



Digitalization of MSMEs: The Impact of Digital Platforms on Culinary MSMEs

Report

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Member of:



Alvara Strategi Indonesia
www.alvara-strategic.com

RESEARCH BACKGROUND

Studying the Phenomenon of MSMEs Digitization

- MSMEs sector and Digital Industry are two key contributors to a resilient economy during the Pandemic. The Minister of State-Owned Enterprises (BUMN) Erick Thohir emphasized the importance of MSMEs in the national economy. According to Statistics Indonesia (BPS), the number of micro-to-small industry reached 4.21 million units in 2020. Culinary MSMEs alone, contributed to 36% of total micro-to-small industry nationwide. Culinary MSMEs also hold a strategic position, because they contributed up to 41% of GDP from creative economy.
- Because of that, the government promotes digitization for MSMEs. This initiative is proven to be effective, especially during the COVID-19 Pandemic, where physical mobility is restricted for people.
- In culinary sector, Online Food Delivery (OFD) has become one of the catalysts that drive the digitization of culinary MSMEs massively. Intrigued by this phenomenon, Alvara is interested in studying this digitization, and what are the impacts on the culinary MSMEs that are partnering with OFD platform.

EXECUTIVE SUMMARY

1

Digitization in culinary MSMEs sector supports MSMEs in growing their business and surviving the Pandemic, we can see it from:

- ☐ OFD accelerates business growth up to 1.9x times faster than just selling their products offline
- ☐ OFD increases number of customers & order, revenue, and widens customer reach through application and delivery service
- ☐ On average, OFD contributes to more than half (56,8%) of culinary MSME's revenue

2

Cooperation between MSMEs and OFD Platform is in a form of a partnership, with a commission cut based on items sold through the app. Despite there being a commission fee, MSMEs feel the benefit is worth the commission paid to the platform.

- ☐ The majority of the respondents think that the commission fee is "good for business" (95%) and 94,2% stated it is "worth the benefits" gained

3

Partnership with OFD deemed beneficial by MSMEs; despite being charged with commission fee, their revenue and net profit are still increasing.

- ☐ With commission fee, 97.7% of MSMEs stated that their business "still profitable", and 93.3% stated that "revenue is still increasing"
- ☐ 3 main benefits gained from commission fee; "Promotional program", "Delivery subsidy", and "Platform improvement"
- ☐ Of all the platforms used by MSMEs, GoFood is consistently perceived as OFD platform that provides the most benefit

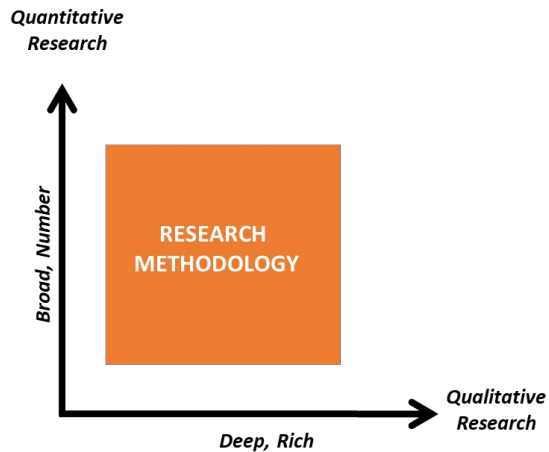
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Because MSMEs gained real benefits from their partnership with OFD, The majority of them have become a partner for more than 3 years, they will also continue to partner in the future and will recommend OFD to fellow culinary MSMEs.

- ☐ Almost all MSMEs (96.5%) said that they will continue to partner with OFD in the future
- ☐ 1 out of 3 MSMEs are actively recommending OFD to fellow culinary MSMEs

METODOLOGI RISET

This research used quantitative & qualitative methods, data were collected through face-to-face interviews with 1,948 MSMEs that are partnering with OFD in Jakarta, Bandung, Surabaya, Makassar dan Medan



Quantitative Research

- ❑ Data Collection : Face to Face interview
- ❑ Respondent Criteria : MSMEs that are partnering with OFD
- ❑ Sample Size : 1,937 Respondents
 - Jabodetabek (398)
 - Surabaya (387)
 - Medan (384)
 - Makassar (388)
 - Bandung (380)
- ❑ Sampling Method: Multistage Random Sampling
- ❑ Margin of Error : 2.27%
- ❑ Research Area : Jabodetabek, Bandung, Surabaya, Makassar, and Medan
- ❑ Research Period : August - October 2022

Qualitative Research

- ❑ Data Collection : In-Depth Interview
- ❑ Respondent Criteria : MSMEs that are partnering with OFD
- ❑ Sample Size : 11 Respondents
- ❑ Respondent Structure : 10 MSMEs
 - 1 MSMEs non OFD partner
 - 10 MSMEs OFD partner
- ❑ Research Area : Jabodetabek, Bandung, Surabaya, Makassar, and Medan
- ❑ Research Period : August - October 2022

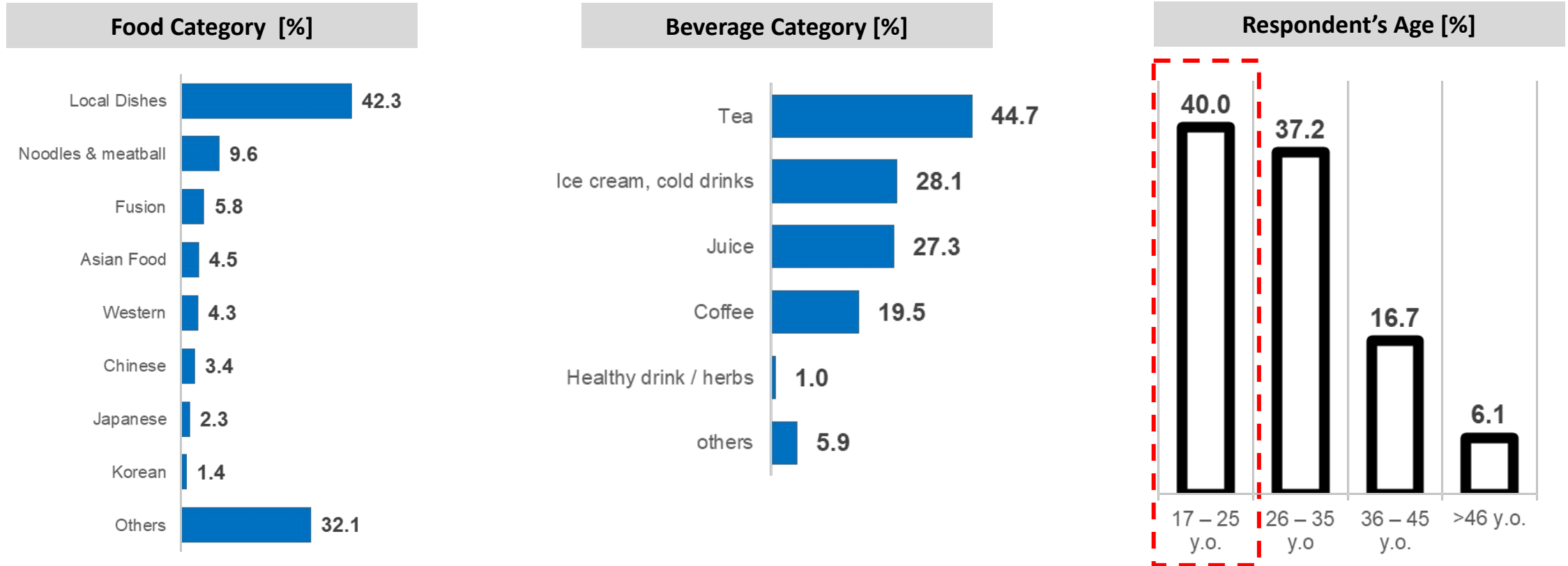
RESPONDENT'S DEMOGRAPHY



CATEGORY & RESPONDENT'S AGE

Local dishes dominate the category of food sold (42.3%), followed by other categories.

- For beverages, Ice Tea is the most sold beverage, followed by an assortment of ice, Juice, and Coffee.
- As for the age of the owners, the majority is Gen Z (17-25 years old), followed by 26 – 35 years old (37.2%), and the rest of the respondents are above 35 years old.



ONLINE FOOD DELIVERY LANDSCAPE IN INDONESIA

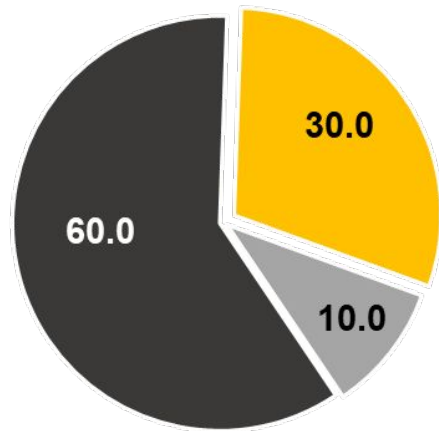


RESPONDENT STRUCTURE

Partnering with OFD platform is a must for culinary MSMEs.

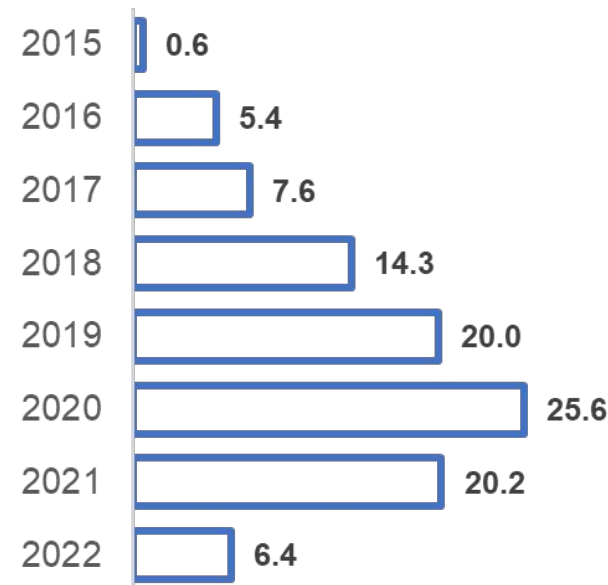
- The majority of culinary MSMEs, partner with 3 OFD platforms, and 3 out of 4 have been partnering for more than 3 years.
- Although the number of MSMEs partnering with OFD platform consistently increased year after year before the Pandemic, an influx of new joiners happen during the Pandemic, as much as 45.8%.
- GoFood & GrabFood is used by most of the culinary MSMEs surveyed.

Number of OFD Platform Used by MSMEs [%] - Total

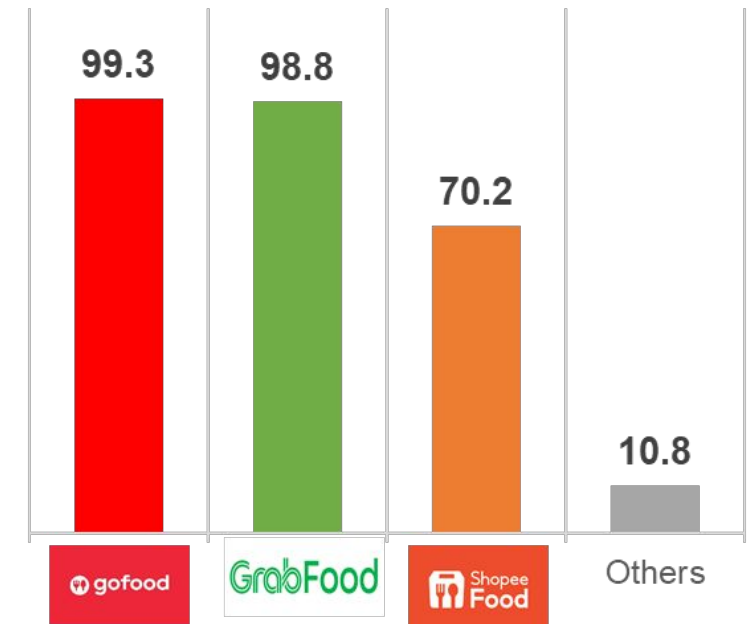


■ 3 platforms or more ■ 2 platforms ■ 1 platform

Year Joined [%] - Total



OFD Platform [%] - Total



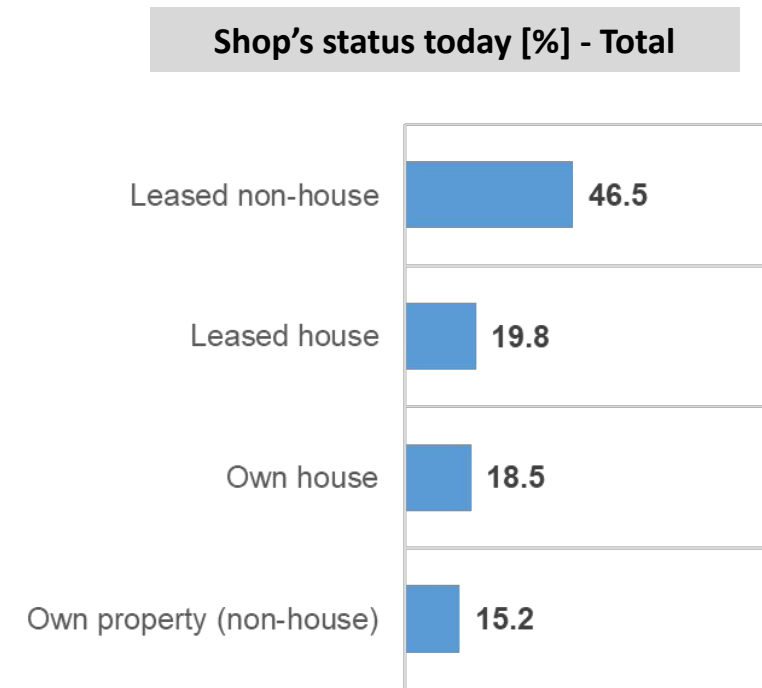
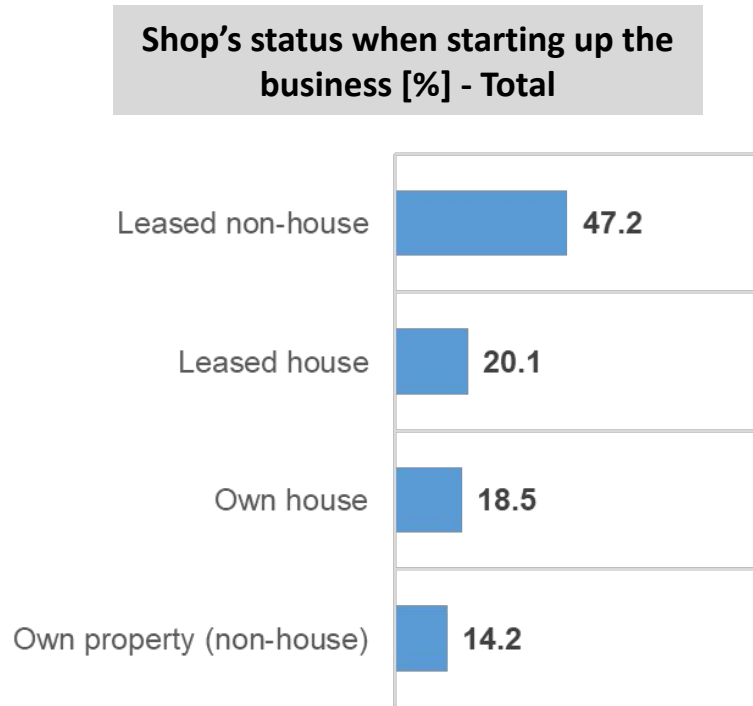
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"We use all the platforms as an effort to catch every potentials, Including GoFood, Grab Food, Traveloka, Shopee, even Tokopedia Eat as well" – (Redyansyah - Kaza Bubble Tea)

SHOP'S STATUS

The majority of the MSMEs started their business by leasing a place for their shop.

- When starting up the business, the majority of shops are situated in a leased non-house, but, after partnering with OFD, a few shops moved from a leased non-house building to a leased house.
- This indicates that culinary business does not have to lease a non-house place as its shop, but can also do the selling from a house.

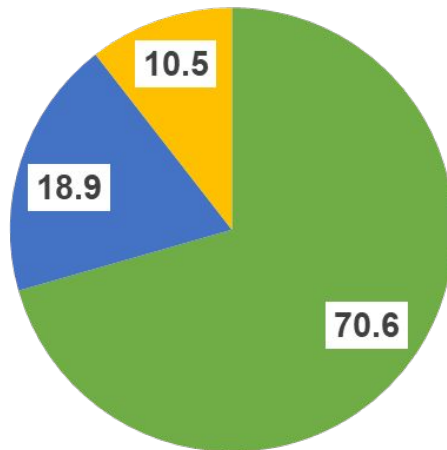


BUSINESS STARTS TO RECOVER POST PANDEMIC

Culinary MSMEs start to recover as PPKM (mobility restriction) is getting loose

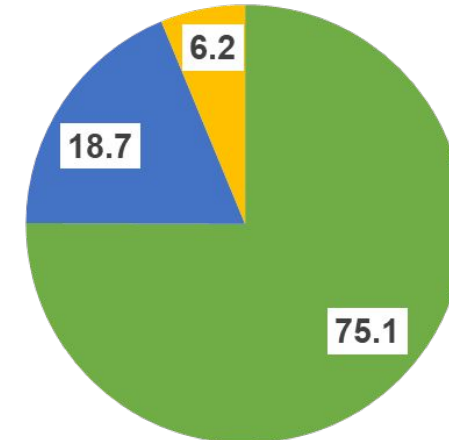
- 70.6% of MSMEs stated that their net profit increased when PPKM is loosen
- 751% of MSMEs stated that they gained more profit in the last 6 months

Business Conditions after Mobility Restrictions Easing, Compared to During Pandemic [%] - Total



■ Profit increased ■ No changes ■ Profit decreased

Business Condition in the Last 6 Months [%] - Total



■ Profit increased ■ No changes ■ Profit decreased

3 MAIN BENEFITS RECEIVED FROM PARTNERSHIP WITH OFD:

Majority of MSMEs are partnering with OFD Platform due to 3 main benefits they received:



Supporting Business Growth



**Becoming a Stable Source of
Income**

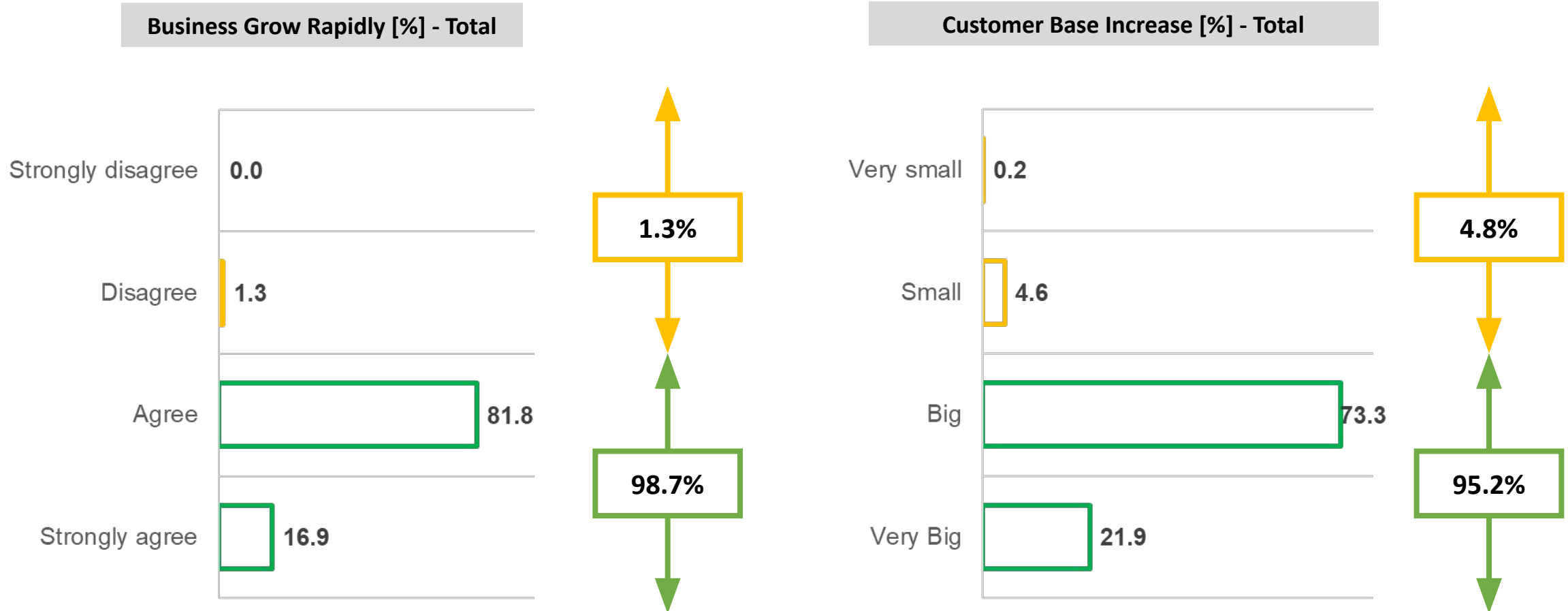


**Helping Business Survive During &
After The Pandemic**

PARTNERSHIP WITH OFD SUPPORTS BUSINESS GROWTH [1]

Generally, OFD helps culinary MSMEs grow by increasing their customer base

- Almost all of MSMEs (98.7%) stated that OFD helps their business grow rapidly
- This rapid growth correlates positively with the increase of new customers coming from OFD platform (95.2%)



PARTNERSHIP WITH OFD SUPPORTS BUSINESS GROWTH [2]

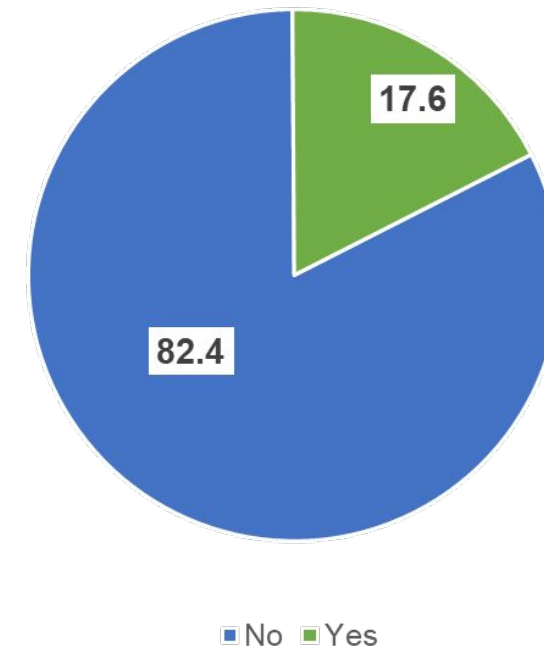
A wider delivery range correlates positively with an increase in the number of customers

- Before partnering with OFD, 4 out of 5 MSMEs did not provide delivery service
- Because of that, revenue, number of orders, and number of customers increased rapidly when partnering with OFD

Things that are Increased by OFD [%] - Total



Providing Delivery Service [%] - Total



PARTNERSHIP WITH OFD SUPPORTS BUSINESS GROWTH [3]

OFD accelerated MSMEs's growth by up to twofold;

- Acceleration is measured by looking at the amount of time needed to reach 1,000 orders; without OFD, MSMEs need more than 8 weeks, but with OFD, the majority of MSMEs only need 1 week.
- 6 out of 10 MSMEs who are partnering with OFD experienced an accelerated sales growth by an average of 1.96% faster compared to before partnering with OFD.

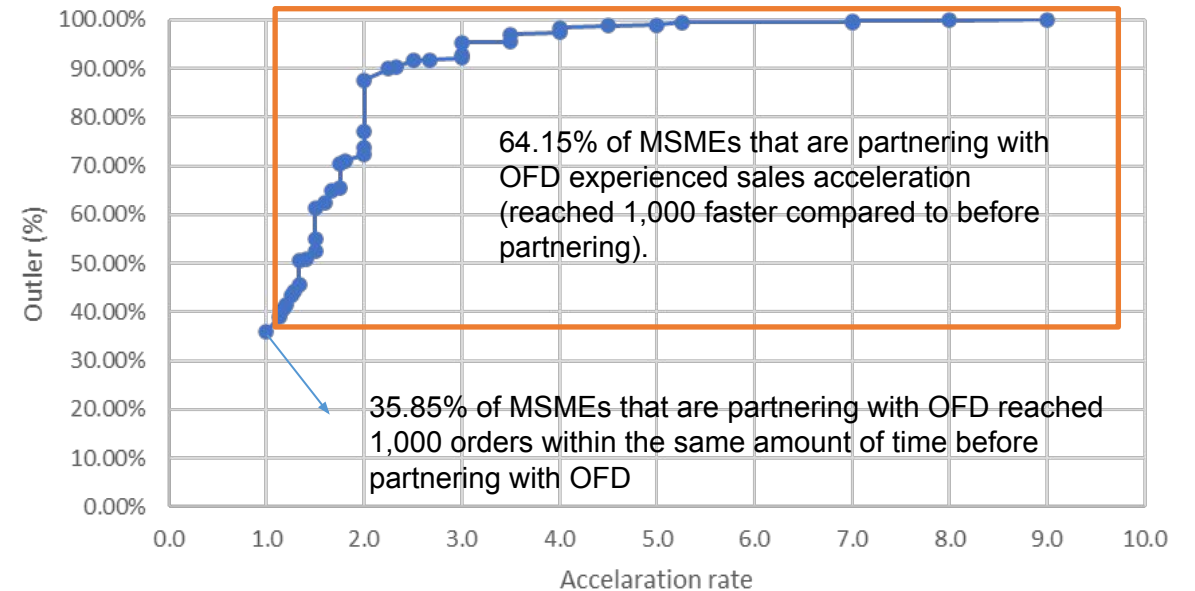
Amount of Time Needed to Reach 1.000 orders [%] - Total

Duration	Sell first 1.000 orders without OFD [%]	Sell first 1.000 orders with OFD [%]
Less than 1 week	5.0	13.3
1 week	10.7	20.6
2 weeks	15.7	17.9
3 weeks	11.3	12.9
4 weeks	10.6	10.8
5 weeks	6.1	3.8
6 weeks	5.1	4.0
7 weeks	2.0	1.8
8 weeks	6.4	5.2
More than 8 weeks	16.2	9.7

First 1,000 orders without OFD (by Mode) : more than 8 weeks

First 1.000 orders with OFD (by Mode) : 1 week

Cumulative Graph of MSME Acceleration Reaching 1000 Orders by Using OFD [%] - Total



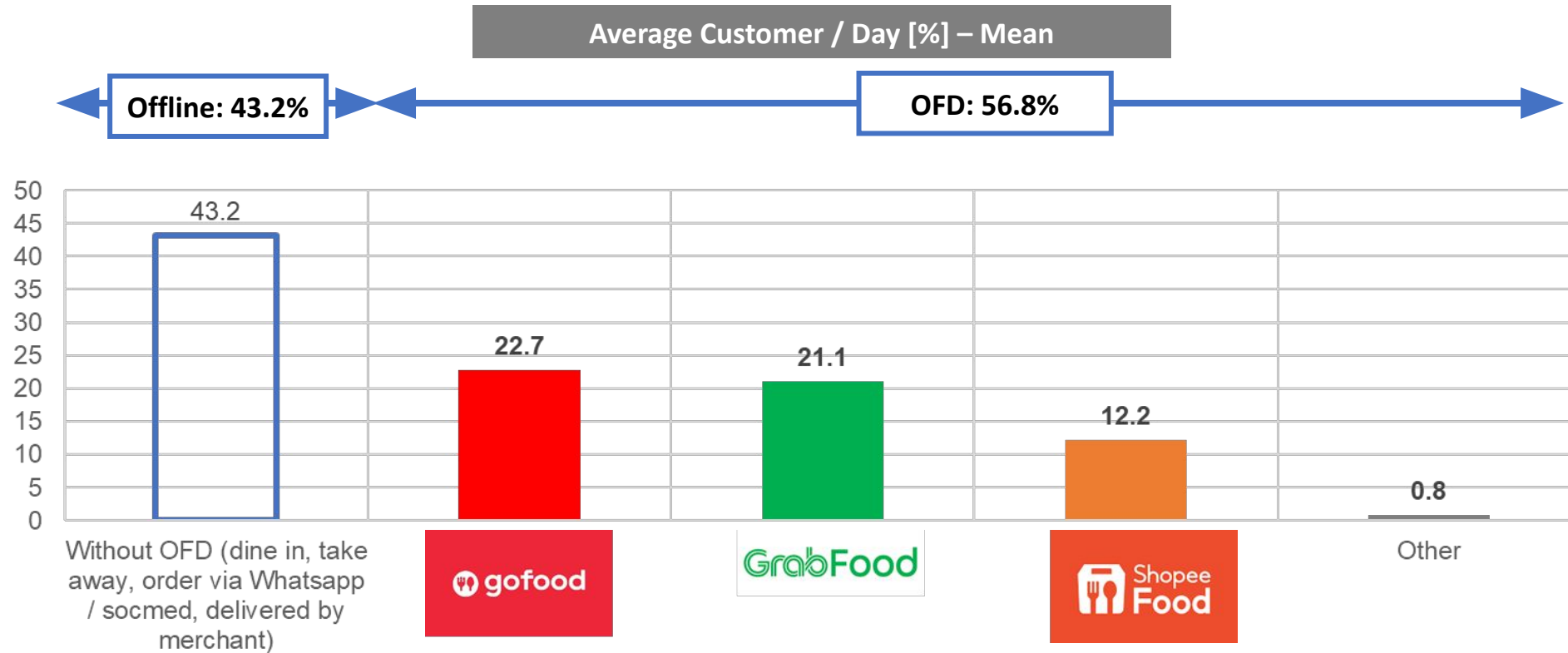
Average acceleration to reach 1,000 orders with OFD is **1.96x** times

E.g.: before partnering with OFD, 1,000 orders can be reach in 2 weeks, after partnering with OFD, 1,000 orders can be reached within a week

PARTNERSHIP WITH OFD SUPPORTS BUSINESS GROWTH [4]

On average, revenue from OFD contributes to more than half of MSMEs' total revenue

- From 100% of revenue earned, on average, 56.8% came from OFD, and 43.2% came from offline sales activity
- From the total revenue provided by OFD, GoFood's contribution towards MSMEs' revenue is the biggest, followed by GrabFood, and then ShopeeFood

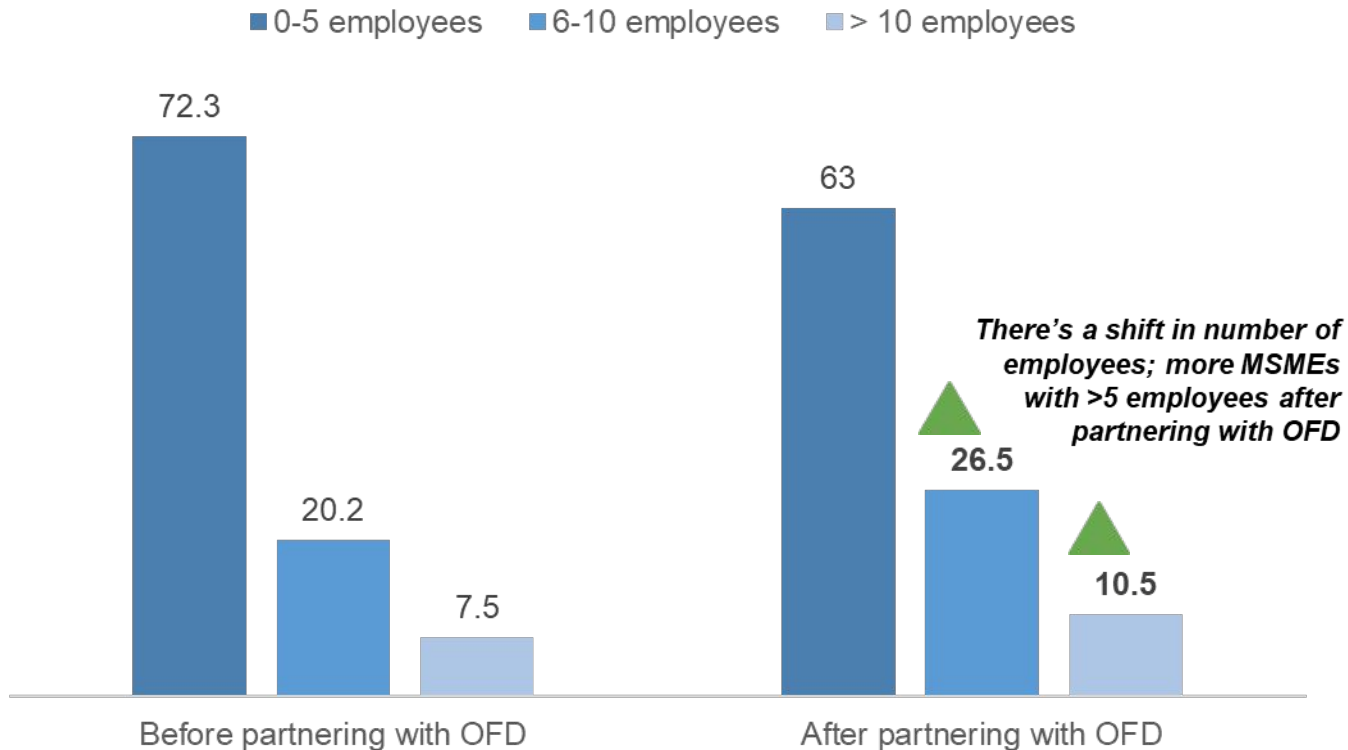


PARTNERSHIP WITH OFD SUPPORTS BUSINESS GROWTH [5]

Partnership with OFD provides more job opportunities

- Business growth also affects employment rate. MSMEs hired more employees after partnering with OFD.
- This rise of employment was caused by the rise of outlets after partnering with OFD.

Total Employee Before vs After Partnering with OFD [%]



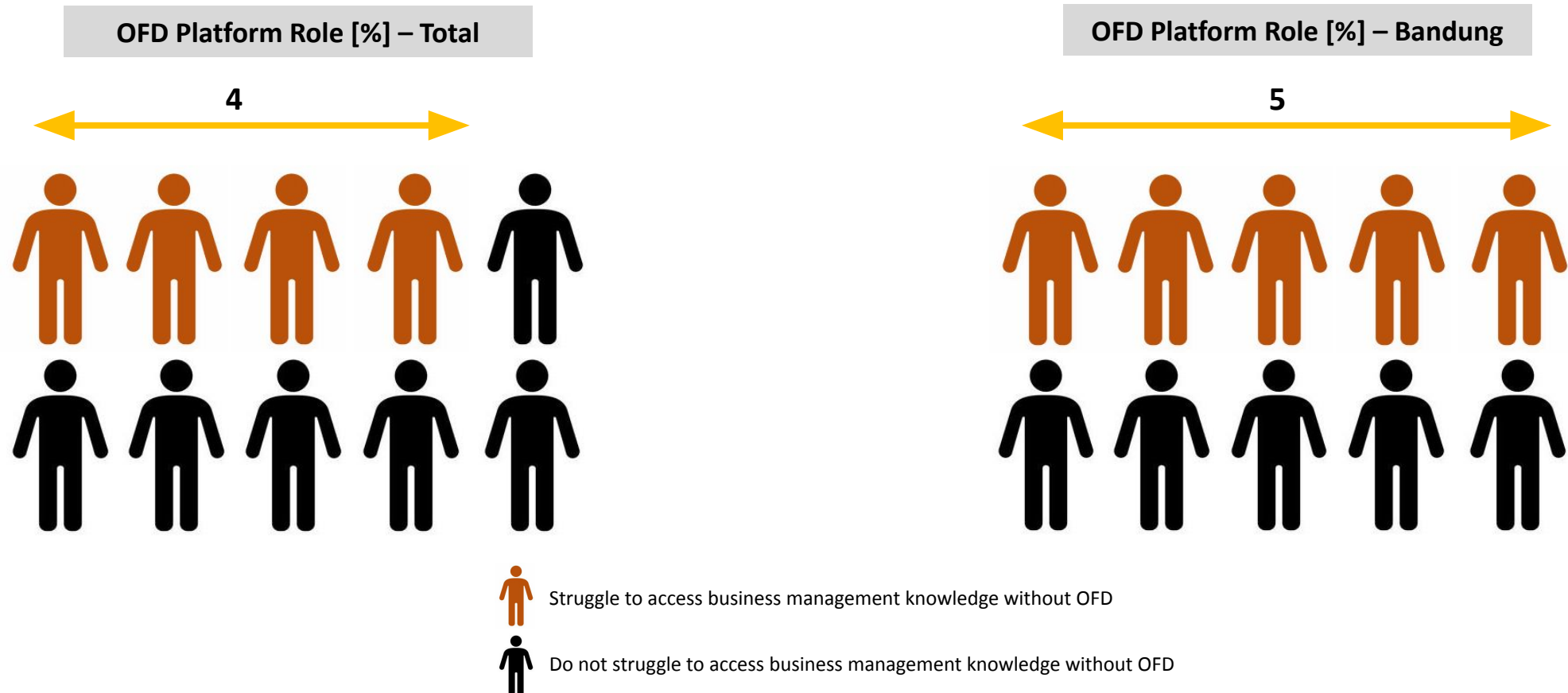
"Surprisingly, The Pandemic increased my revenue, and my customer. Therefore, I hire more people." **(Dina Kristiana - Gudeg Yogya Bu Yati)**

"Praise the Lord, we're providing more job opportunities now, the Pandemic is a blessing in disguise." **(Mocha Wibowo - Warung Rakyat)**

PARTNERSHIP WITH OFD SUPPORTS BUSINESS GROWTH [6]

MSMEs think that business management training provided by OFD useful.

- On a national scale, 4 out of 10 MSMEs said that they find it difficult to access/learn business management skills without the help from OFD
- Half of the MSMEs in Bandung said that they find it difficult to access/learn business management skills without the help from OFD

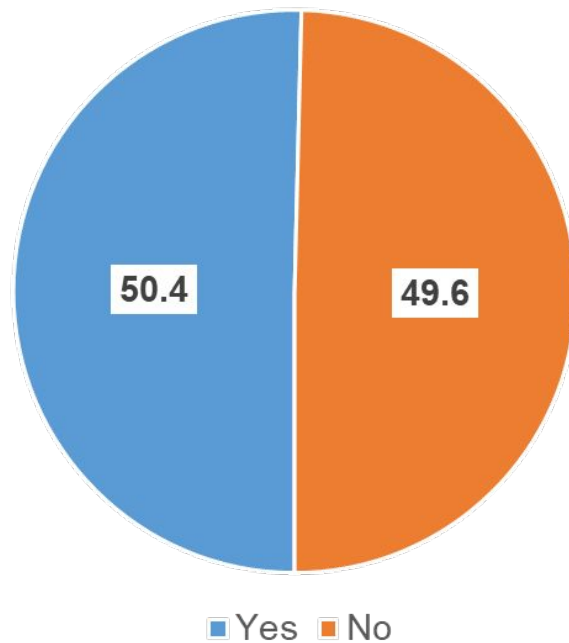


BECOMING A STABLE SOURCE OF INCOME

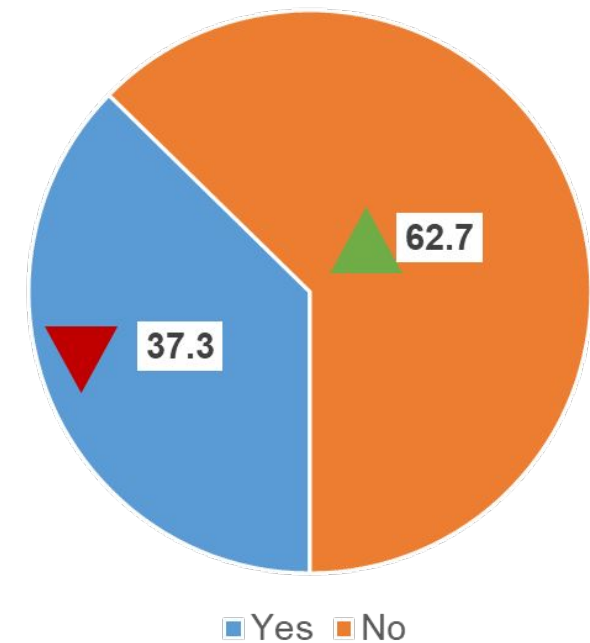
More than half of MSMEs rely on OFD as their primary source of income

- Before partnering with OFD, only 49.6% of MSMEs that rely on their culinary business as their primary source of income
- Now, more than half of OFD partners (62.7%) rely on their culinary business as their primary source of income

Source of Income when First Starting Culinary Business [%] - Total



Current Source of Income Beyond Culinary Business [%] - Total

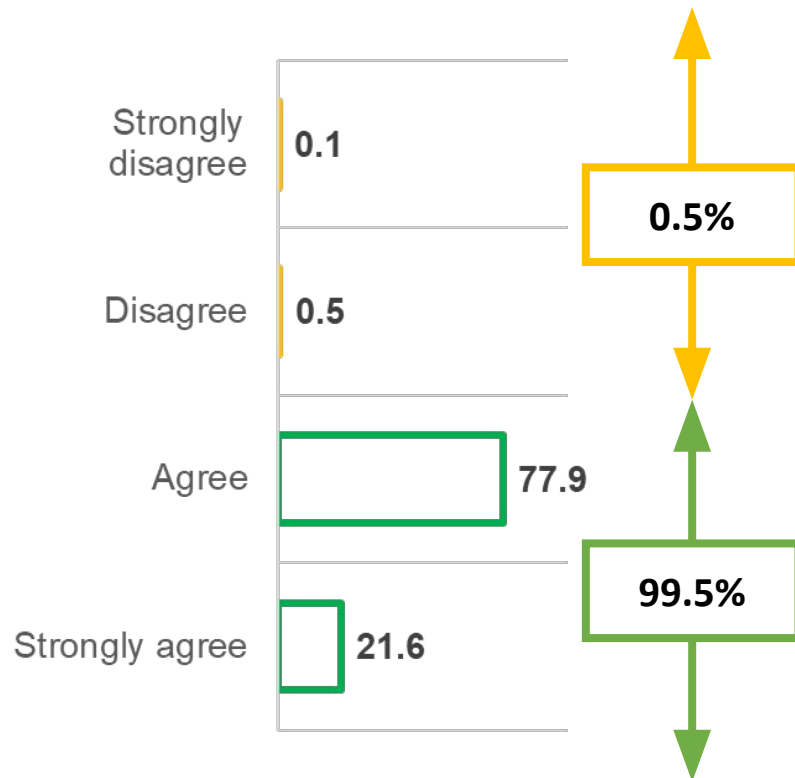


HELP BUSINESS SURVIVE DURING THE PANDEMIC

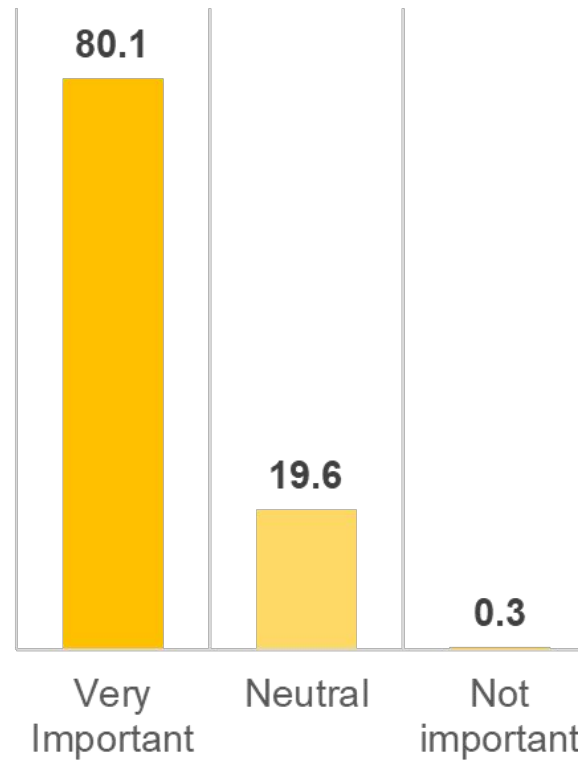
Benefits provided by OFD are great contributors to helping MSMEs survive during the Pandemic

- 99.5% of MSMEs mentioned that OFD help their business survive throughout the Pandemic
- 80% of MSMEs mentioned that partnership OFD is very important in ensuring business' sustainability during the Pandemic
- For some of the MSMEs, revenue gained from OFD is bigger compared to other sales channels

Partnership with OFD Helps MSMEs survived the Pandemic [%]



**OFD Role during the Pandemic [%]
– Total**



“Before the Pandemic, OFD contributed to 50% of my revenue, during the Pandemic, 90% of my revenue was from OFD. So, I profited more from OFD during the Pandemic” (Hasriana – MasDaeng)

PERCEPTION: GOING DIGITAL WITH OFD BENEFITING MSMEs



COST-BENEFIT ANALYSIS TOWARDS OFD PARTNERSHIP SCHEME



To better understand this partnership scheme, as well as measure its impact on the MSMEs, we dig deeper to find what is the cost innate to this partnership, and what benefits MSMEs gain from it, by using cost-benefit analysis.

PARTNERSHIP SCHEME WITH OFD

Digitization has proven to be a key supporter for MSMEs in helping them grow their business and survive the Pandemic through various benefits provided.

Benefits felt received from partnership between MSMEs and OFD platform, as illustrated below;

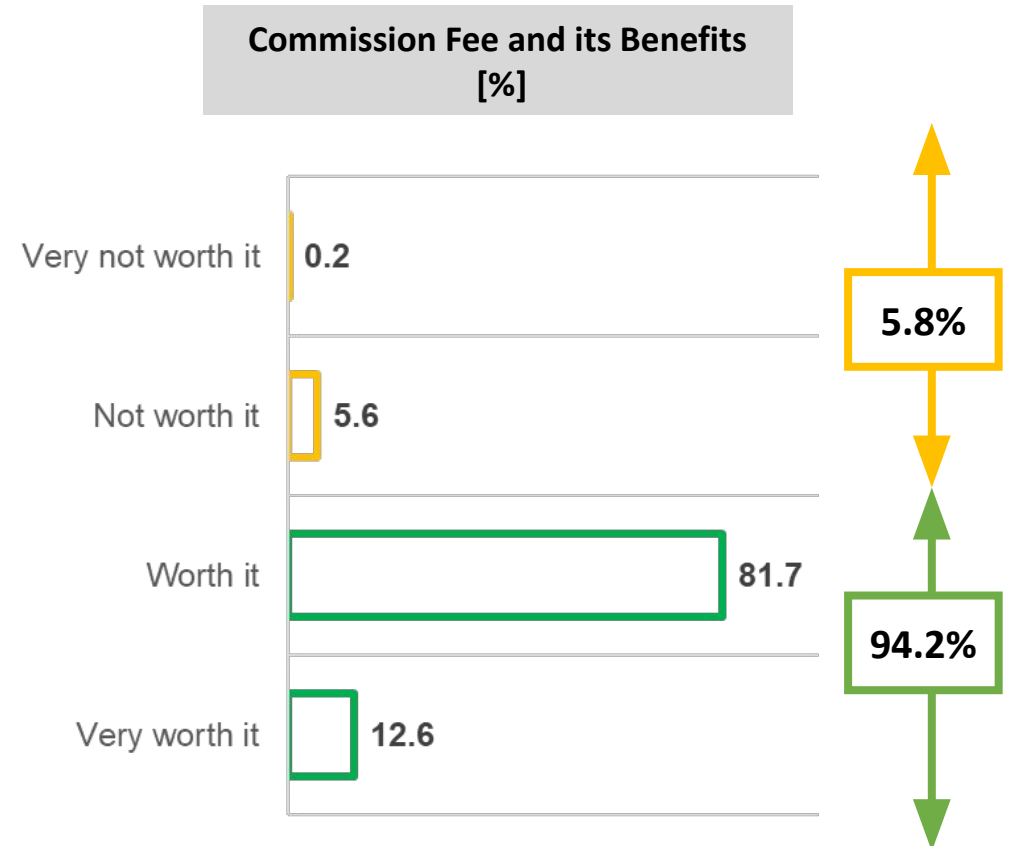
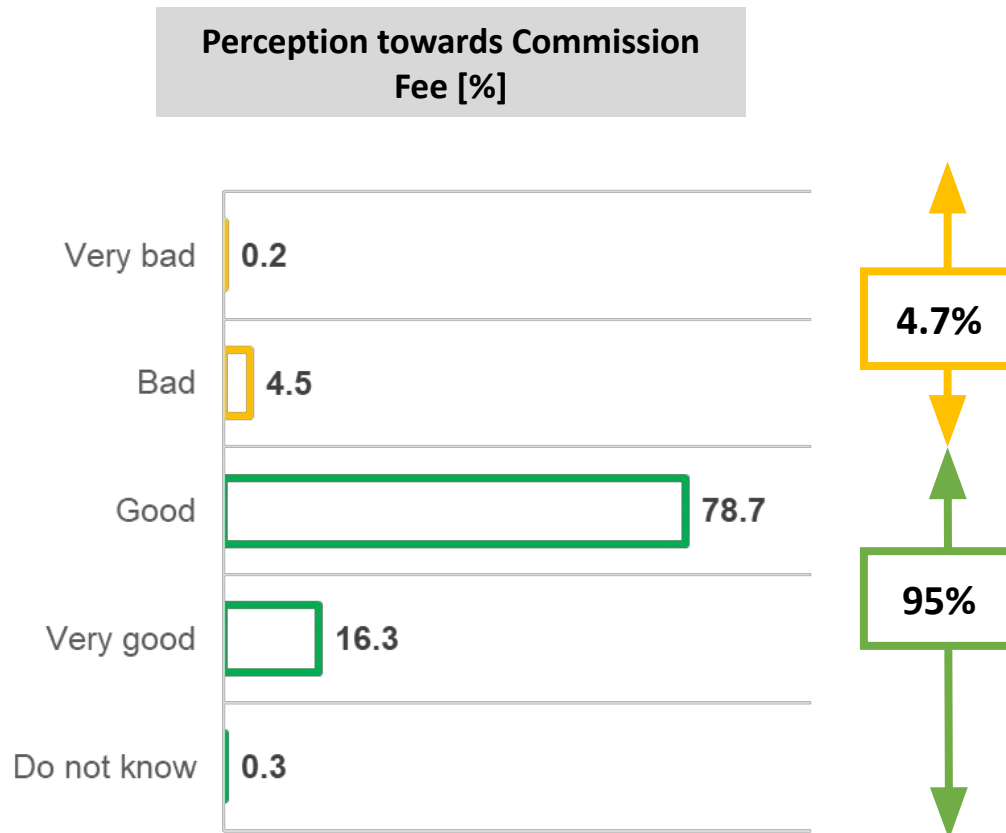


- 1 Culinary MSMEs are **partnering with OFD by voluntarily registering their business to the platform** and **paying the commission fee as agreed in the partnership agreement**
- 2 OFD enables MSMEs to **freely; arrange menus, determine prices, manage daily operations**, as well as **receive orders** from the customers
- 3 OFD **opens access to market** and **delivers the food to the customers**

PERCEPTION TOWARDS COMMISSION FEE: WORTH IT

The majority of MSMEs stated that commission fee is worth it

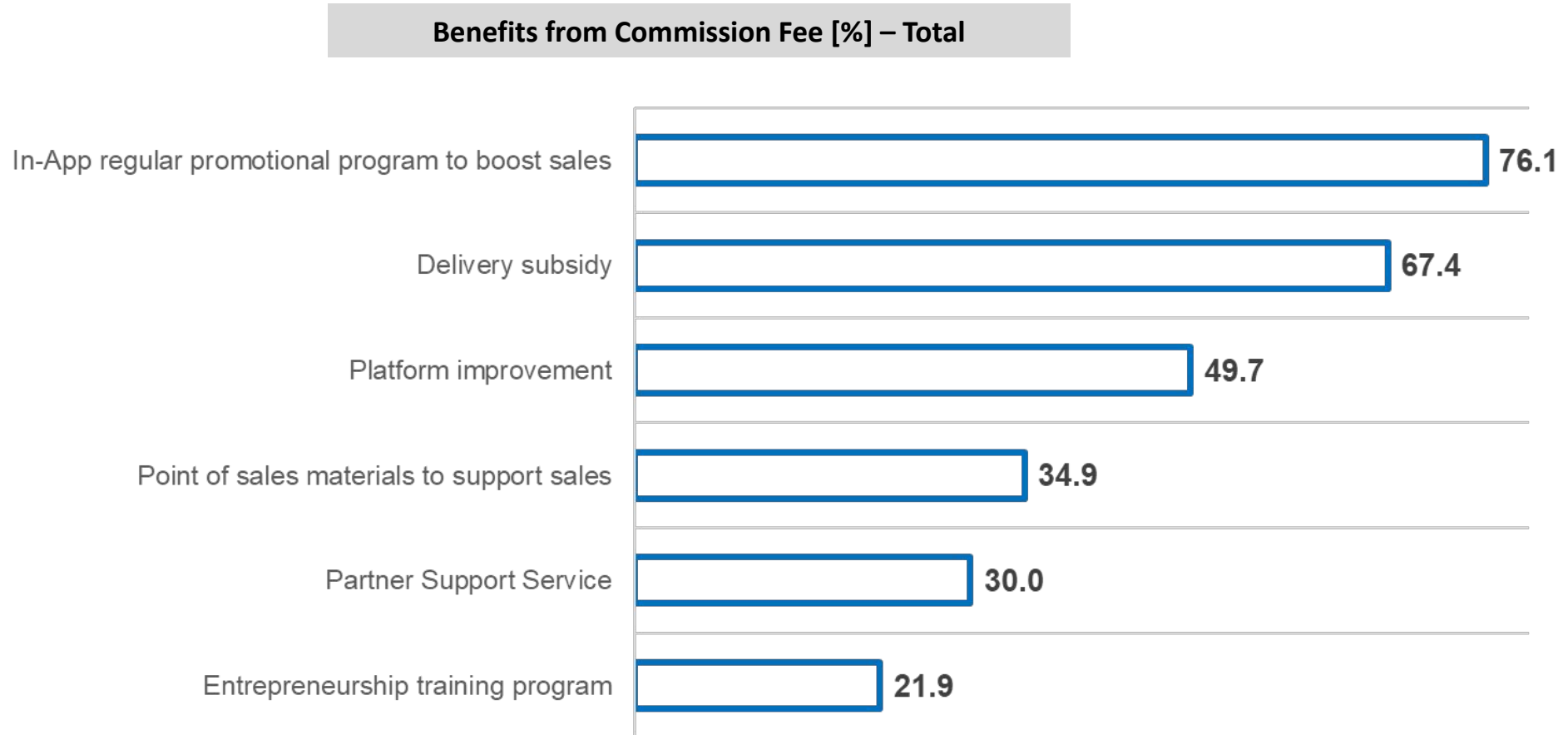
- 95% stated that commission fee is “good for business growth”
- 94.2% stated that commission fee is “worth all the benefits”



BENEFITS GAINED FROM COMMISSION FEE

Commission fee is considered worth it because it provides benefits that help to grow business.

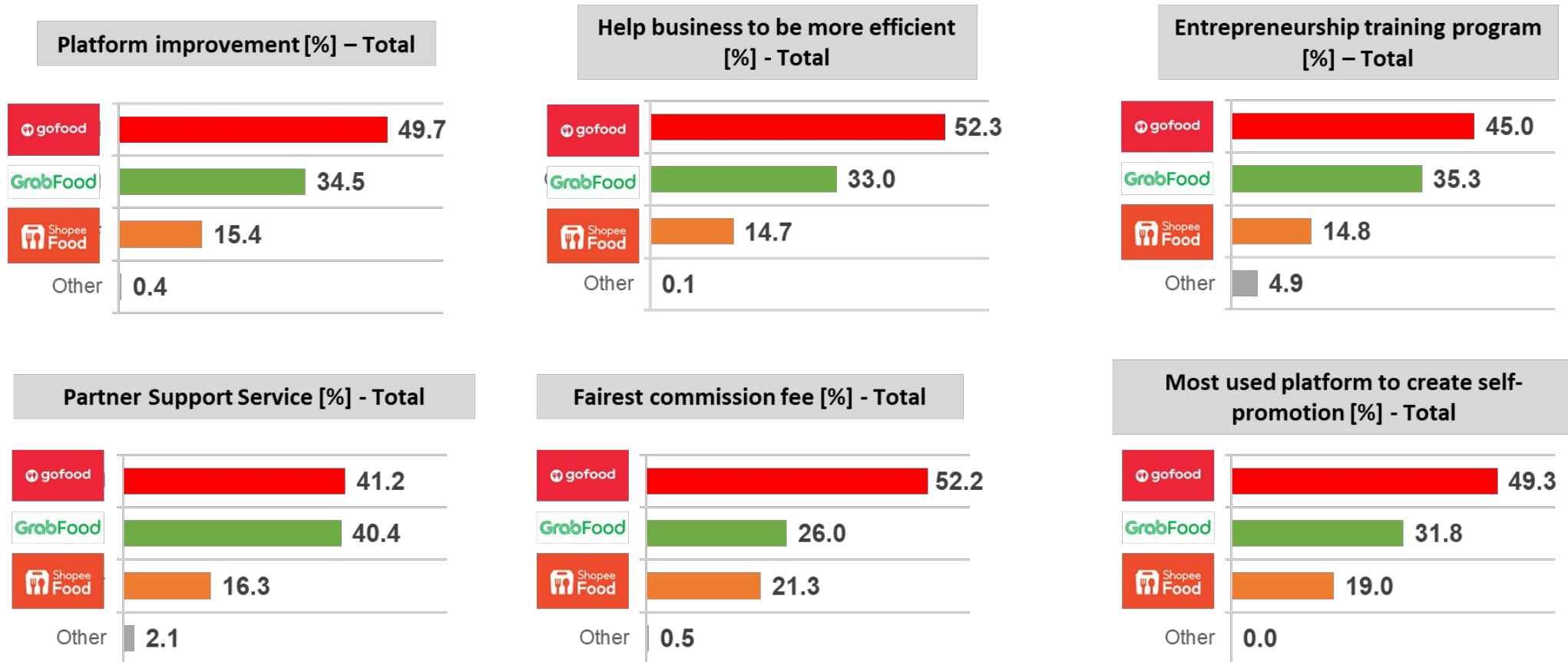
- Generally, 'Promotional program', 'Delivery subsidy', and 'Platform enhancement' are the 3 most significant benefits felt by MSMEs.



PERCEPTION TOWARDS BENEFIT FROM OFD PLATFORM

Judging from benefits received by the MSMEs, GoFood gets the best score amongst other OFD platforms

- GoFood (ranked as #1) and GrabFood (ranked as #2) were perceived as the OFD platforms that provide most benefit; starting from “Platform improvement”, “ Help business to be more efficient”, “Entrepreneurship training program”, “ Fairest commission fee” and “Most used platform to create self-promotion”

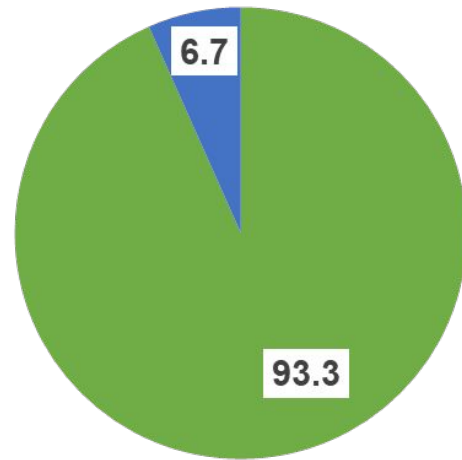


REVENUE IS STILL INCREASING DESPITE COMMISSION FEE

Other than considered to be 'worth it', MSMEs also stated that despite commission fee, business is still profitable.

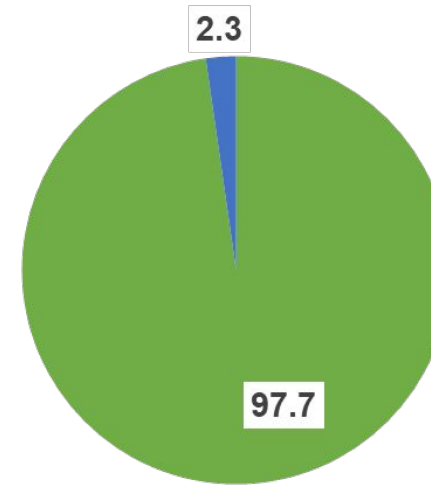
- Despite there is a commission that MSMEs have to pay, 93.3% of them mentioned "revenue is still increasing"
- Moreover, 97.7% respondents also mentioned "Still profitable despite the commission fee"

Revenue [%] – Total



■ Yes ■ No

Net Profit [%] – Total



■ Yes ■ No

PERCEPTION: PARTNERSHIP WITH OFD IS MORE BENEFICIAL THAN SELLING OFFLINE



CASE STUDY 1: COMPARING SELLING OFFLINE vs PARTNERING WITH OFD*

Partnership with OFD accelerates business growth faster compared to offline selling

- Average unit sold and revenue increased by threefold
- OFD also accelerates business growth by threefold

	Offline only	After joining OFD	Increment
Average number of sales	40 orders / day	120 orders / day	±3x (300%)
Revenue	IDR 800k / day	2.5 Mio / day	±3x (300%)
Average time needed to reach 1,000 orders	25 days	8 days	±3x (300%)
Number of outlets	1 outlet	2 outlets	2x (200%)
Number of Employees	N/A	1 person	1 person
Opening hours	10 AM – 7 PM	10 AM – 7 PM	
Days of operation	Monday – Friday	Monday – Friday	



*Case study: Chicken Noodle (street food) – to compare the cost & benefit from offline selling activity only & partnership with OFD, Alvara conducted an in-depth interview with 'Mie Ayam Yamin Pink', which only sells noodles offline, and turned to online selling as well by partnering with OFD.

CASE STUDY 2: COMPARING OFFLINE CONSIGNMENT vs OFD*

Partnership with OFD turns business to be more efficient and flexible compared to offline consignment

- Revenue disbursement can be done D+1, hence, good for MSMEs' cashflow
- After partnering with OFD, journaling process is 2x faster and easier because it is done automatically by system, hence, MSMEs only have to journal the offline transactions

	Offline consignment	Partnership with OFD
System	Doing consignment with Café Teras Rumah Nenek	Partnering with OFD
Commission	30% from total revenue	Depends on the platform (25% -30%)
Disbursement	Once a month, at the end of the month	Day +1 of transaction
Revenue recapitulation	Once a week	Done automatically by system
Number of Employees	1 permanent employee, 1 freelance	0
Opening hours	10 AM - 9 PM (following Café's operational hours)	10 AM – 8 PM (more flexible)
Days of operation	Monday – Friday	Monday – Friday



***Case study: Siomay Merchant** – to compare the cost & benefit of offline consignment scheme & partnership with OFD, Alvara conducted an in-depth interview with 2 Siomay merchants; The first merchant only does offline consignment (Partnering with Café Teras Rumah Nenek), and the second merchant (Siomay Abu) is partnering with OFD

GOING FORWARD: MSMEs WILL KEEP PARTNERING, & RECOMMENDING OFD PLATFORM

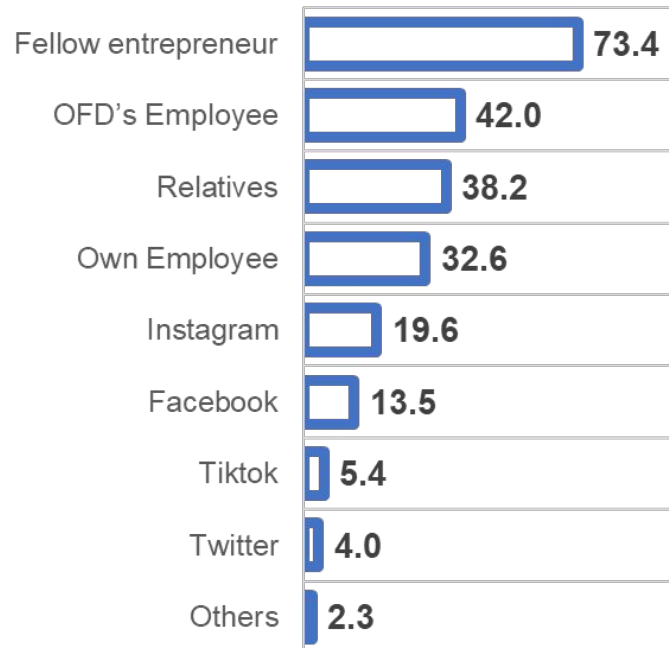


RECOMMENDATION FROM FELLOW ENTREPRENEUR AS THE KEY DRIVER OF TRUST TOWARDS OFD

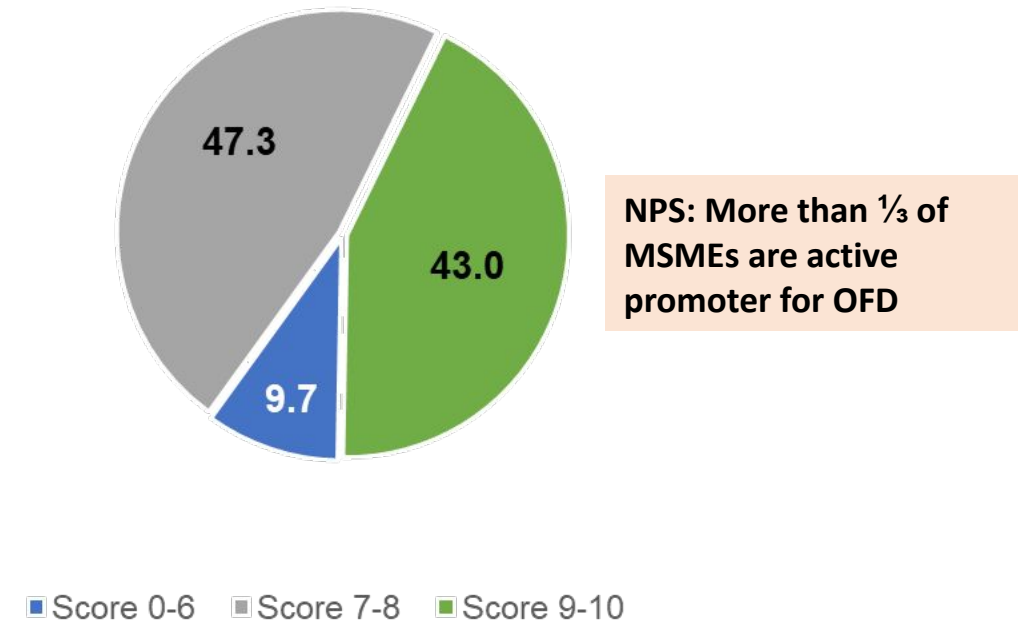
Recommendation (word of mouth) plays an important role in MSME's decision-making process before joining OFD.

- Almost 3 out of 4 MSMEs received recommendation to use OFD from fellow business owner
- Furthermore, high satisfaction level towards OFD turned more than 1/3 of MSMEs into an active 'promoter' for OFD

Source of Recommendation to Use OFD
[%] – Total



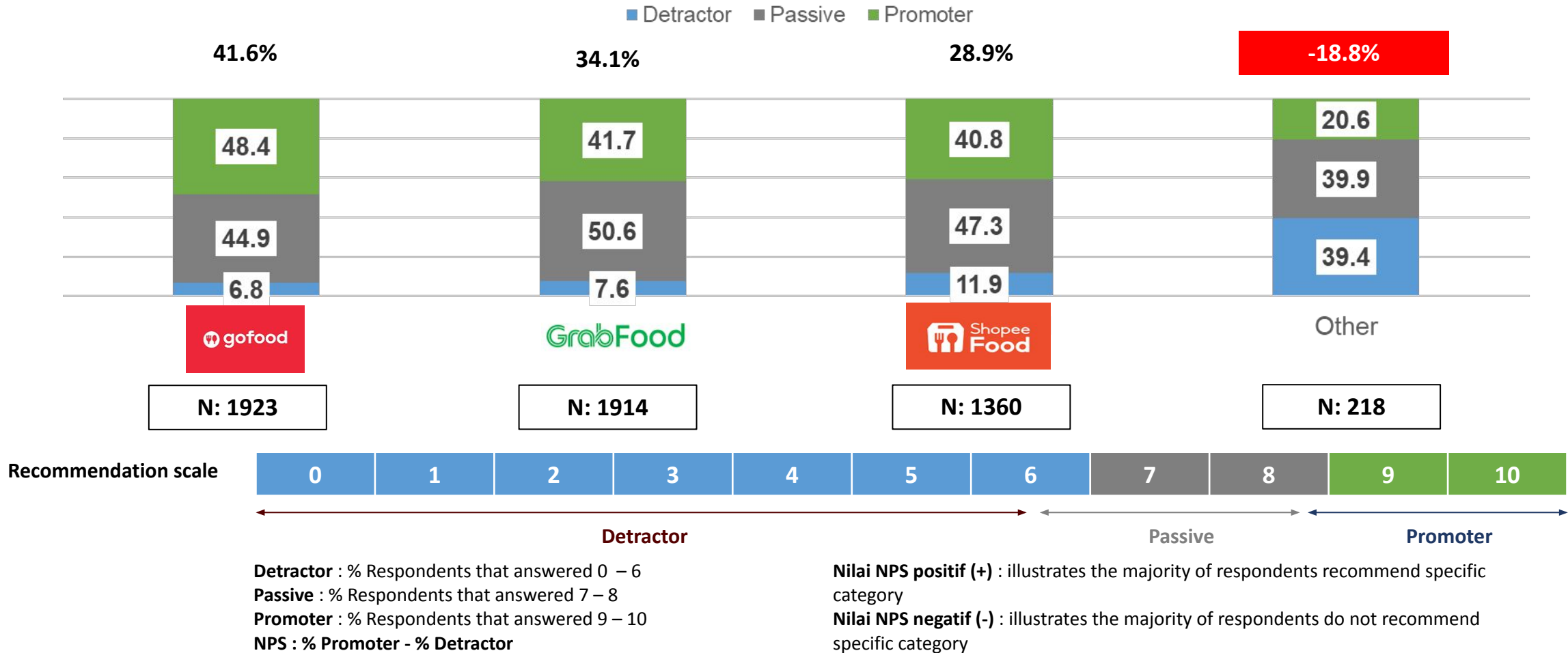
Net Promoter Score - Recommendation towards OFD
[%] – Total



RECOMMENDATION LEVEL: GOFOOD AS THE PLATFORM WITH HIGHEST NPS SCORE

If we compared between OFD brands, “GoFood” is the most recommended OFD platform by the MSMEs.

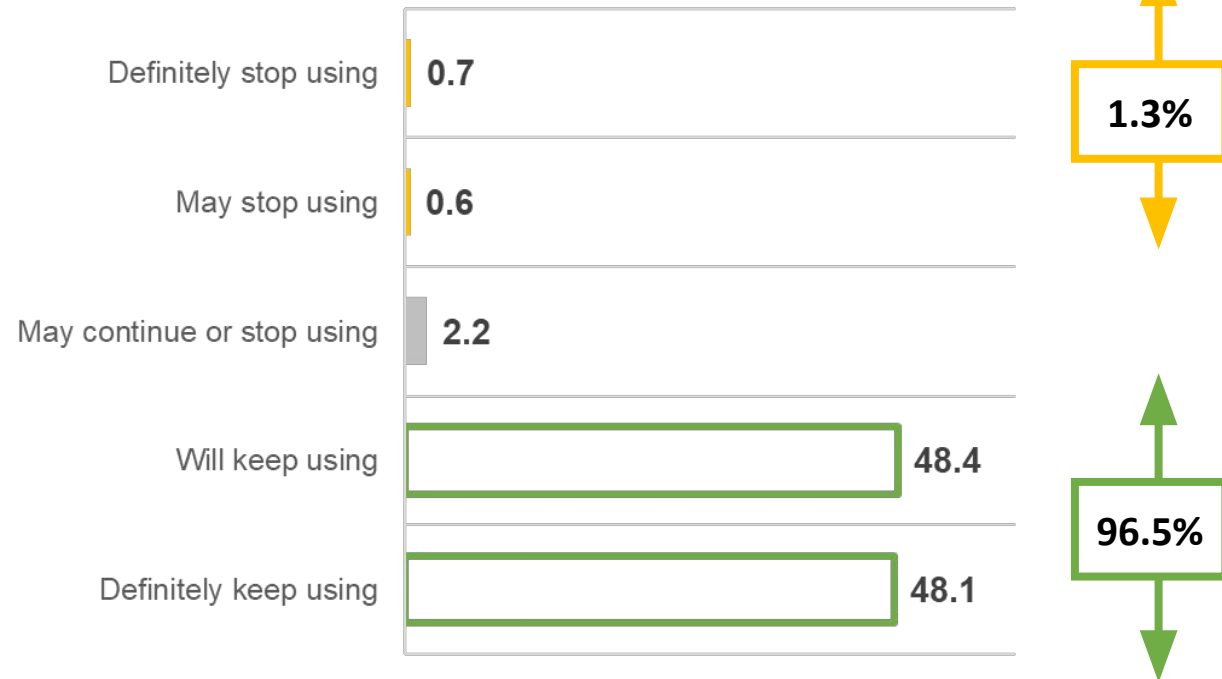
- GoFood leads with total NPS score of **41.6%**, followed by GrabFood with **34.1%**, and ShopeeFood with **28.9%**



WILLINGNESS TO USE OFD SERVICES IN THE FUTURE

Almost all of the MSMEs will continue to use OFD in the future.

- With all the benefits provided, and their willingness to keep using the platform in the future (96.5%), we can conclude that OFD is pivotal towards MSMEs' business growth & sustainability.



THANK YOU

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