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## Indonesia

### Market Development Report

### Retail Sector Report

1999

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**Report Highlights: Indonesia is the fourth most populous country in the world with over 205 million people. The retail food sector is dominated by the traditional sector with supermarkets and other modern retail outlets accounting for only 20 percent of sales in the capital city of Jakarta. The retail sector has been severely affected by the economic crisis that hit Indonesia, which is forcing a consolidation of the supermarket industry. Industry officials expect growth to return in 2000, with a predictions ranging from 5-25 percent sectoral growth through 2003. Best market prospects for U.S. suppliers include fresh fruit, canned goods, frozen french fries, sauces & seasonings, beans, pastas, salad dressings, and snack foods. Niche markets exist for frozen pizzas, frozen meat & poultry, delicatessen items, biscuits, confectioneries, cream cheese, breakfast cereals, tomato paste, and non-alcoholic beverages**

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Jakarta ATO [ID2], ID



## RETAIL FOOD SECTOR REPORT: INDONESIA

### SECTION I. MARKET SUMMARY

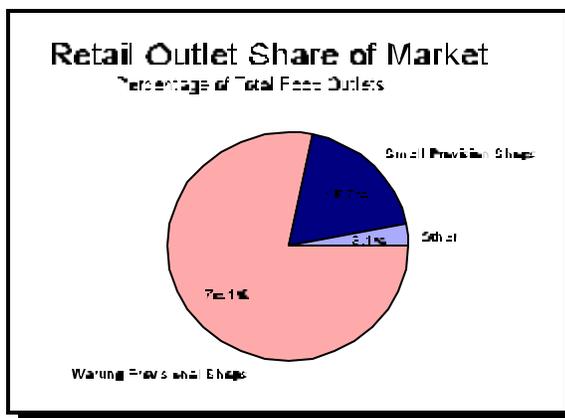
#### Retail System

The traditional sector dominates the retail food business in Indonesia. In 1997, an A.C. Nielsen study indicates that there were 2,052,635 retail food outlets in Indonesia. Of these outlets, 579 were supermarkets, 1,535 were mini-markets, 58,791 were large provision shops, 362,001 were small provision shops, and 1,509,498 were warung provision shops.<sup>1</sup>

It is currently estimated by trade sources that 20 percent of retail food sales in Jakarta take place in supermarkets and other modern retail outlets. Nationwide, this figure is only 5 percent.

#### Sales of Imported Food

It is difficult to obtain reliable Indonesian production and import statistics. The trade sources that were interviewed for this report indicate that imported products account for less than 5 percent of retail food sales in Indonesia. Shipments fell significantly in 1997 and 1998 in response to the recent economic crisis. A number of distributors, particularly national distributors, curtailed imports.



#### Market Overview

The ongoing economic crisis has had a major impact on the retail food sector in Indonesia. Surprisingly, the crisis increased sales in value terms of most Indonesian food retailers in 1998, with sales rising 10 - 45 percent. This was due largely to price increases on previously-produced stocks. However, sales for many retailers dropped 10 - 25 percent in volume terms as demand weakened.

The market has been softer in early 1999. Due to continued political uncertainty and economic difficulties, the market is weak and prices and margins are down. Most retailers expect no increases in sales in value or volume terms through the remainder of 1999.

<sup>1</sup> Provision shops are small "mom and pop" stores that carry a small variety of traditional food and non-food merchandise. Warung shops are provision shops or stalls that are found in central marketplaces.

Over the longer term, the trade is cautiously optimistic. If the political situation remains stable, the trade believes that the economy will return to pre-crisis levels within 5 years. Expansion of 2 - 6 percent is forecast by the Government for the year 2000 and most retailers agree with this prediction. Generally, an annual growth rate in volume of 5 - 25 percent is predicted by retailers for the next five years.

### **Consumer Purchasing Habits**

Despite the buoyancy of the retail food trade, consumer purchasing patterns have dramatically changed during the crisis. Some differences exist by income segment. For example, expatriate and high income Indonesian consumers continue to look for branded and imported products regardless of the high rupiah-based price of these items. In general, however, consumers are:

- C purchasing more staple foods, rather than luxury items, and minimizing impulse buying;
- C extremely price conscious in their purchases and less store and brand loyal;
- C shopping more frequently and buying smaller quantities per shopping trip;
- C shifting purchases of some staple items to traditional outlets and shopping more often at discount formats in the modern sector;
- C eating out less often and, instead, shopping in supermarkets to eat at home;
- C buying smaller package sizes and paying less attention to the quality and appearance of packaging;
- C choosing to buy local, versus imported, products when satisfactory local substitutes are available;
- C consuming more fresh food items; and
- C less nutrition-conscious.

Distributors and retailers have responded to this "new demand" in a number of ways. Packaging sizes have been reduced to lower the price of items for consumers. More generic brands have been introduced into the marketplace. Below-the-line, in-store promotional activities have replaced expensive consumer advertising and the giveaway of premiums has been reduced in favor of lower product prices. The availability and variety of imported products has declined.

### **Future Trends**

In the near future, recently-developed patterns of consumer behavior are expected to continue. Consumers are adjusting to paying higher prices for imported and local food products. They will remain very selective in their product purchases and will be looking for good quality products at low prices. Promotion will be important as consumers will be more fickle and influenceable and there will be opportunities to replace traditional brands.

A return to pre-crisis shopping behavior is anticipated over the long term. Value-for-money will remain important to consumers, but they will also be looking for greater variety in retailers' assortments. Brand names will again become important to consumers and new product introductions will increase. There will be a growing concern with the nutrition aspects of food products.

Some retailers already offer a wide range of services to consumers, including the acceptance of credit cards,

ATM services, flower departments, laundry counters, food courts near shopping areas, automated banking services, and home delivery. Some anticipate these services will be reduced in the next five years in the interest of lower retail prices. A low-price or money-back guarantee is the main addition they see to retailers' service offerings. Others suggest that emphasis will be placed on increasing service quality and efficiency, rather than adding new services.

In contrast, retailers in Surabaya predict an expansion in services that are offered to consumers in this market. They predict that a more complete range of services will be available, including home delivery.

<b>ADVANTAGES AND CHALLENGES FACING U.S. PRODUCTS IN INDONESIA</b>	
<b>Advantages</b>	<b>Challenges</b>
Indonesia is the 4th largest country in the world with over 205 million people. A significant portion of the population has the money to buy U.S. foods.	The political situation will remain uncertain through the end 1999. This will inhibit economic recovery.
The distribution system is improving, increasing access to the major islands and cities.	Import financing is a problem as letters of credit are hard to open. Most imports are cash in advance transactions.
The availability of imported products will be expanded by the rapid growth of the modern supermarket sector.	Due to the dramatic currency depreciation since the onset of the economic crisis, the prices of imported products are high.
Many Indonesian consumers like the taste and lifestyle associated with American products.	It will become increasingly difficult to protect legitimate agents against parallel imports.
Competition is weak. Due to the crisis, many local food manufacturers have disappeared and distributors have discontinued purchases of many imported lines.	Imported items should be registered and there is growing demand for imported products to be "halal". Duties applied in 1999 on food and agricultural products are 5% or less based on the government of Indonesia's agreement with IMF.
Parents want to buy quality food products for their children.	Shipments to Indonesia need at least a shelf life of 6 months, may require refrigerated transport and storage, and incur high transport costs.
Indonesia has a well-developed tourism industry with many hotel chains and restaurants purchasing imported products through local agents/importers.	Infrastructure including ports and cold storage facilities outside of the main island of Java are poorly developed.
Indonesia is rich in natural resources, with multinational companies involved in the development of oil & gas, mining, and lumber. Some of the well-developed sites have commissary services with significant demand for imported products.	Sites tend to be in remote areas where transportation and lack of infrastructure presents barriers to cost-efficient distribution of imported food products.

## ***SECTION II. ROAD MAP FOR MARKET ENTRY***

### ***Entry Strategy***

The best way to penetrate the Indonesian market is to appoint an agent. In general, the volume of imported product sales is small. An agent is needed to assure the widest distribution for your products as well as to undertake the marketing efforts necessary to create awareness for your products among consumers.

In some situations, it may make sense to sell your product directly to supermarkets and/or to appoint them as the exclusive distributors. This is primarily the case when your product is a gourmet, upscale product and not likely to generate sufficient volume to interest an agent in bringing in container loads.

Nevertheless, your initial sales efforts to Indonesia should include both visits with potential agents as well as with key retailers.

### ***Distribution System***

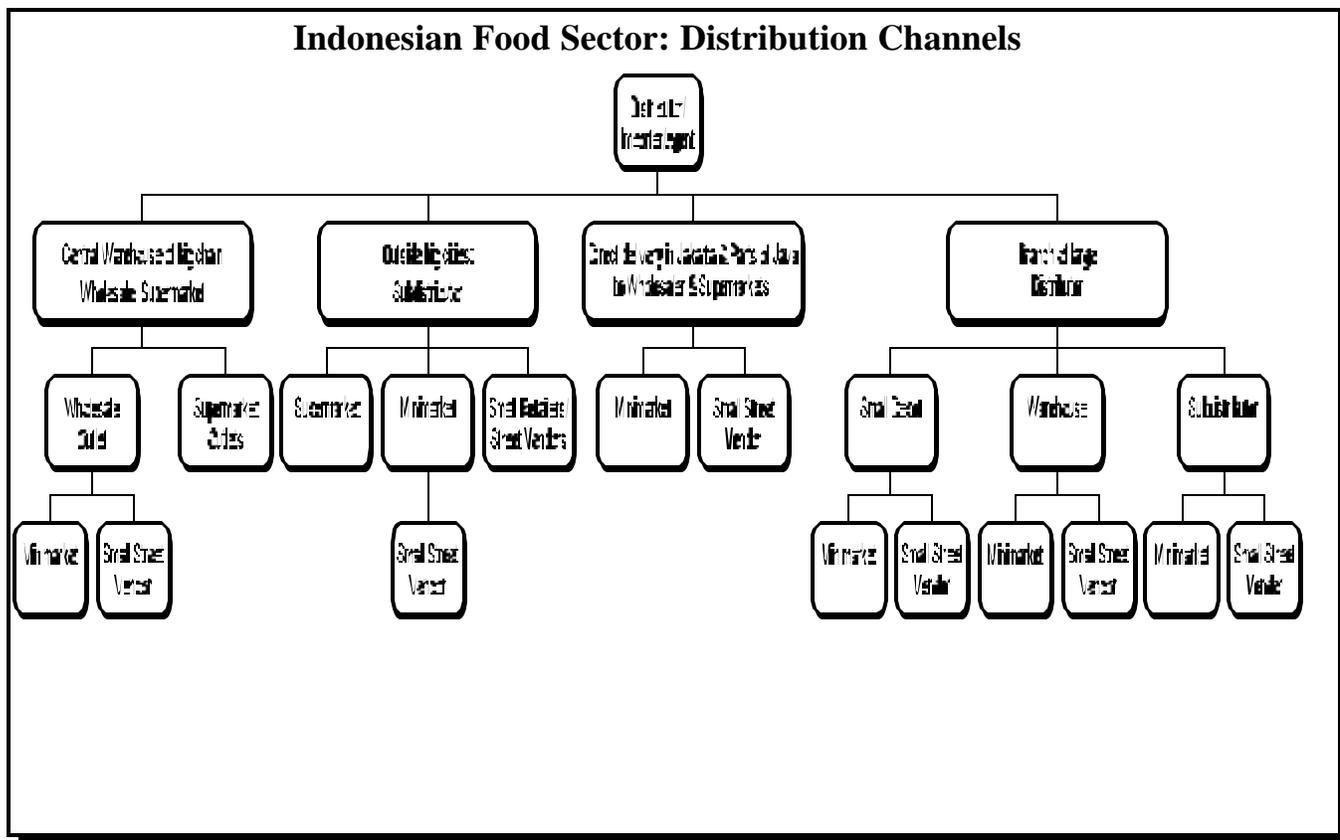
Due to the widespread and diverse nature of the country, involving hundreds of islands, this system is complex. In many cases, the infrastructure is insufficient, especially outside big cities and Java island. The ability to move frozen and refrigerated products is limited. There are approximately 10 national distributors who service the whole country and numerous agents/distributors with a more local reach. There are hundreds of wholesalers and millions of retailers.

A recent World Bank study indicated that inadequate ports were the single largest and most consistent complaint in every province and with all levels of the distribution system. The most frequent criticisms cited in the report concerned shallow drafts in ports requiring small ships and inadequate loading and unloading facilities resulting in frequent congestion. Also cited by distribution firms are the unreliable shipping schedules and inadequate number of small ships serving Eastern Indonesia, particularly during bad weather periods - which results in frequent shortages and leads firms to hold higher than desired inventories, with higher costs.

### ***Distribution System for Imported Products***

Imported products that enter the Indonesian market often move to a distributor or agent, who in turn, sells them directly to modern retail outlets. Delivery of the products may be direct to stores or to the warehousing facilities of the retailer. Only a few retailers buy directly from foreign suppliers and assume responsibility for the logistics function.

Most imported products are sold to the modern sector, including hypermarkets, supermarkets, wholesaler/retailers, convenience stores, mini-markets, etc.. Products that move to the traditional sector face a more extensive distribution process. There are about 10 major cities that serve as distribution hubs in Indonesia. Generally, products move to the warehousing facilities of distributors in these hubs, then to sub-distributors and wholesalers for delivery to retailers.



**Trends in Distribution**

The modern retail sector is expanding rapidly, but the traditional sector is expected to continue to dominate the distribution system for the foreseeable future. As indicated earlier, it is estimated that approximately 20 percent of retail food sales in Jakarta currently move through the modern sector. This is anticipated to rise to as high as 30 percent in next 5 years.

Distribution channels will shorten. Large retailers will increasingly import dry and fresh product directly from foreign exporters. They will put in place central warehousing and distribution systems in the big cities, utilizing modern technology and equipment. They will open more outlets in cities outside of Jakarta to make these systems efficient. Central purchasing will expand.

Comparable changes will occur in the traditional sector. National distributors are setting up central distribution systems to expand direct delivery to traditional market outlets. More direct delivery by manufacturers to traditional retail outlets is anticipated.

The success of large retailer/wholesalers and hypermarkets in offering Indonesian consumers a wide variety of products at lower prices will stimulate the growth of this format. More middle and low income consumers are expected to shop in these outlets. Increasing competition from these formats will force existing supermarkets and other modern retailers to increase the focus and sophistication of their marketing efforts.

The number of mini-markets and other small stores is also predicted to grow rapidly. The greatest expansion is anticipated on the islands of Java and Bali. More mini-markets are expected to open in residential areas and cities outside of Jakarta. Two large foreign retailers have taken a strong interest in this segment.

Most of the new store openings, particularly hypermarkets and supermarkets, will occur in Jakarta and other large cities on the island of Java. This is due to the strong buying power in these areas. Adequate infrastructure is a major problem on other islands. For example, a period of 2 weeks often lapses between order placement and delivery and losses due to security problems are high.

Other trends in distribution include the following:

- C More foreign retailers have recently entered the Indonesian market, including Carrefour and Continent. This will lead to greater competition and sophistication within the industry and make it more difficult for independent retailers to survive.
- C Distributors will separate the sales from the delivery function to increase the effectiveness of their sales calls.

#### A. Supermarkets, Hypermarkets, and Warehouse Outlets

This segment is the most likely to purchase imported products. According to several importers and distributors, currently 10 percent of the food items which are sold by these outlets are imported. This is compared with 50 percent prior to the crisis. In the near future, smaller quantities of imported products are expected to be sold, but a greater variety of brands and items.

Most supermarkets, hypermarkets, and warehouse outlets usually buy most of their imported products from distributors or agents. Some are importing direct from foreign suppliers, particularly perishable products. This trend is expected to expand in the near future. In general, new products and suppliers must be approved by the purchasing unit in headquarters in Jakarta. Subsequent orders may take place from individual stores, especially those outside of Jakarta. Delivery is to a central warehousing facility or individual stores.

In Surabaya, the second largest city in Java, small supermarkets of 1,000 - 2,000 square meters are expected to grow at the fastest rate in the next five years. In general, the availability of imported products is less due to the greater price sensitivity of the market. However, most supermarkets sell at least 10 percent imported products. Supermarkets that cater to expatriate customers carry a higher percentage of imported products.

In Surabaya supermarkets, most imported products are sourced from distributors in Surabaya. Imported items may also be ordered from importers or agents in Jakarta or Bali. Assortments are reported to be better from Jakarta and sometimes less expensive. One supermarket has a buying office in Jakarta and Bali which imports direct from foreign suppliers.

This segment includes retail/wholesale (warehouse) outlets. These are large stores who serve both consumers as well as trade customers, such as small retailers, street vendors, food service outlets, caterers, and small

food processors. Consequently, a significant portion of their customers are men. This is in contrast to supermarkets whose primary customer group consists of adult women from expatriate or middle and upper income Indonesian families.

<b>SUPERMARKETS WITH SALES OVER \$50 MILLION</b>				
<b>Retailer Name &amp; Market Type</b>	<b>Ownership</b>	<b>No. of Outlets</b>	<b>Locations</b>	<b>Purchasing Agent Type</b>
Alfa Retailindo (wholesale)	Indonesian	20	Jakarta, Java, Bali, Sulawesi	Importers, Agents
Hero (supermarket)	Indonesian	65	Jakarta, Java, Bali, Sumatera, Kalimantan	Direct, Importer, Agents
Matahari (supermarket)	Indonesian	61	Jakarta, Java, Bali, Sumatera, Kalimantan, and Ambon	Importer, Agents
<b>SUPERMARKETS WITH SALES UNDER \$50 MILLION</b>				
<b>Retailer Name &amp; Market Type</b>	<b>Ownership</b>	<b>No. of Outlets</b>	<b>Locations</b>	<b>Purchasing Agent Type</b>
Nina Fair Price (supermarket)	Indonesian	4	Surabaya	Importers, Agents
Papaya (supermarket)	Indonesian Japanese	1	Surabaya	Direct, Importer, Agents
Bilka (supermarket)	Indonesian	1	Surabaya	Importer, Agents
Sinar (supermarket)	Indonesian	16	Surabaya	Importer, Agents
Bonet (supermarket)	Indonesian	1	Surabaya	Importer, Agents
Vida (supermarket)	Indonesian	1	Surabaya	Importer, Agents
Makro (wholesale)	Dutch	8	Jakarta, Java and Bali	Direct, Importer, Agents
Sogo (supermarket)	Japan	2	Jakarta	Direct, Importer, Agents
Exchange rate: US \$1 = Rp. 6,700 as per July 15, 1999				

### ***B. Mini-markets and Convenience Stores***

Mini-markets are a format which is rapidly growing in popularity. This is especially true in the cities outside of Jakarta. Mini-markets are essentially upgraded traditional "mom and pop" stores. They carry essential staple goods and some frozen items. Low price is one of their selling points. Many mini-markets are located in housing estates and residential areas. Most chains of mini-markets have their own distribution facilities. Central purchasing takes place from importers or distributors and items are delivered to a central warehouse or directly to stores.

There is only one convenience store chain in Indonesia, AM/PM. This is a U.S. franchise operation and it receives advice and training from its United States counterpart. Convenience stores carry more impulse products, i.e., confectionery, snacks, and beverages, and prepared foods. They feature more imported items. The AM/PM chain has been hard hit by the economic crisis, due in part to the high prices of imported products, reduced consumer purchasing power, and the loss of jobs by many in office complexes where the stores are located. AM/PM buys centrally. Purchases of imported product take place from Indonesian importers/agents or directly from foreign suppliers. Delivery is directly to the stores. Some industry sources believe that convenience stores are "ahead of their time". Expansion is anticipated, but is predicted to be relatively slow.

<b>Retailer Name &amp; Market Type</b>	<b>Ownership</b>	<b>No. of Outlets</b>	<b>Locations</b>	<b>Purchasing Agent Type</b>
Indomaret (mini-market)	Indonesian	255	Jakarta, Java	Importers
AM/PM (convenience)	U.S.	20	Jakarta	Direct, Importers
Circle K (convenience)	Indonesian	21	Jakarta, Bogor, Bekasi, Bali	N/A

### ***C. Traditional Sector***

As indicated earlier, the traditional sector continues to dominate Indonesian food retailing. This sector includes small "mom and pop" provision shops, some of which are in markets. Distribution channels are long and complex. Little imported product is carried by these outlets.

## ***SECTION III: COMPETITION***

Most of the supermarkets that were interviewed for this study indicated that imports currently account for approximately 10 percent of their total sales. This is compared to a significantly higher figure during the pre-crisis years. There are a very limited number of stores with a higher percentage of imports,

primarily those that serve the expatriate and higher income consumers.

The United States is reported to be the leading supplier of imported products. Other important sources include Australia, China, Japan, France, Holland, Korea, India, Malaysia, Thailand, and Taiwan. Indonesian consumers like American products. U.S. items have a strong quality image and many Indonesians are familiar with American products from study, travel, or relatives abroad. They have been exposed to American foods and lifestyles through movies. The United States has a strong market position in fresh fruit, especially apples and grapes, as its marketing season is different from Australia's. The United States is also a leading player in the market for processed food products.

Australia supplies a substantial amount of meat, dairy, and fresh produce to Indonesia. With its closer proximity, Australia enjoys a freight advantage in terms of shipping times and rates. The Australian dollar has also not appreciated in value relative to the Indonesian rupiah to the extent that the U.S. dollar has strengthened. During the crisis, the Australians have been more aggressive with their marketing programs and responsive to the needs of the Indonesians.

Products from China, Korea, Malaysia, Thailand, and Taiwan are especially strong in retail outlets that serve the middle and lower income groups. They are also more common in stores outside of Jakarta. Low price is a major selling point for these items.

It is predicted that imports will increase. The United States will remain a leading supplier of imported high value food products to Indonesia in the next 5 years. This is due largely to the favorable image of American products among consumers. However, Australia will be a major threat to the U.S. market position.

One anticipated outcome of the recent crisis is more investment in Indonesia by major food manufacturers from abroad. Consequently, more well-known, brand name food items are expected to be produced in Indonesia under license.

<b>Percentage of Food Products Originated from Indonesia and Other Countries Sold in All Type of Markets in Indonesia</b>				
<b>Store Name</b>	<b>Indonesian Products</b>	<b>U.S. Products</b>	<b>Australian Products</b>	<b>Other Countries</b>
Alfa Retailindo (wholesale)	95 %	2% (60% of fresh fruits)	2% (Meat & dairy)	1%
Makro (wholesale)	90%	5% fruits & famous brands	3% (meat & dairy)	2% (china & europe/french - wine & dairy)
Sogo (supermarket)	45%	15% (fruits, meat & processed foods)	15% (dairy & fruits)	10% Japan, 5% French, 5% Korea & Thailand
Hero (supermarket)	90%	3-4% (fruits)	5% (fruits, dairy)	1% incl. French

Store Name	Indonesian Products	U.S. Products	Australian Products	Other Countries
Matahari (supermarket)	90%	-	<1% (breakfast cereals)	<2% China (canned foods) & Swiss (chocolate candy)
Indomaret (minimarket)	95%	< 1% (fruits)	< 1% (fruits)	Malaysia (snacks, cookies )& China (canned foods)
AM/PM (convenience)	90%	10% (40% before crisis)	-	-
Nina Fair Price (supermarket)	50 %	30%	10%	10% China, Japan, etc.
Bilka (supermarket)	80%	~1% fruits, canned foods	~1% dairy & fruits	<20% China, Malaysia etc.
Sinar (supermarket)	95%	fruits only	fruits only	<5% China, Thailand, Malaysia
Bonet (supermarket)	90%	fruits	fruits & dairy	<10% Singapore, China (canned foods)
Vida (supermarket)	60%	5% fruits, canned foods/fruits and vegetables	5% fruits, meat, dairy	20% Malaysia & Thailand (canned foods), China (fruits, canned foods), Japan, Japan & Taiwan (noodles)

#### ***SECTION IV: BEST PRODUCT PROSPECTS***

Most U.S. food items have sales potential in Indonesia. This is especially true of those for which no local substitutes are available. The best opportunities exist in modern retail outlets in the major cities on Java, Bali, and Sumatera such as Jakarta, Bandung, Surabaya, Semarang, Medan, and Denpasar. Significant potential also exists in areas where oil, coal and mining companies with a high concentration of expatriates are located.

The willingness of a supermarket to stock a particular U.S. food will depend largely on its customer base. In most large cities, there is at least one supermarket that serves the American and other expatriate community. This supermarket will buy products that may be unfamiliar in use and taste to typical Indonesians, such as pickles, olives, and condiments. In general, the biggest opportunities exist for good quality, middle or low price range items with well-known brand names.

##### ***A. Products Present in the Market which have Good Sales Potential***

Of U.S. products that are already present in the Indonesian market in significant quantities, fresh fruit has the best sales prospects. This is especially true of the hardier fruits, such as apples and grapes. Canned foods, such as fruit, vegetables, and meat, are also well accepted. Some of the best selling U.S. processed foods

include canned corn, popcorn, cherries, frozen french fries, sauces & seasonings, beans, pastas, cooking/salad oils, and snack foods.

### **B. Products Not Present in Substantial Quantities but which have Good Sales Potential**

There are also good opportunities for sales of other American high value items. Many of these are not yet in the market in significant quantities. These include frozen foods, such as frozen vegetables, pizza, poultry meat and beef; delicatessen items, such as hot dogs; biscuits, confectionery, breakfast cereals, tomato paste, salad dressings, cream cheese, and juices.

### **C. Products Not Present Because they Face Significant Barriers**

American products that have not sold well in Indonesia include seafood (canned tuna), dairy products, and ready-to-eat microwave meals. Retailers that serve the middle and lower income segment also reported difficulties in selling American spices, alcoholic beverages, pasta, olives, pickles, and mustards. Because of its taste, American chocolate has also not done well in this segment.

The hot and humid climate of Indonesia poses some unique challenges. For example, weevils are often found in breakfast cereals and biscuits.

### **D. Recommendations**

It is a good time to enter the Indonesian market. At present, competition is minimal and medium-term growth prospects are good. There are opportunities to develop a strong brand name and customer loyalty. However, it is important to have realistic expectations about market size. There is also a need to be flexible and make a long-term commitment to the market. As one retailer stated, "we are not down yet, it is only a temporary crisis".

Other recommendations for selling to Indonesia are the following:

- C It is essential to invest in promotion and to create awareness for your products. Your distributor should be provided with thorough training in product knowledge.
- C Your product must be price competitive. Your agent should be given a reasonable price for your product to avoid undercutting by parallel importers.
- C Be prepared to deal with small order quantities and, to the extent possible, be flexible with minimum quantities.
- C Offer the market a range of products to give consumers a choice.
- C Limit your sales efforts to products that have at least a 9 months shelf life and make sure that the items are clearly marked with expiry dates.
- C Find out as much as possible about the market and culture.
- C Work closely with your local agent on a win-win basis. Make sure that channels of distribution are closely supervised. To the extent possible, protect your agent against parallel imports.
- C Singapore is a showcase and a transshipment point for the Southeast Asian region. Consequently, a

presence there is important as well.

## ***V. POST CONTACT AND FURTHER INFORMATION***

The U.S. Agricultural Trade Office in Jakarta maintains up to date information covering the food processing industry in Indonesia and would be pleased to assist in facilitating exports and entry to the Indonesia market. Questions or comments regarding this report should be directed to the U.S. ATO in Jakarta at the following address:

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Please contact our home page for more information on exporting U.S. food products to Indonesia, including "The Food Processing Sector Report: Indonesia", "Imports of U.S. Fresh Fruit: Indonesia" and "Hotel and Restaurant Industry: Bali", and "Market Brief - Indonesian Wine Imports". As of October 1999, the following reports are available: "The HRI Food Service Sector Report: Indonesia"; "The Exporter Guide"; "Market Brief - Indonesian Bakery Industry"; Market Brief - Indonesian Beverage Industry"; and "Market Brief - Indonesia Meat Processing Industry".

For more information on exporting U.S. agricultural products to other countries, please visit the Foreign Agricultural Service's Home Page: <http://www.fas.usda.gov>