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Indonesia

Retail Food Sector

Report

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Report Highlights:

The modern retail food business in Indonesia continues to grow rapidly despite the ongoing economic crisis and political uncertainty. Since the onset of the current crisis in 1997, there has been a 41% increase in the number of supermarkets and a 66% increase in minimarkets. Best market prospects for U.S. suppliers include fresh fruit, canned food, frozen french fries, potato chips, sauces & seasonings, salad dressing, snack food, beans, and pastas. Niche markets exist for frozen pizzas, frozen meat & poultry, delicatessen items, breakfast cereals, non-alcoholic beverages, tomato paste, cream cheese, confectionary, and biscuits.

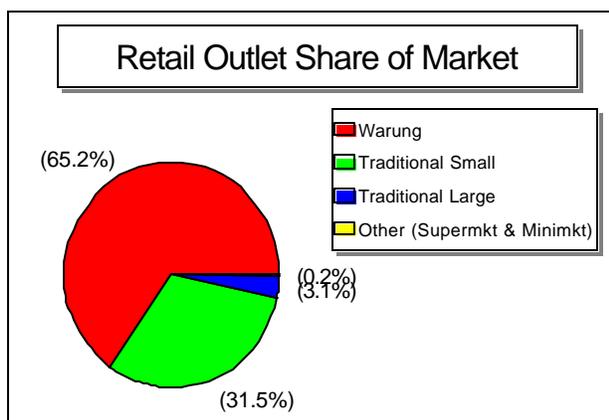
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Jakarta ATO [ID2], ID

RETAIL FOOD SECTOR REPORT: INDONESIA

SECTION I. MARKET SUMMARY

Retail System

The traditional sector still dominates the retail food business in Indonesia, but the data shown below indicates a growing trend towards the supermarket and other modern retail outlets. In 2001, an A.C. Nielsen study indicates that there were 1,903,602 retail food outlets in Indonesia. Of these outlets,



814 were supermarkets (up 41 percent since 1997), 3,051 were mini-markets (up 99 percent), 59,055 were large provision shops (no change), 599,489 were small provision shops (up 66 percent), and 1,241,193 were warung provision shops (up 18 percent).¹

It is currently estimated by trade sources that 25 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. However, trade sources estimate that imported food accounts for around 5 percent of total retail food sales in Indonesia.

Market Overview

According to those retailers interviewed, their sales in 2001 remain largely unaffected by the ongoing economic crisis and political uncertainty. Some of them adjusted to local conditions by providing delivery service to their customers. The most affected were the speciality stores that carry a high percentage of imported items and faced problems with the volatile exchange rate and burdensome product registration requirements for imported food products.

¹ 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.

According to a locally-published study, the retail sales in 2000 at hypermarkets, supermarkets, and minimarkets exceeded Rp 11.0 trillion or approximately \$1.1 billion², far above the 1998 level of Rp 7.2 trillion. The sales turnover is projected to reach Rp 15 trillion in 2001 and Rp 30 trillion in 2005. The capital city of Jakarta continues to dominate the modern retail sector in Indonesia. According to the local study, sales in 2000 at supermarkets and minimarkets in the Jakarta metropolitan area exceeded Rp 5 trillion, or 66 percent of the nationwide total. For hypermarkets and wholesale distribution centers, sales in Jakarta accounted for nearly 80 percent of nationwide sales in this sector.

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 (as well as gourmet and fancy food) 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.
- C still hesitate to buy meat in supermarket due to their concern of freshness.
- C prefer shopping at the supermarket/modern outlet than at the wet market due to cheaper price.

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 (refill). 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.

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

² US\$1 = Rp 10,000 in November, 2001.

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, home delivery, and cook service. 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 (such as focus on Customer Relation Management by establishing personal touch) and efficiency, rather than adding new services.

A recent development is the trend towards the location of modern retail outlets in large residential housing compounds being constructed in the suburbs of Jakarta. Future trends over the next five years include Ready-to-Cook food and Ready-to-Eat food due to modern life styles and international exposure (expatriates, returning overseas students). New promotional and marketing ideas will be introduced as competition among retailers increases. This includes programs to educate consumers on new-to-market products such as cooking demonstrations or sampling products.

ADVANTAGES FACING U.S. PRODUCTS IN INDONESIA	
1	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.
2	The distribution system is improving, increasing access to the major islands and cities.
3	The availability of imported products will be expanded by the rapid growth of the modern supermarket sector.
4	Many Indonesian consumers like the taste and lifestyle associated with American products.
5	Parents want to buy quality food products for their children.
6	Indonesia has a well-developed tourism industry with many hotel chains and restaurants purchasing imported products through local agents/importers.
7	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 & catering services with significant demand for imported products.

CHALLENGES FACING U.S. PRODUCTS IN INDONESIA	
1	The political situation will remain uncertain through the end 2001. This will inhibit economic recovery.
2	Import financing is a problem as letters of credit are hard to open. Most imports are cash in advance transactions.
3	Due to the dramatic currency depreciation since the onset of the economic crisis, the prices of imported products are high.
4	It will become increasingly difficult to protect legitimate agents against parallel imports.
5	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.
6	Shipments to Indonesia need at least a shelf life of 6 months, may require refrigerated transport and storage, and incur high transport costs.
7	Infrastructure including ports and cold storage facilities outside of the main island of Java are poorly developed.
8	Sites tend to be in remote areas where transportation and lack of infrastructure presents barriers to cost-efficient distribution of imported food products.
9	Food products from Malaysia, Philippines and Thailand would be new competitors after implementation of AFTA 2003 due to their cheaper price.

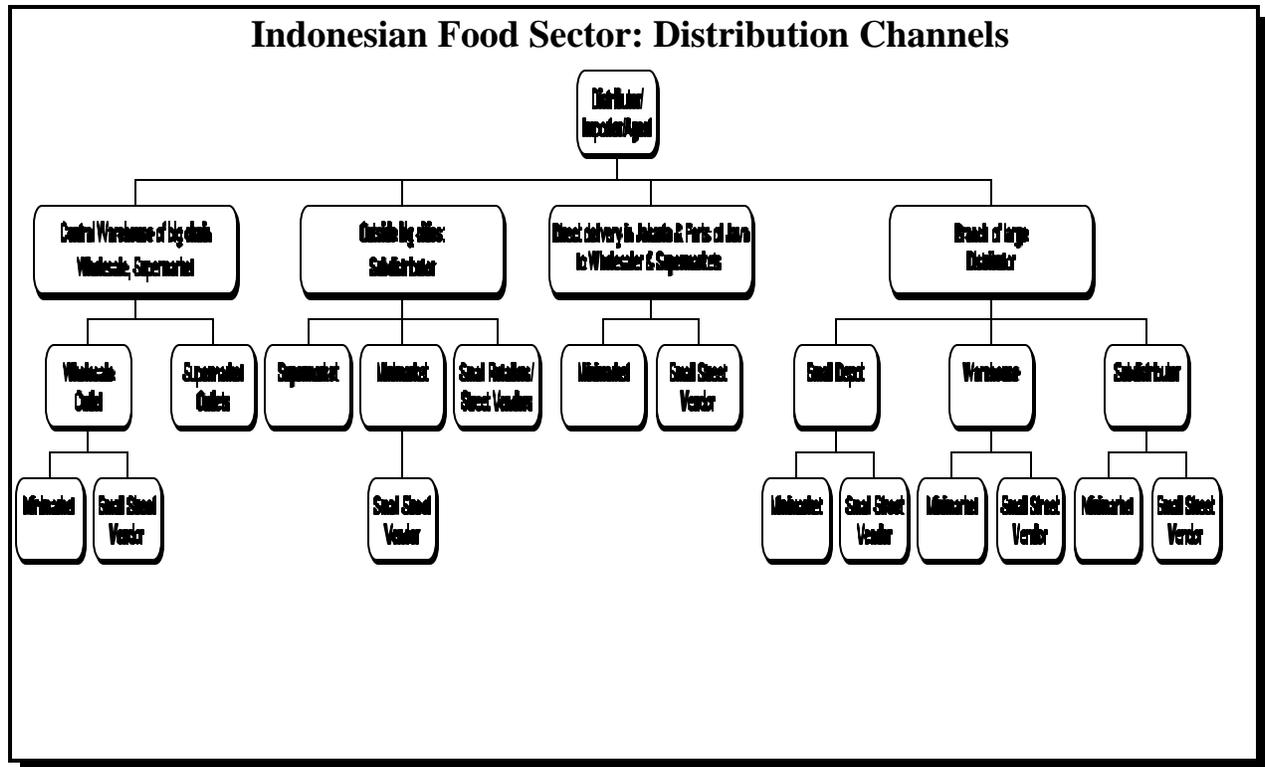
SECTION II. ROAD MAP FOR MARKET ENTRY

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 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 30 percent of retail food sales in Jakarta currently move through the modern sector. This is anticipated to rise to as high as 40 percent in the 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 increasing 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 all over Indonesia. 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.

Most of the new store openings, particularly hypermarkets and supermarkets, will occur in Jakarta and other large cities on the island of Java as well as on large cities outside Java Island. 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. 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, between 5-30 percent of the food items that 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 and products for speciality store. 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.

Retailer Name & Market Type	Ownership	No. of Outlets	Locations
Alfa Retailindo (wholesale)	Indonesian	26	Jakarta, Java, Bali, Sulawesi
Bilka (supermarket)	Indonesian	1	Surabaya
Bonnet (supermarket)	Indonesian	1	Surabaya
Carrefour (hypermarket)	France	8	Jakarta
Club Store (hypermarket)	Indonesian	2	Jakarta, Medan
Club Grosir (wholesale)	Indonesian	2	Jakarta
Cosmo Japanese Food Center (supermarket)*	Japan	2	Jakarta, Surabaya
D'Best (supermarket)	Indonesian	3	Jakarta
Gelael (supermarket)	Indonesian	14	Jakarta, Jawa, Bali, Sumatera, Sulawesi, Batam
Goro (wholesale)	Indonesian	4	Jakarta, Solo
Hero (supermarket)	Indonesian	75	Jakarta, Java, Bali, Sumatera, Kalimantan
Indo Grosir (wholesale)	Belgium Indonesian	6	Jakarta, Bandung, Yogyakarta, Surabaya

Retailer Name & Market Type	Ownership	No. of Outlets	Locations
Alfa Retailindo (wholesale)	Indonesian	26	Jakarta, Java, Bali, Sulawesi
Kem Chicks (supermarket)*	Indonesian	1	Jakarta
Makro (wholesale)	Dutch	12	Jakarta, Surabaya, Medan, Bandung, Bali, Semarang
Matahari (supermarket)	Indonesian	64	Jakarta, Java, Bali, Sumatera, Kalimantan, Sulawesi, and Ambon
Metro (supermarket)	Indonesian	3	Jakarta
Nina Fair Price (supermarket)	Indonesian	5	Surabaya
Papaya (supermarket)*	Indonesian Japanese	2	Surabaya, Jakarta
Pantry (supermarket)*	Indonesian	6	Jakarta
Ramayana (supermarket)	Indonesian	70	Jakarta, Java, Bali, Batam, Sumatera, Kalimantan
99 Ranch Market (supermarket)*	American Indonesian	2	Jakarta
Setiabudhi (supermarket)*	Indonesian	1	Bandung
Sinar (supermarket)	Indonesian	7	Surabaya
Sogo (supermarket)	Japan	4	Jakarta, Surabaya
Super Indo (supermarket)	Belgium Indonesian	30	Jakarta, Bogor, Tangerang, Bekasi, Bandung, Surabaya, Palembang, Yogyakarta
Tiara Dewata	Indonesian	3	Bali
Tops (supermarket)	Dutch	20	Jakarta, Bandung, Surabaya
Tragia (supermarket)	Indonesian	4	Bali
Vida (supermarket)	Indonesian	1	Surabaya
Yogya (supermarket)	Indonesian	31	Jakarta, West Java

*speciality store

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, some frozen items, and fresh fruits. 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 US 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.

Retailer Name & Market Type	Ownership	No. of Outlets	Locations
Alfa Minimarket	Indonesian	116	Jakarta, West Java
AM/PM (convenience)	U.S.	22	Jakarta
Circle K (convenience)	Indonesian	53	Jakarta, Bogor, Bandung, Bali, Yogyakarta
Indomaret (mini-market)	Indonesian	540	Jakarta, Bandung, Surabaya, Yogyakarta
Star Mart (mini-market)	Indonesian	28	Jakarta, Bogor, Bali
Tragia Minimarket	Indonesian	1	Bali

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

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 US dollar has strengthened. During the crisis, the Australians have been more aggressive with their marketing programs by meet the retailers directly 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 if currency rate is reasonable to Indonesian Rupiah. This is due largely to the favourable image of American products among consumers. However, Australia will be a major threat to the US market position. By 2003 (AFTA) there will be a big opportunity for Malaysia, Thailand, and the Philippines to be a new competitors. 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.

Percentage of Food Products Originated from Indonesia and Other Countries Sold in All Type of Markets in Indonesia				
Store Name	Indonesian Products	US Products	Australian Products	Other Countries
The Club Store (1*)	75%	24% (snack food, cereal, beverage)	1%	-
D Best	60%	12% (fresh food)	12% (fresh food)	12% China, 4% Europe.
99 Ranch Market (2*)	30%	56% (groceries, snack food, sauces, dressing)	7% (meat & fruit)	7% (Europe - cheese)
Percentage of Food Products Originated from Indonesia and Other Countries Sold in All Type of Markets in Indonesia				
Super Indo (15*)	95%	1.25% (fresh fruit)	1.25% (fresh fruit)	1.25% China, 1.25% Malaysia

Tops Supermarket	70%	9% (fresh fruit)	6% (fresh fruit)	15% (China, Malaysia)
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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, and Denpasar. Significant potential also exists in areas where oil, coal and mining companies with a high concentration of expatriates are located, such as Balikpapan, Mataram, and Pekanbaru.

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 processed foods include canned corn, popcorn, potato chip, cherries, frozen french

fries, sauces & seasonings, beans, pastas, cooking/salad oils, snack foods, cereal, chocolate, and beverage.

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) and dairy products. 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. The retail sector is growing rapidly despite the ongoing crises and competition remains limited. 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.

Other recommendations for selling to Indonesia are the following:

- C It is essential to invest in promotion especially for to new market product sampling and to create awareness for your products. Your distributor should be provided with through 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.
- C Provide document completely to register the product (process ML number) & be flexible with the term of payment.
- C Be more active to contact retailer directly, not only through importer or agent.

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:

U.S. Commercial Center
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Homepage: <http://www.usembassyjakarta.org/fas>

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"; "Hotel and Restaurant Industry: Bali"; "Market Brief - Indonesian Wine Imports"; and "The HRI Food Service Sector Report: Indonesia". As of December 2001 the following reports are available: "The Exporter Guide"; "Market Brief - Indonesian Bakery Industry"; Market Brief - Indonesian Beverage Industry"; "Market Brief - Indonesia Meat Processing Industry"; "Market Brief - Beef Liver & Chicken Leg Quarter"; and "Market Brief - Furniture 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>

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