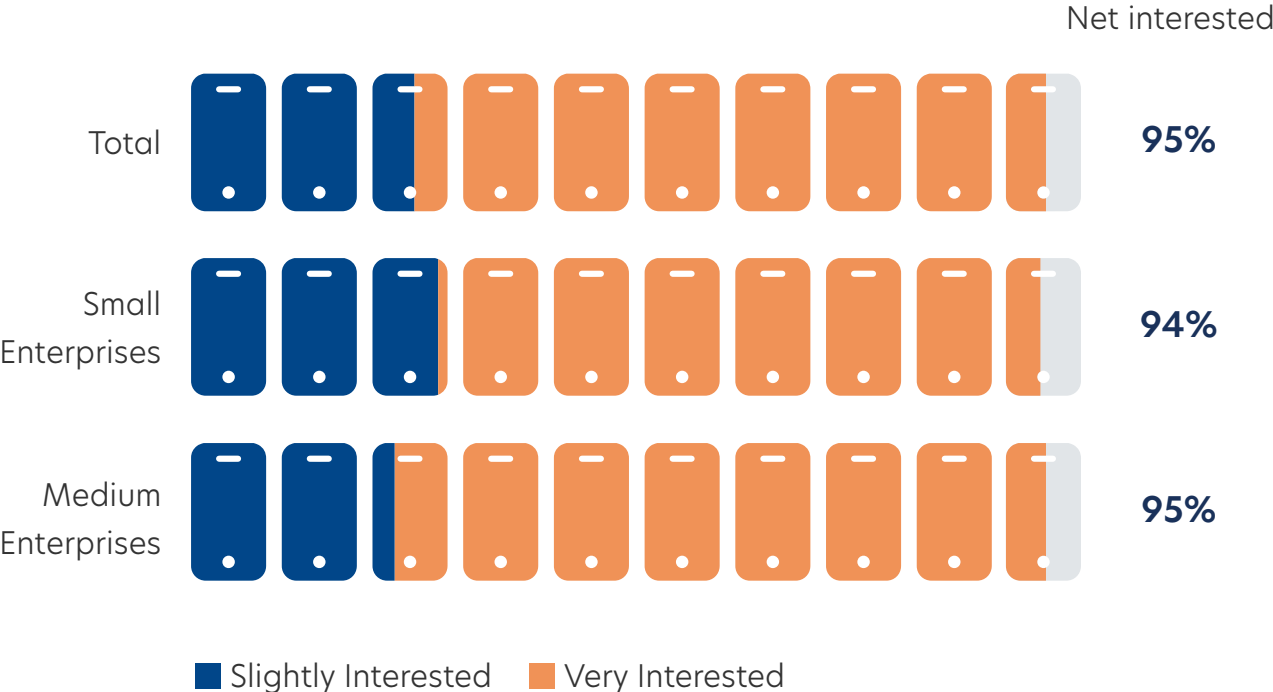
Build reputation as an international business



Nearly **7 in 10** businesses are looking to expand overseas to grow revenue and improve profit.

Thus, cross-border digital trade platforms as a means for overseas expansion have high interest

> Interest in using cross-border digital trade platforms



Over **9 in 10** businesses are interested in leveraging cross-border digital trade platforms for their overseas expansion.

Most interested sectors



Most interested cities

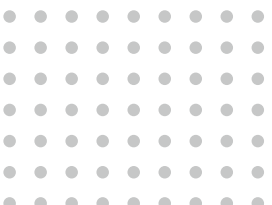


Q) How interested is your company in using cross-border digital trade platforms as a means for overseas expansion?
Base: Total (530)



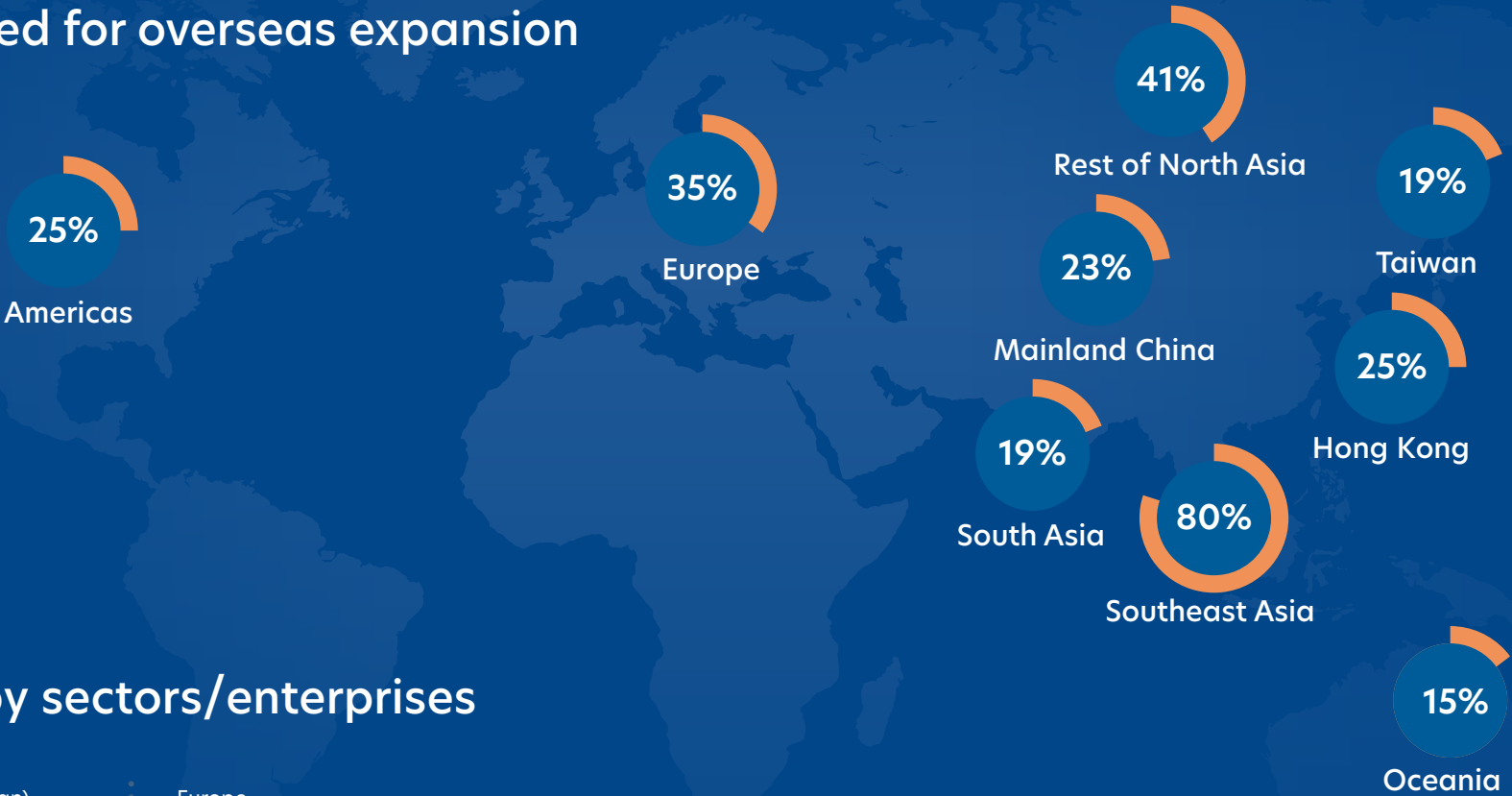
Interest in Overseas Expansion

Future Expansion Plans

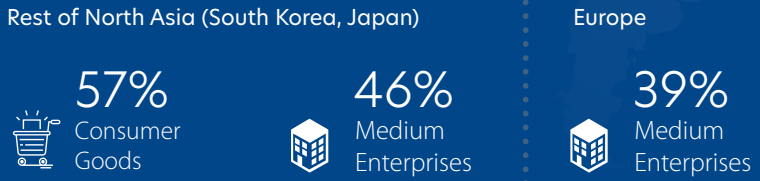


Southeast Asia, Rest of North Asia and Europe are key markets of interest for overseas expansion

> Location planned for overseas expansion



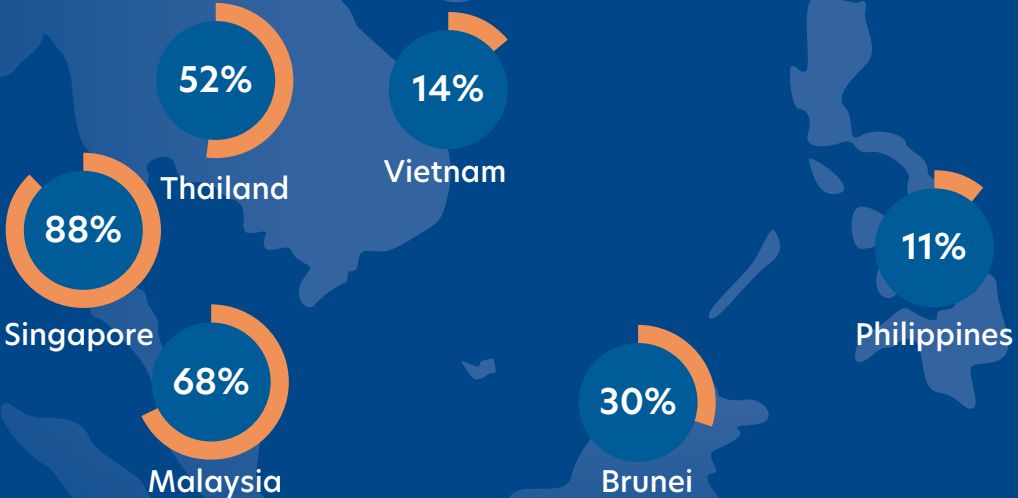
> Top locations by sectors/enterprises



Q) Which of these markets is your enterprise intending to venture into within 3 years (by 2025)? Base: Interested in overseas expansion (495)

Singapore, Malaysia and Thailand are the top 3 expansion markets within ASEAN

> Priority markets within ASEAN



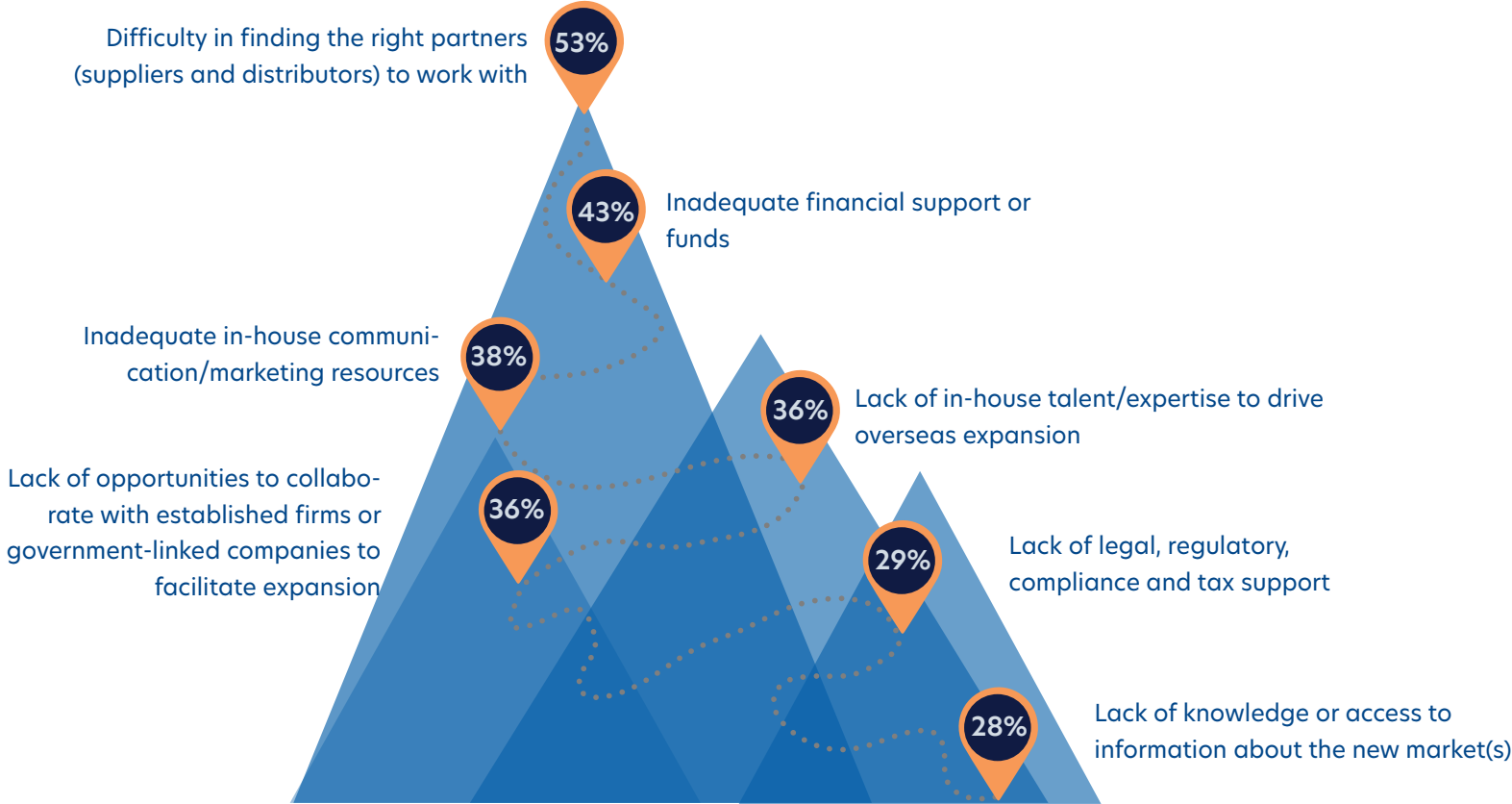
> Top ASEAN locations

- Singapore
- 92% Jakarta

Q) Please select the most important countries (up to 3) in ASEAN that your enterprise is intending to venture into within 3 years (by FY2025).
Base: Interested in expanding within ASEAN (169)

Difficulty in finding the right partner and inadequate financial support or funds are key hurdles to expansion

> Expected challenges for overseas expansion



Q) What are the key barriers in your effort for overseas expansion? Base: Total (530)

> Top challenges by sectors

Inadequate financial support or funds



Inadequate in-house communication/marketing resources



Support from the government and UOB (1/2)

Financial support

MSMEs Subsidy Loan: Indonesian government has introduced Kredit Usaha Rakyat (KUR) and Pembiayaan Ultra Mikro (UMi) programs as social assistance programs to provide financial access to Indonesia's MSMEs. KUR will be channeled through banks while UMi will be channeled through non-bank financing institutions. Specifically, Indonesian government support through KUR is provided in the form of interest subsidies, while UMi lenders provide interest rates of 2-4% or below bank's interest rate generally. In addition, through UMi, lenders are also required to provide mentoring and business training for at least 1 year. Bank Indonesia (BI) also conducted a regulation to require minimum 20% of the total bank loan in Indonesia's commercial bank as MSMEs loan. This regulation continuously drove the loan to grow steadily to IDR1,378tn or 7.6% y/y in May'23 which are mostly in the agriculture and manufacturing sector. Indonesian government also set a target to Indonesian commercial bank to deliver 30% of total loan share to MSMEs sectors in 2024. To achieve the target, BI also provided additional GWM incentive of maximum 1% through Rasio Pembiayaan Inklusif Makroprudensial (RPIM) mechanism.

Sustainability support

Indonesian Circular Economy: Sustainable MSMEs development in Indonesia has been carried out by many government and private institutions. Currently, the development of MSMEs in Indonesia is encouraging MSME to be more competitive, independent, and sustainable. Circular economy concept has been implemented into MSMEs development in Indonesia. Several initiatives carried out by Indonesian government are encouraging the MSMEs to optimize and processing waste to be valuable commodities as a result. BI has developed digital and integrated eco-farming, a concept to utilize the agriculture productivity by using high-tech support and organic processing. End-to-end development to the MSMEs also implemented by promoting the products to international event and utilizing the use of the products by our government.

Digitalisation support

UOB BizSmart: Offers a suite of digital solutions from accounting, HR and payroll to digital transactions, digital marketing and collaboration, to drive business efficiency and growth.

Indonesian Integrated Digital Catalog: Indonesia has E-catalog as a procurement application developed by the Government Procurement Policy Agency (LKPP). This application provides a wider range of products from various commodities including MSME products needed by the government. The integration of MSMEs products and E-Catalog will increase product sales, encourage the use of domestic MSME products, and reduce the imports of consumer goods.

Financial Reports Assistance: Indonesian government initiated the Financial Information Recording Application Information System (SIAPIK) which can facilitate MSMEs in recording business financial transactions and can automatically produce digital financial reports.

Support from the government and UOB (2/2)



Overseas Expansion/Supply Chain Support

Collaborating Program Between Government-Private Sector: Indonesian government has provided policy support for businesses to expand globally. Various efforts and programs to increase MSME exports have been initiated by the government and the private sector in the form of promotional events, application development, export training such as the Kreasi Nusantara "From Local to Global" event which facilitates the sales of Indonesian products to Malaysia and Singapore. In addition, there is also the BukaGlobal channel, an application feature integrated with one of the e-commerce that facilitates the purchase of local products by customers from Malaysia, Singapore, Brunei, Hong Kong, and Taiwan. In terms of payment system support, Bank Indonesia has launched QRIS cross border payment which facilitates transactions between countries to be easier. Furthermore, the Indonesian government also conducts business matching with overseas customers and retailers to encourage the integration of MSMEs businesses.



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