

UOB Business Outlook Study 2024 (SMEs & Large Enterprises)



Indonesia Report



Foreword

In 2023, while uncertainties such as geopolitical tensions persist and global economic activity moderated on the back of slower demand, changing macroeconomic factors still brought about opportunities for businesses to adapt to the changing market dynamics.

Closer to home, ASEAN economies have remained resilient and continue to evolve in the global economy with strong foundations driven by growing consumer markets, a young and dynamic workforce, increased interconnectivity and foreign direct investments.

We are well-positioned to operate in this sweet spot of more than 650 million people in partnering businesses to leverage growth levers to strengthen supply chain management, accelerate digitalisation and progress towards net zero.

The UOB Business Outlook Study 2024 (SMEs and Large Enterprises) surveys over 4,000 companies across industries and 7 markets (525 companies in Indonesia across industries), to capture current business sentiments and to understand how we can continue to support their needs, to develop resilience and build growth.

Insights from this Study cover three key areas:

1. The trends that are shaping the growth of businesses, in the areas of Sustainability, Digitalisation, Supply Chain Management, 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

In a region that holds rich potential for business opportunities, SMEs need strategic partners with the ambition and capability to unlock the region's potential and build the future of ASEAN. This is especially critical for companies that are looking to expand their business networks and grow beyond domestic markets.

As the One Bank for ASEAN, we are committed to realise the potential of businesses and facilitate economic flows within and with ASEAN for long-term growth. We connect businesses to opportunities in the region with our industry insights and strong sector expertise. Together with our extensive regional footprint, as well as deep local market knowledge, we enable businesses to navigate market complexities and seize growth opportunities in ASEAN and the rest of the world.

We look forward to connecting you to new growth opportunities across the region and beyond.

Eric Lian

Head, Group Commercial Banking
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Group Wholesale Banking

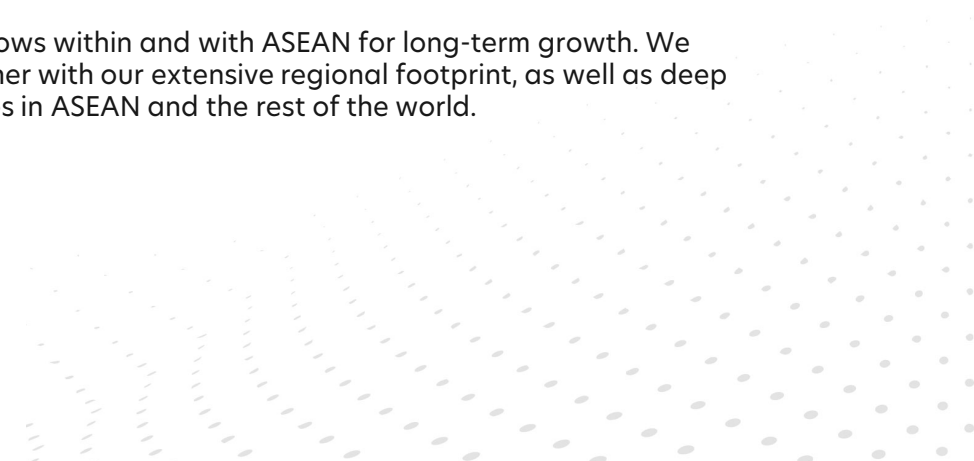


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Background & Methodology

UOB conducted a Business Outlook Study in Indonesia covering 525 business owners and key executives from SMEs and Large Enterprises.

The Business Outlook Study provides a comprehensive understanding of the current business sentiment, inflation impact and outlook among businesses across various sectors in Indonesia.

By capturing robust insights around key themes such as Sustainability, Digitalisation, FinTech Adoption, Overseas Expansion and Supply Chain Management this study can help Indonesia businesses better understand the current environment they are operating in and plan for future opportunities and challenges.

▶ WHAT

 15-minute online survey


 Data collection:
End-Dec 2023 – mid-Jan 2024

 Total of **525** interviews

▶ WHERE

 Indonesia

▶ WHO

 Businesses with revenue of IDR 6 billion to 3 trillion

 Covers SMEs across key industry verticals

 Owners/C-suite/Management level who are involved with business decision making

Industries	Sample
Tech, Media & Telecom	59
Manufacturing & Engineering	58
Business Services	57
Consumer Goods	56
Construction & Infrastructure	56
Wholesale Trade	56
Community & Personal	56
Professional Services	51
Real Estate & Hospitality	43
Industrials, Oil & Gas	33
Total	525

Industry verticals: Consumer Goods; MFG & Engineering; Tech, Media & Telecoms; Construction & Infrastructure; Community & Personal; Business Services; Wholesale Trade; Professional Services; Real Estate & Hospitality; Industrials, Oil & Gas

Classification of businesses used: Small Enterprises: annual turnover of IDR 6b to <110b, Medium Enterprises: annual turnover of IDR 110b to <3t

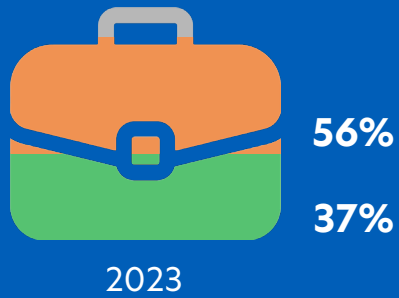


Business sentiment and outlook



Nearly 6 in 10 businesses in Indonesia believe the current business environment is very positive.

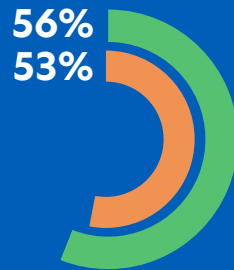
▶ Current environment in Indonesia



56%
37%

- Very positive
- Somewhat positive

Most positive sectors



Business environment has improved in 2023 vs 2022

- 2022
- 2023

Most positive cities



Q. How do you perceive the current business environment in Indonesia?
Base: Total 2023 (525), 2022 (530)

But businesses have been impacted by high inflation and rising operational costs.

▶ Factors impacting businesses in 2023

Over 4 in 10 businesses in Indonesia are impacted by high levels of inflation.

Nearly 4 in 10 businesses in Indonesia are impacted by rising operational cost.



41%

High levels of inflation



38%

Rising operational cost (raw materials, rentals etc.)



28%

Hike in utility prices



26%

Rising interest rates



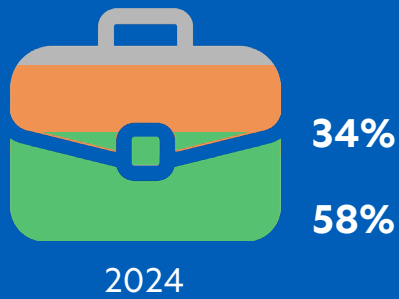
24%

Geopolitical issues

Q. Which of the factors below had the biggest impact on your business in 2023? Select up to 5.
Base: Total, 2023 (525)

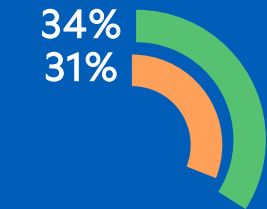
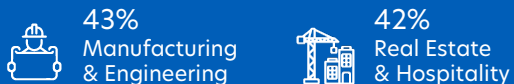
Over 3 in 10 businesses in Indonesia expect a vastly improved business performance in 2024. Digitalisation and finding new business partnerships will be top priorities.

▶ Future outlook 2024



- Vastly improving
- Somewhat improving

Most improved sectors



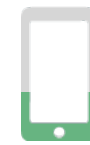
Businesses outlook for 2024 has improved vs. 2023

- Vastly improving, 2023
- Vastly improving, 2024

Most improved cities



▶ Business priorities for the next 1-3 years



32%

Digitalise the business to achieve business efficiencies



32%

Find new business partnerships for collaboration



30%

Develop new sources of revenue



28%

Move business towards ESG practices in operational processes and product development



27%

Review business strategy to differentiate from our competitors

Future priorities reflect the current market reality of high inflation and rising operational cost. Businesses plan to achieve business efficiencies through digitalisation and increase their revenue through new business partnerships and developing new sources of revenue.

Extending the range of products or services and working with industry or large businesses are key to driving future growth. Businesses are looking for user-friendly channels and automation to ease customer interactions.

▶ Plans to achieve business priorities

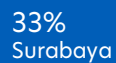


▶ Extend our range of products and/or services

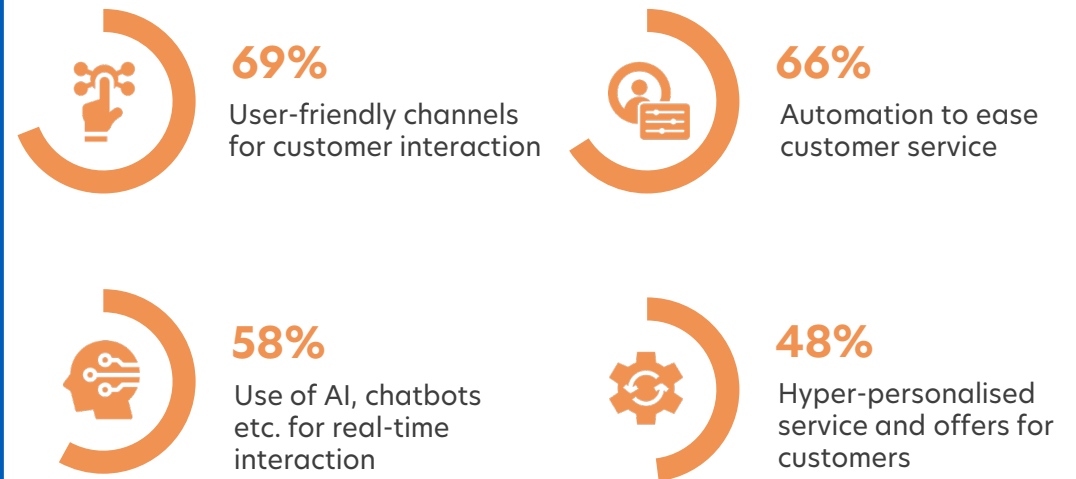
Higher focus sectors



Higher focus cities

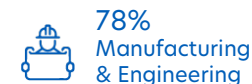


▶ Key capabilities to improve



▶ User-friendly channels for customer interaction

Higher focus sectors

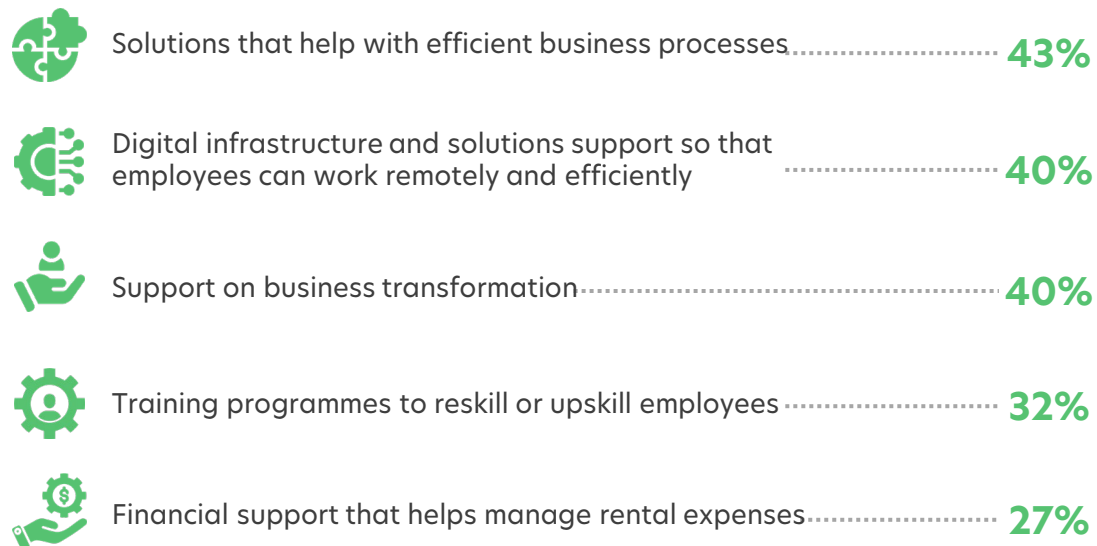


Higher focus cities



Solutions that help with efficient business processes are the need of the hour for businesses, particularly those in Community & Personal and Consumer Goods sectors.

► Support for future business success



► Top support areas

Solutions that help with efficient business processes

Most needed sectors



Digital infrastructure and solutions support

Most needed sectors



Q. What type of support would help your company towards business success in 2024 and beyond? This support could be from government, industry bodies etc.

Base: Total, 2023 (525)

► What can banks and Financial Institutions do?



Providing solutions that help with efficient business processes is critical for future business success.

Short-term measures like lower rates and long-term supports such as collateral-free loans and investment services that specifically address high inflation would help allay their inflation concerns.

Q. Going forward, what support can banks and financial institutions offer to help companies with business growth through 2024 and beyond?

Base: Total, 2023 (525)



Overseas expansion



A desire to improve profitability and grow revenue are fuelling interest in overseas expansion in over 6 in 10 businesses in Indonesia.

▶ Level of interest in overseas expansion

Interested (Very or slightly) **93%**

Very interested



Slightly interested



Neutral or Not interested



▶ Most expansion interest

Most interested sectors

100%
Manufacturing & Engineering

96%
Business Services

Most interested cities

95%
Surabaya

95%
Semarang

▶ Motivation for overseas expansion



65%
Improve profitability



62%
Grow revenue



53%
Build reputation as an international business



39%
Leverage my company's regional or global network

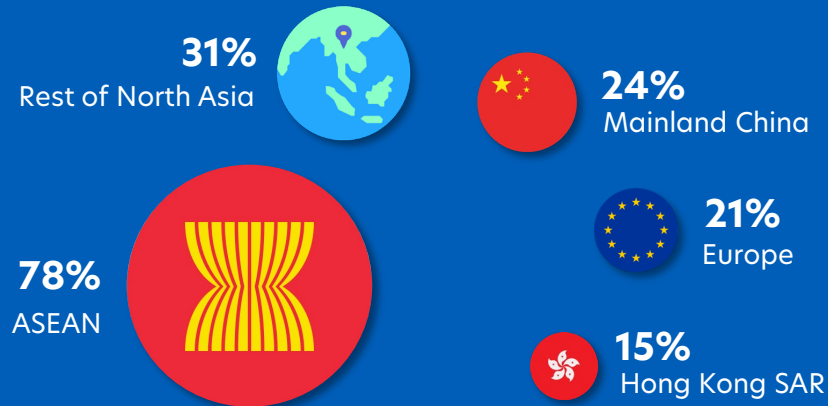


25%
Take advantage of opportunities for my products and services

Cross-border digital trade platforms are a popular means to achieving overseas expansion with over 9 in 10 businesses showing interest in using them.

ASEAN and Rest of North Asia are key markets for future expansion. Within ASEAN, Malaysia and Singapore are top destinations.

▶ Top locations seeking to enter



▶ Top locations by sectors

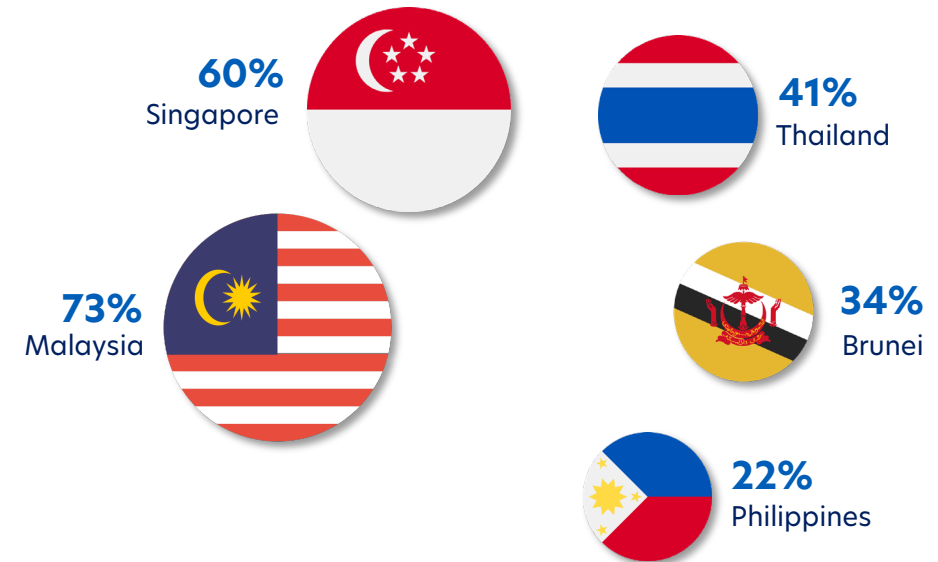
Venture into ASEAN



Venture into Rest of North Asia

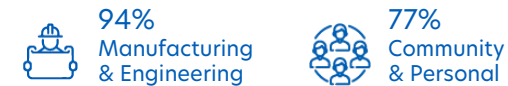


▶ Top ASEAN locations seeking to enter



▶ Top ASEAN locations by sectors

Venture into Malaysia



Venture into Singapore

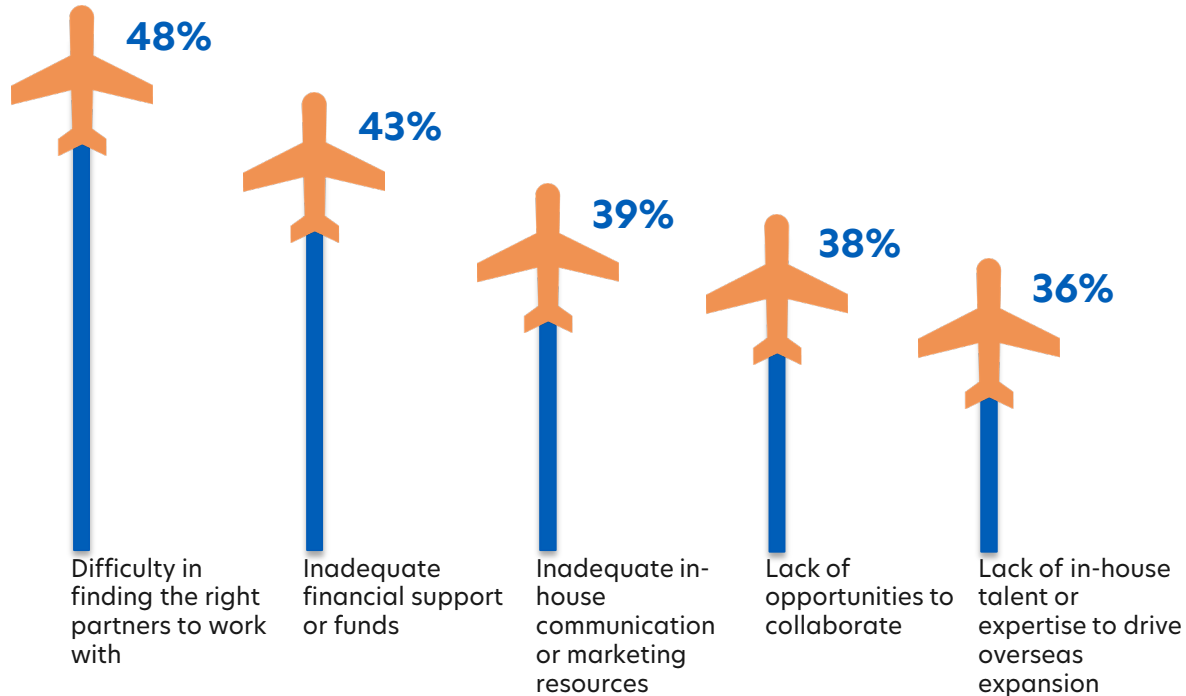


Q. Please select the most important countries (up to 3) in ASEAN that your company is intending to venture into within the next 3 years (by 2026).
Base: Interested in expanding within ASEAN 2023 (379)

Q. Which of these markets is your company intending to venture into within the next 3 years (by 2026)?
Base: Interested in overseas expansion (489)

Overseas expansion is challenging due to difficulty in finding the right local partners to work with, inadequate financial support and inadequate in-house communication or marketing resources.

▶ Top barriers for overseas expansions



▶ Top challenge by sectors

Difficulty in finding the right partners to work with

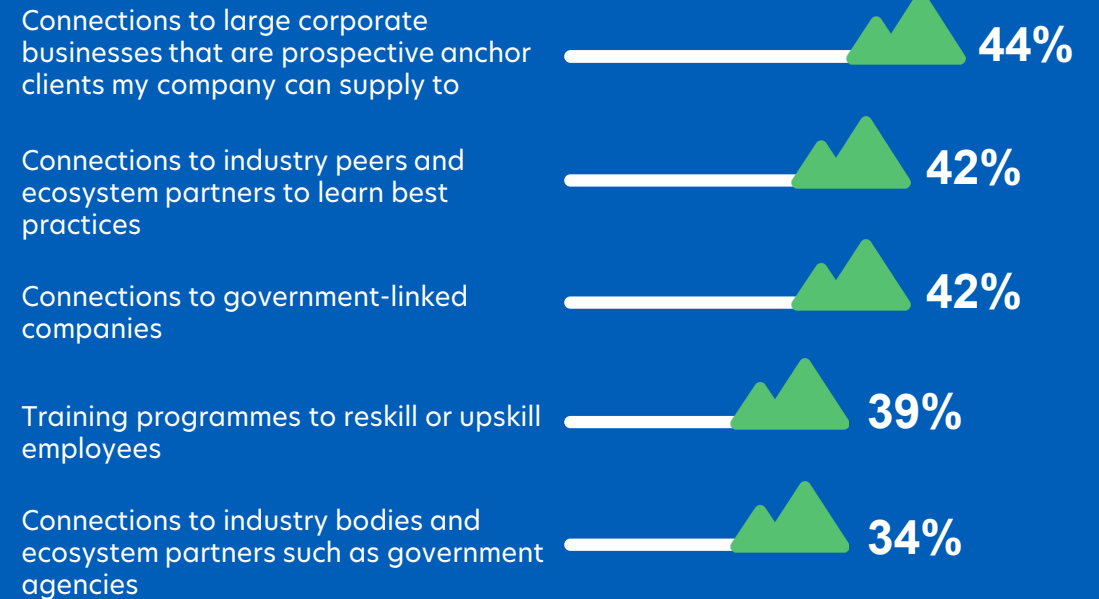


Inadequate financial support or funds



Q. What are the key barriers in your effort for overseas expansion?
Base Total (525)

▶ Expected support measures



Connections to large businesses as anchor clients and connections to industry peers and government-linked companies are key to encouraging businesses to expand overseas.

Q. What support does your business require to expand overseas? This support could be from government, banks, industry bodies etc.
Base: Interested in overseas expansion (495)

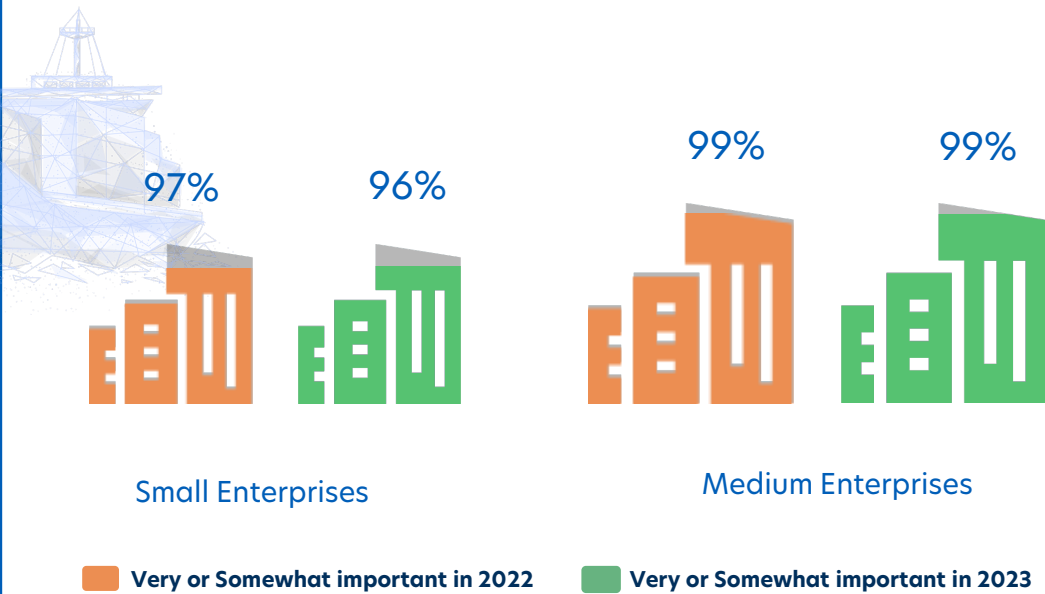


Supply Chain Management (SCM)



SCM continues to be important for businesses, across both Small and Medium Enterprises.

► Importance of SCM

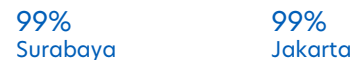


► Most important by sectors and cities

Most important sectors



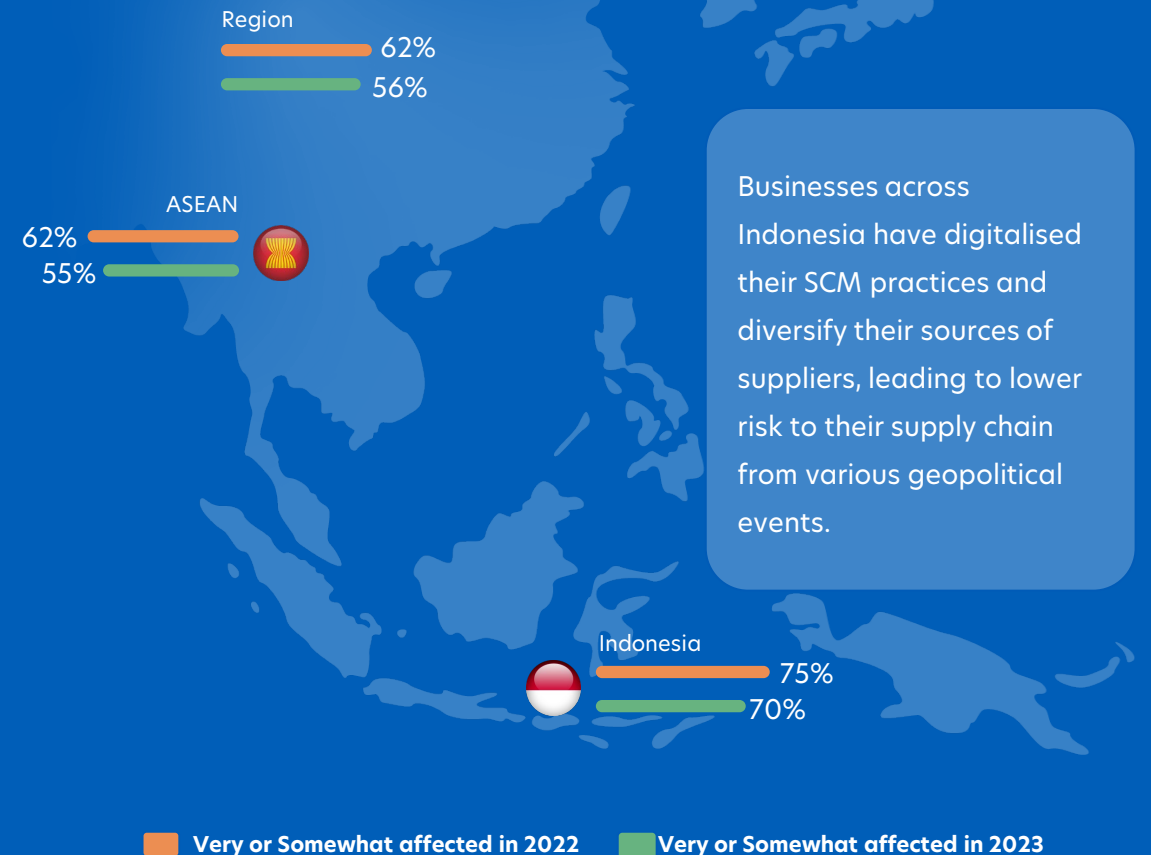
Most important cities



Q. How important is supply chain management to your business?
Base: Total 2023 (525), Small Enterprises (246), Medium Enterprises (279)

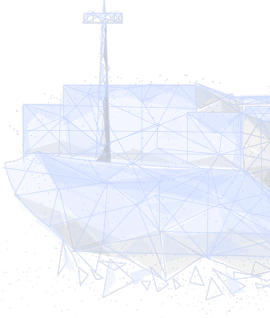
While fewer businesses in Indonesia are now impacted by geopolitical tensions compared to 2022, it continues to be affected more than the region average.

► Impact of geopolitical tensions on supply chain

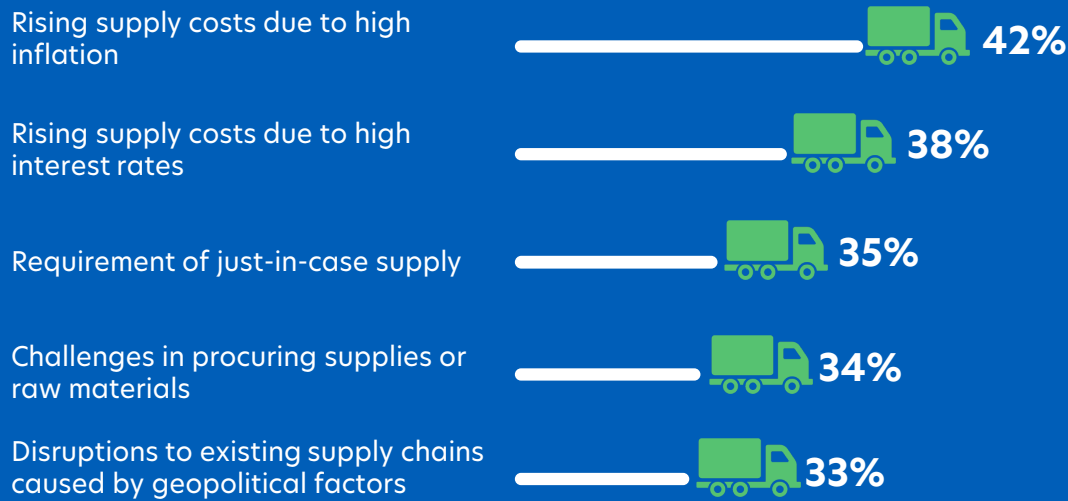


Q. To what extent has your company's supply chain been affected by geopolitical tensions such as US-China trade tensions, Russia-Ukraine conflict, Israel-Hamas conflict etc.?
Base: Total 2023 (525), 2022 (530)

Rising supply costs due to high inflation and interest rates, and requirement of just-in-case supply are key challenges. Businesses are adapting by digitalising their SCM and having a diverse source of suppliers.



▶ Top challenges in SCM



▶ Top challenges by sectors



Q. What are the current challenges faced by the business in supply chain management?
Base: Total 2023 (525)

▶ Actions to stabilise supply chain








▶ Top actions by sectors



Q. What steps, if any, have you taken or are planning to take to ensure a stable supply chain in the future?
Base: Total 2023 (525)

Businesses seek to collaborate with industry bodies and build connections with technology partners and industry peers.

► Preferred support for supply chain stability

	Top support areas		
	Total	Small Enterprises	Medium Enterprises
Opportunities to collaborate with industry bodies, government-linked or large businesses	50%		
Connections to the right technology and solution providers	48%		
Connections to industry peers and ecosystem partners to learn best practices	42%		
Easier access to funding or grants	41%		
Training programmes to reskill or upskill employees	40%		

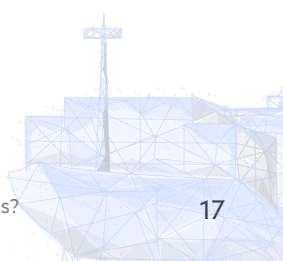
Q. What support in your opinion should be available to businesses to ensure supply chain stability? This support could be from government, banks, industry bodies etc..
Base: Total 2023 (525)

Export services, invoice financing and import services are top trading needs that businesses have.

► Trading needs among businesses



Q. What trade services do you think your financial partner should provide to support your trading needs?
Base: Total 2023 (525)

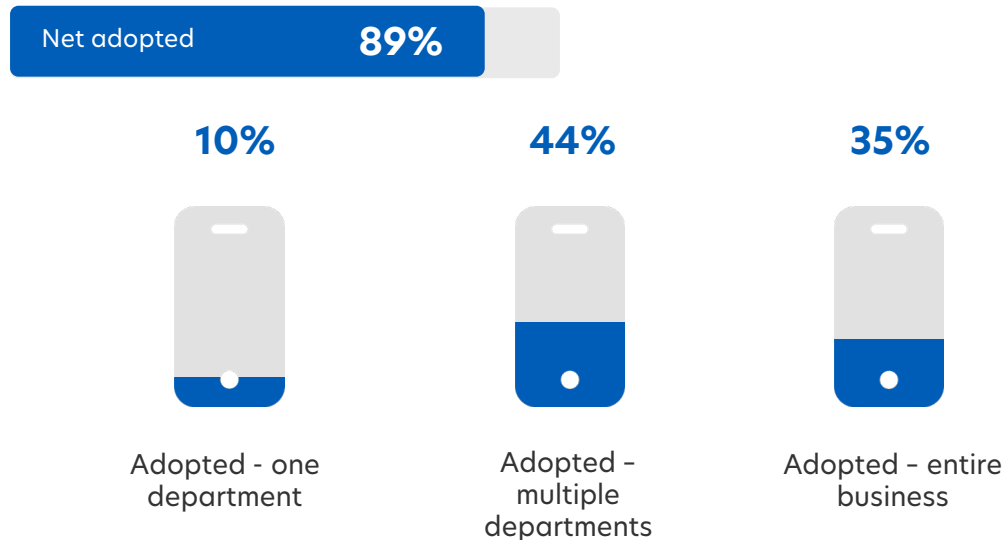




State of digital adoption

Nearly 9 in 10 businesses have adopted digitalisation. Most have digitalised multiple departments.

▶ Current state of digital adoption



▶ Most digitalised

Most digitalised sectors



Most digitalised cities



Nearly 9 in 10 businesses have achieved considerable or great success with digitalisation.

▶ Success with digitalisation



Success in digitalisation is not just about extensive adoption across departments or entire business. Even businesses with more extensive digital adoption can be unsuccessful in digitalisation efforts due to cybersecurity concerns, lack of expertise among employees and the high cost of hiring new tech talents

▶ Most success with digitalisation

Most successful sectors



Most successful cities



In future, businesses are likely to continue to focus on customer-facing functions like marketing, sales and customer service.

▶ Currently digitalised processes



44%

Marketing



43%

Expense management



41%

Sales



41%

Customer service



34%

Customer relationship management

▶ Processes for future digitalisation



43%

Marketing



41%

Sales



40%

Expense management



39%

Customer service



37%

Human resource management

Q. Which of these processes did your company digitalise specifically to help your business perform better in 2023?
Base: Those currently trialling or adopted digitalisation in at least one department (511)

Q. What business process/es are you looking to digitalise in 2024 to drive business success?
Base: Total, 2023 (525)

▶ Digitalisation spending in 2024

Over 8 in 10 businesses in Indonesia are planning to spend more on their digitalisation efforts in 2024, with most budgeting an increase of 10% to 25%.

61%



Spend 10% to 25% more than 2023

22%



Spend 25% to 50% more than 2023

▶ Most digitalisation spending in 2024

Most spending sectors



Most spending cities

90%
Surabaya

87%
Bandung

Q. Do you foresee spending more on digital solutions and/or technology in 2024 compared with 2023?
Base: Total 2023 (525)

Higher productivity, increased customer outreach and improved business performance are some benefits from digitalisation that are widely acknowledged

Digitalisation impact experienced (Among adopters)

Digitalisation impact expected (Among non-adopters)



Top impact areas

Higher productivity or efficiency

Most impacted sectors

62%
Construction & Infrastructure

53%
Tech, Media & Telecom

Increase customer outreach

Most impacted sectors

56%
Consumer Goods

55%
Construction & Infrastructure

Digitalisation has helped both service-oriented and labour-intensive sectors alike to increase customer outreach and coordination across functionalities or departments and increase productivity.

Security concerns, increased risks of data breach or cybersecurity threats and high implementation costs are major constraints in their digitalisation efforts.

▶ Top challenges for digitalisation



47%

Concerns over cybersecurity issues



36%

Increased risks of data breach or cybersecurity threats



31%

Expensive to implement



30%

Hard to justify value of the investment



25%

Incompatibility between old and new systems

▶ Top challenges by sectors

Concerns over cybersecurity

Most impacted sectors

59%
Tech, Media & Telecom

54%
Wholesale Trade

Increased risks of data breach

Most impacted sectors

43%
Consumer Goods

42%
Business Services

▶ Top support needed for digitalisation

Connections to the right technology and solution providers

50%

Training programmes to reskill or upskill employees

48%

Access to knowledge and expertise in the area

45%

Opportunities to collaborate with industry bodies, government-linked companies or large businesses

44%

Tax incentives or rebates

38%

Connections to the right technology partners can address cybersecurity concerns. Training programmes and access to knowledge and expertise are needed to address the increased risks of data breach or cybersecurity threats.



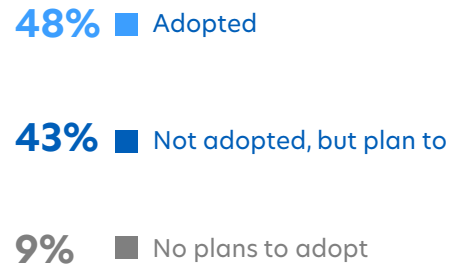
Fintech adoption



There is high FinTech adoption in Indonesia particularly in adopting investment technology and finance & accounting technology.

► Status of FinTech adoption

Net Adopted or Plan to adopt **91%**



► Adopted or plan to adopt by sectors

Most adopted/planned sectors



Least adopted/planned sectors



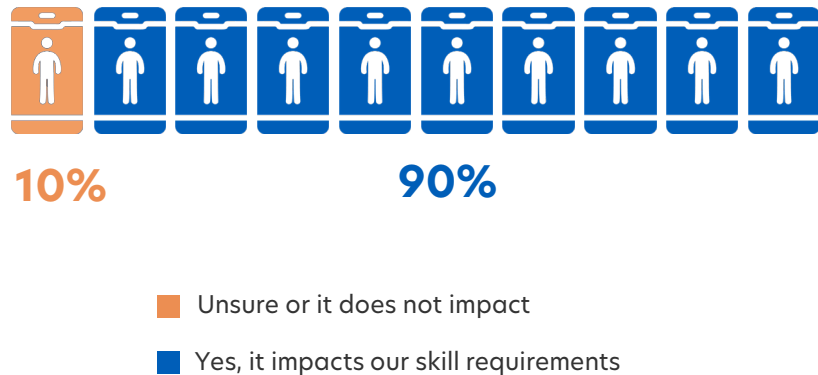
► Top FinTech solutions adopted or planned



Manufacturing & Engineering sector adopts FinTech most for investment technology and finance & accounting solutions. Wholesale Trade uses payments and remittances the most.

Most businesses believe that FinTech impacts their skill requirements. To overcome this, nearly 7 in 10 have invested in training or hiring new staff

▶ Impact of FinTech on skills requirement



▶ Impact of Fintech adoption by sectors



Q. Do you believe that FinTech adoption has an impact on the skill requirements for your workforce?
Base: Adopted or planning to adopt FinTech (478)

▶ What are businesses doing about it



There is a need to bridge the investment gap in training or hiring new staff to harness the value of FinTech solutions, particularly among sectors like Consumer Goods and Construction & Infrastructure that are lagging.

▶ Invested in training or hiring



Q. Has your company either considered or invested in training/hiring new staff to manage or create the value that FinTech solutions can bring?
Base: Adopted or planning to adopt FinTech (478)

FinTech solutions are seen to be cost-effective, quick and convenient. But concerns around lack of knowledge, security concerns and regulatory uncertainty hamper wider adoption.

▶ Top differentiators for FinTech solutions



▶ Top differentiators by sectors

Cost-effective solutions

72%
Manufacturing & Engineering

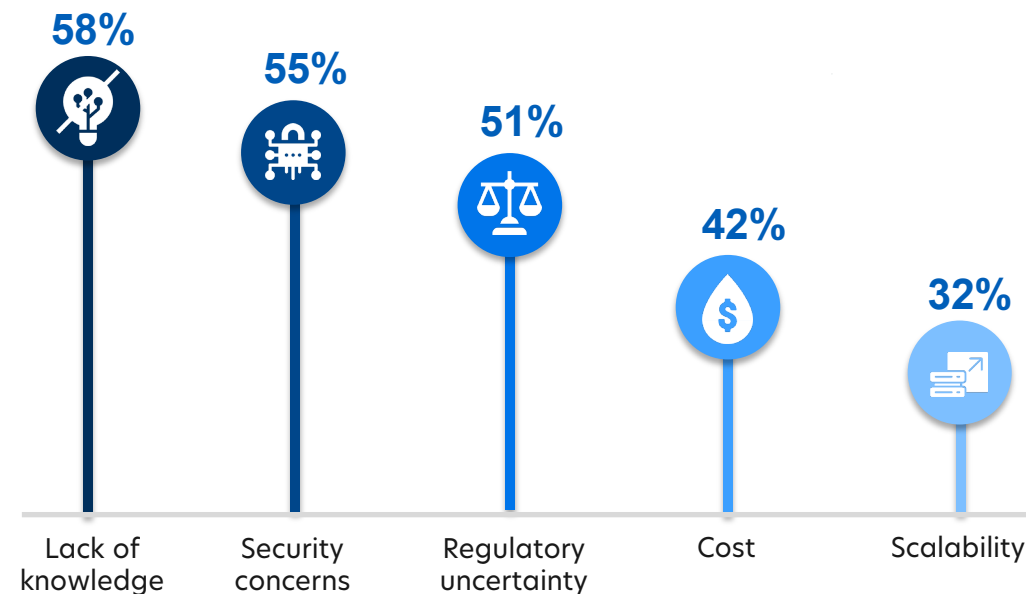
68%
Tech, Media & Telecom

Better speed of service and transactions

71%
Professional Services

65%
Consumer Goods

▶ Top challenges of FinTech solutions



More Medium Enterprises have adopted FinTech solutions compared to Small Enterprises. Consequently, they encounter more challenges particularly on cost, regulatory uncertainty and security concerns.

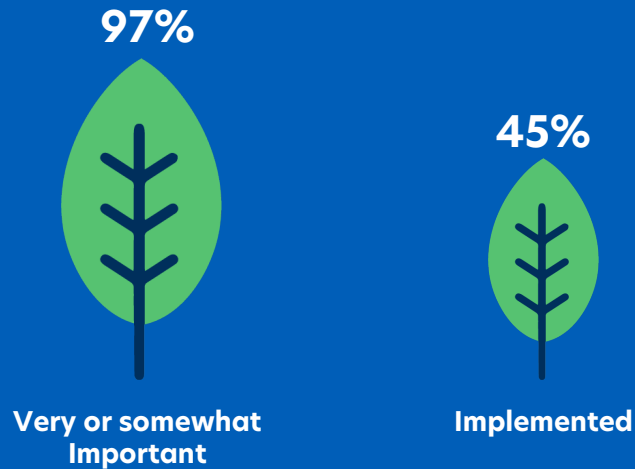


Sustainable business



There is a clear disconnect among businesses on importance of sustainability versus actual adoption.

▶ Current state of sustainability



▶ Least adopted businesses

Least adopted sectors



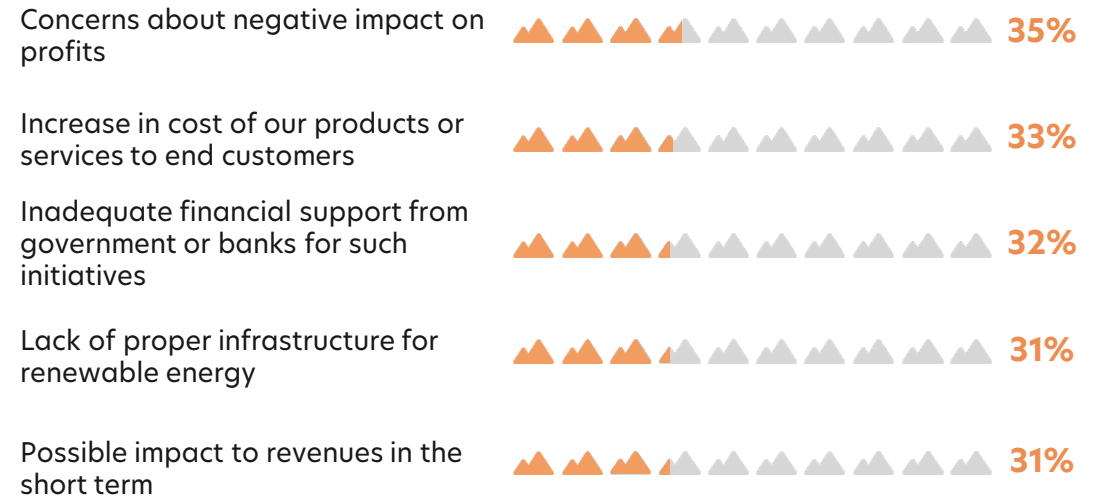
Least adopted cities



Q. How important is sustainability (Environmental, Social and Governance considerations) to your business?
SB1C. What stage is your company at today in the adoption of sustainability practices?
Base: Total 2023 (525)

Concerns about negative impact on profits, increase in cost to customers, and inadequate financial support are holding back higher adoption.

▶ Key barriers to sustainability

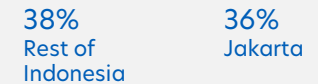


Concerns about negative impact on profits

Most concerned sectors



Most concerned cities



Q. What are the major barriers to implementing sustainability practices in your company?
Base: Total 2023 (525)

Sustainability helps build business reputation, attracts investors and gives a competitive edge.

▶ The motivators for sustainability adoption



▶ Motivators by sectors and cities

Improved reputation and better branding

Sectors most important in



Cities most important in

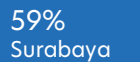


Helps attract investors

Sectors most important in

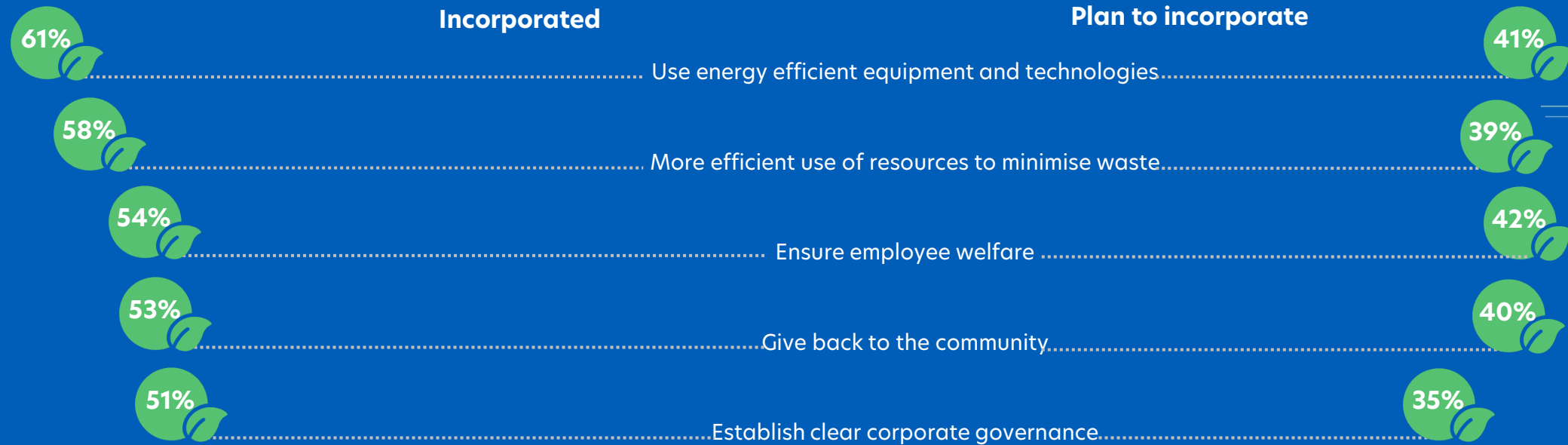


Cities most important in



Sustainable practices leading to efficient use of resources and equipment are prioritised by businesses to help minimise waste.

▶ Current vs future sustainable practices



▶ Most incorporated by sector and cities

Use energy efficient equipment and technologies

Most incorporated sectors



Most incorporated cities



▶ Most planned by sector and cities

Ensure employee welfare

Most incorporated sectors



Most incorporated cities



Q. What sustainable practices (based on the ESG considerations) have you already incorporated within your business at present?

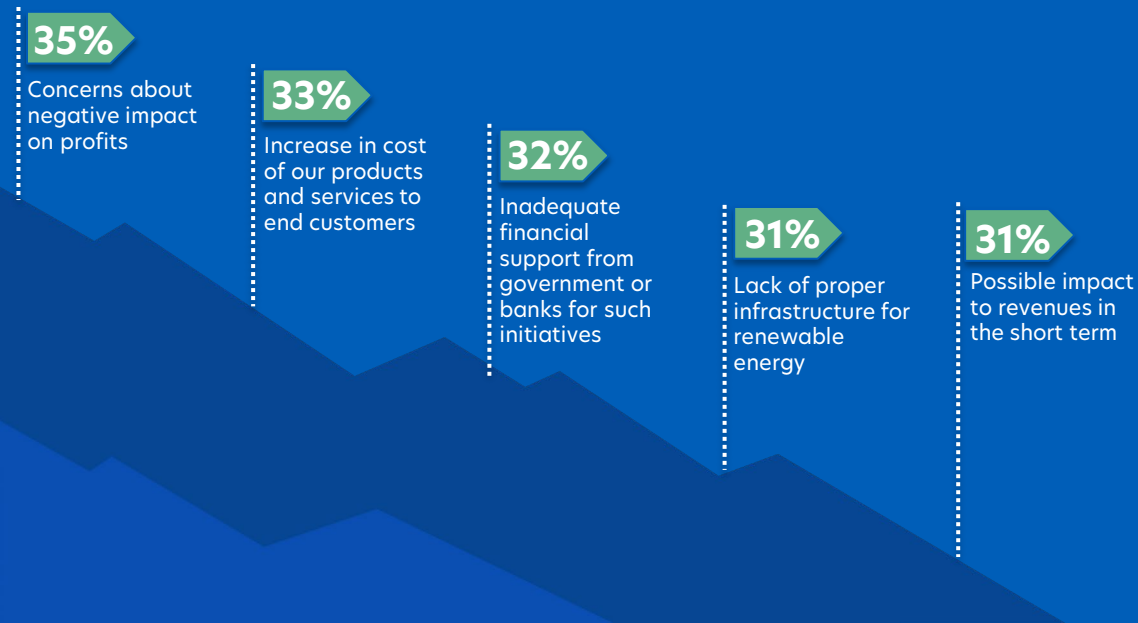
Base: Those who have implemented sustainability practices (237)

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 (288)

Businesses are most concerned about negative impacts on profits once sustainability practices are implemented. Financial measures like tax incentives and options for sustainable financing can help allay these fears.

▶ Top sustainability challenges



▶ Biggest barriers by sector and cities

Concerns about negative impact on profits

Most concerned sectors

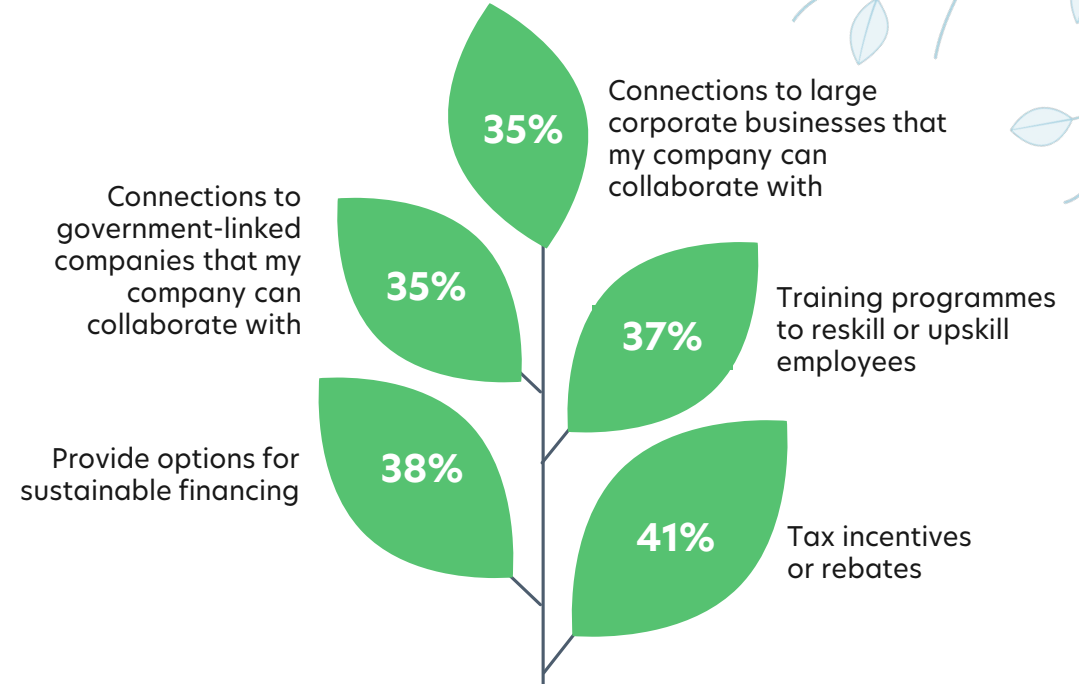


Most concerned cities



Q. What are the major barriers to implementing sustainability practices in your company?
Base: Total, 2023 (525)

▶ Top support areas for sustainability



Training programmes to reskill or upskill employees and connections to government-linked companies and large businesses can address concerns around lack of proper infrastructure for renewable energy among 3 in 10 businesses.

Q. What support would you like in helping your business incorporate sustainable practices into your business?
This support could be from government, banks, industry bodies etc.
Base: Total, 2023 (525)



Right By You