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Retail Food Sector

Food Retail Update

2007

Approved by:

Fred Kessel
U.S. Embassy, Jakarta

Prepared by:

Fahwani Y.R.

Report Highlights:

The food retail industry in Indonesia is growing rapidly. Traditional markets, wet markets and independent grocery stores, are gradually being replaced by modern outlets. U.S. apples, table grapes, dairy products, potato products, and almonds continue to enjoy a prominent position in Indonesia's retail outlets. Further growth and sophistication, including refrigeration and storage facilities, of retail stores will create additional opportunities for U.S. exporters.

Includes PSD Changes: No
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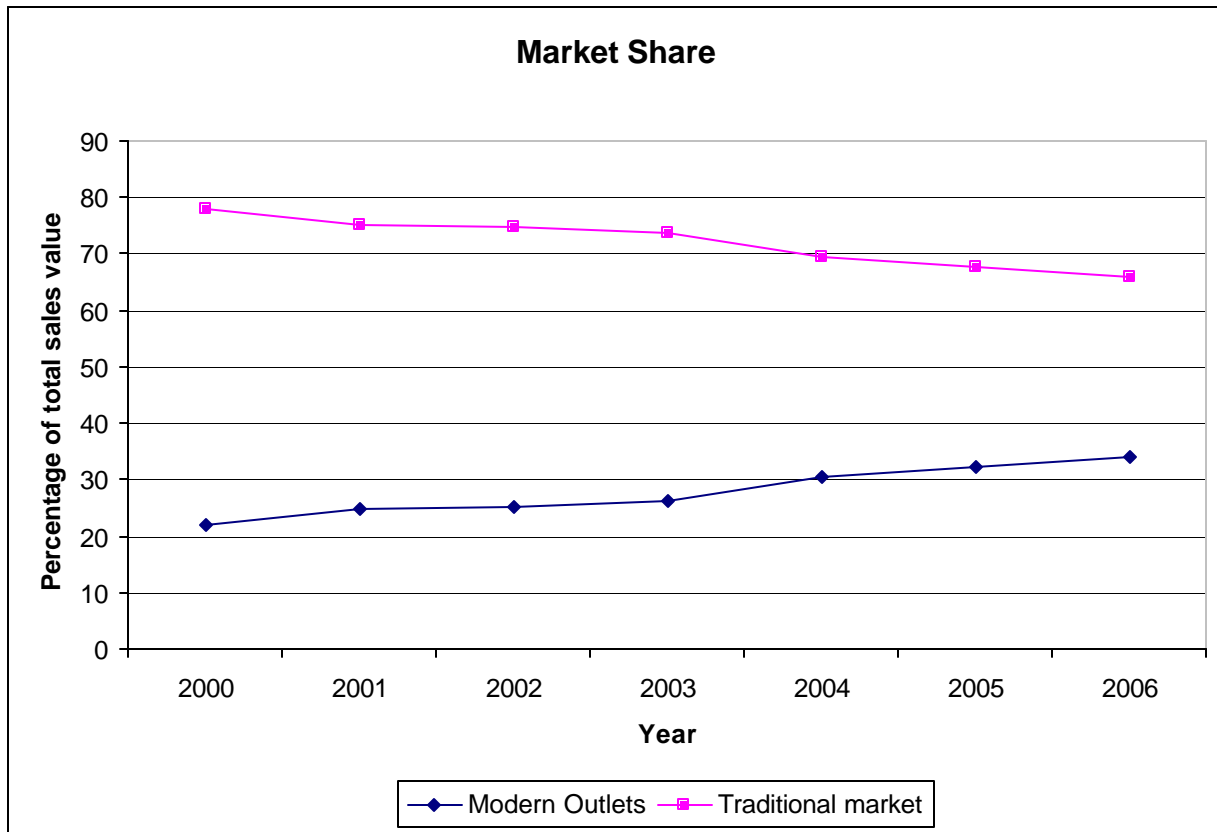
ECONOMIC TRENDS AND OUTLOOK

Since the first directly elected President in October 20, 2004, many components of Indonesia's macro-economy stabilized. Economic growth in 2007 is estimated to be 6.1 percent, and is forecast to be 6.5 percent in 2008. Government efforts to improve the business regulatory environment, further re-structuring of the banking sector, reform of legal institutions, political and exchange rate stability are critical factors for ensuring continued future economic growth in Indonesia. Although foreign investors still face obstacles when doing business in Indonesia, the situation is slowly improving. With a large consumer base and the relatively favorable economic backdrop, prospects for continued expansion of the retail sector in 2007 and beyond remain promising.

I. MARKET SUMMARY

The Indonesian retail sector began its rapid expansion in 1999, when a Presidential Decree allowed Carrefour, a French retailer, to increase outlet numbers in Jakarta. Other foreign and local retailers followed and now the Indonesian retail sector is experienced compete directly and sometimes it happens frontally.

Modern retail businesses such as hypermarkets, supermarkets, and mini markets are replacing existing traditional retail outlets, including wet markets and independent small grocers. Growth of these retailers include foreign retail giants such as Carrefour, Giant, Makro, and Lion Superindo. The development of information technology as well as changing life styles, is impacting the way consumers purchase their daily necessities and has also changed consumers' perception of the value and quality of food products. In addition, more and more specialty stores that serve expatriates from Korea, Japan, western countries and high-end consumers are growing in major urban areas, while franchising is driving the rapid growth of mini markets.



Source: AC Nielsen

Note: Modern Outlet: hypermarket, supermarket, mini market

Traditional market: wet market, independent grocery store

Modern retail supermarkets and hypermarkets offer a wide range of food and beverage products and are generally located as anchor stores in shopping centers. An increasing number of Indonesians are shopping at these stores, particularly middle and upper income consumers. These retail stores generally contain in-store bakeries, cafés and restaurants, and prepared meals.

Modern retailers are concentrating on improving their marketing of quality fresh produce, a substantial portion of which is imported, as is exemplified by the number of fruit boutiques that have emerged.

In addition, mini-markets and other shops, which carry a small range of convenience food items and fresh fruits, are found throughout Indonesia's major urban centers and some are co-locating with petrol stations.

Table 1. Sales of Package Food in 2006 (Values in Trillion Rp)

Product	Retail	
	Volume	Value (Trillion Rp)
Dried processed food (000 ton)	5,197	28.9
Bakery products (000 ton)	843	14.9
Dairy products (not calculable)	-	14.9
Noodles (000 ton)	1,079	10.9
Confectionery (000 ton)	172	10.2
Sweet and savory snacks (000 ton)	254	6.4
Oils and fats (000 ton)	527	6.0
Baby food (000 ton)	79	5.6
Sauces, dressings and condiments (000 ton)	246	3.9
Ice cream (000 liter)	77,224	2.0
Frozen processed food (000 ton)	35	1.9
Canned & preserved food (000 ton)	43	1.4
Others (Meal replacement products, ready meals, soup, pasta, chilled processed food, spreads) (000 ton)	25	1.3

Source: Euromonitor

Despite the growth in the modern retail sector, the majority of Indonesians continue to shop at traditional stores conveniently located near their homes or places of work. These stores sell conventional food and beverage products familiar to the majority of consumers.

Market Overview

Growth in the number of large modern retail stores is expected to continue, particularly hypermarket and mini markets. This growth is being driven mostly by strong shopping preference. There is ample opportunity for retail store expansion to serve the 220 million strong population in Indonesia. In one survey, consumers said they choose a store based on its product pricing and value (13 percent), store accessibility (10 percent), store format and wide selection (10 percent), efficiency and loyalty (9 percent), and products quality (8 percent).

Table 2. Number of modern retail outlets

Type of outlet	2003	2004	2005	2006
Minimarket	4,038	5,604	6,465	7,356
Supermarket	896	956	1,141	1,311
Hipermarket	43	68	83	105

Source: AC Nilsen

Foreign retailers drive retail sector growth and the competition between retailers is fierce. Many large retailers are strategically located in the heart of Indonesia's major urban areas and compete directly with smaller retailers. As a result smaller retailers have complained to the Indonesian government requesting zoning and trading regulations as well as the protection for small and medium enterprises.

Imported items continue to face burdensome registration requirements which make doing business difficult, particularly for specialty stores that carry a high percentage of imported food products or stores that want to test market new products. Furthermore, non-transparent and unpredictable customs clearance procedures, besides being costly and administratively cumbersome, create problems when products with limited shelf-life are unexpectedly held at port.

Consumer Purchasing Habits

Indonesian consumers tend to follow one of two purchasing habits. The average Indonesian spends 53 percent of his income on food and earns money and purchases food on a daily basis. These consumers tend to:

- Shop frequently for food and buy smaller quantities per shopping trip.
- Buy smaller package sizes and place price over packaging quality and appearance.
- Buy local rather than imported products when satisfactory local substitutes are available.
- Commonly buy cooked food at street-side stalls but cook at home is mostly preferred
- Consume more fresh food items than packaged and processed food.
- Increasingly make decisions based on health and nutrition concerns, prompting processors to provide more fortified food products
- Increasingly prefer for shopping at supermarket and modern outlets rather than at traditional wet markets due to more comfortable shopping space, more complete range of goods, guaranteed quality, food safety and cleanliness, competitive price, good service, and easier accessibility.
- Make decisions based on advertising

Expatriate and high-income Indonesian consumers are not as price sensitive and continue to look for branded, gourmet, and imported items. Organic products are starting to be popular. Younger consumers from medium to high income families are looking for variety and are less cost conscious.

In response to evolving consumer preferences, distributors and retailers have altered marketing practices. Packaging sizes have been reduced to lower prices, and more generic brands, especially for staple foods such as rice, sugar, and cooking oil, have been introduced. In addition, promotional campaigns are more aggressive, with store fliers, seasonal discounts, in-store activities, and advertising more prevalent.

Future Trends

The patterns of consumer behavior described above are expected to continue. The bulk of consumers are adjusting to paying higher prices for imported and local food products, but 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 are not brand loyal providing opportunities for foreign brands to replace traditional brands. Value-for-money will remain important to consumers, but they will also be looking for greater variety in retailers' assortments. As incomes grow opportunities for branded products will increase. Interest in the nutritional characteristics of food should continue to grow. Food safety awareness and consideration will also increase. Offering additional in-store services, already a relatively common practice, will become even more common. These services include acceptance of credit and debit cards, ATM services, flower departments, laundry counters, food courts, bakery corners, home delivery, and cook service. Money-back or other guarantees, though rare today, are expected to become more common. Ready to eat and ready to cook meals

are becoming very popular because of the ease of preparation, especially for expatriates living in apartments, middle to upper income consumers, and working mothers.

OPPORTUNITIES FOR U.S. PRODUCTS IN INDONESIA	
1	Large Consumer Base: Indonesia has a population of 235 million people, with an estimated 15 percent or about 35 million people in the upper and middle income groups.
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 and Japanese, Korean, and Western restaurant chains.
4	Many Indonesian consumers prefer U.S. product tastes and quality.
5	Low Duties: Duties on most food are 5% or less. However, during 2006-2009 tariffs on certain processed foods are set at 10%.
6	More urban women entering the workforce with less time available for shopping and cooking increasingly focusing on convenience.
7	Some multinational companies provide commissary and catering services that demand imported products.

CHALLENGES FACING U.S. PRODUCTS IN INDONESIA	
1	Prices of imported products are relatively high compared to locally produced products
2	New-to-market U.S. products are not well-known to the majority of consumers.
3	Non-transparent and unpredictable customs clearance procedures.
4	Products must have an ML number (registration number). Animal-based food must be certified "halal" and be accompanied by an import permit.
5	Product shelf life should be considered for shipments to Indonesia due to the extended transportation and inconsistent custom clearance times.
6	Infrastructure, including ports and cold storage facilities outside of the main island of Java, are poorly developed.
7	Consolidated shipments with products from several suppliers are often most cost effective for Indonesian retailers. This increases documentation problems.
8	Third-country competition remains strong, especially from Australia, New Zealand, Europe, Malaysia, the Philippines, Thailand, and China.
9	U.S. freight costs are higher relative to competing origins

Labeling

Requirements for labeling of food products (primarily applicable to packaged food for retail sale) are broad in scope. Changes resulting from the Food Act of 1996, and the Consumer protection Act of 1999 went into effect in 2000. The newly introduced labeling regulations state that labels must be written in the Indonesian language and note GMO derived ingredients. However, in some cases these regulations are loosely enforced at best; the GMO labeling requirement is not enforced at all.

All imported processed food products must be registered with the National Agency for Drug & Food Control (BPOM) before clearance through Customs. The process for registration of food is complex, often non-transparent, costly, and time consuming due to the detailed requirements regarding supporting documentation that should be carried out before shipping. New regulations require the importers to apply for an import permit on animal based food products, including processed products, from the Director General of Livestock Service, Ministry of Agriculture. This permit must be obtained before an exporter can get an ML or registration number. The nature and implementation of regulations require exporters to establish close business relationships with local importers and agents.

Duties and taxes

Although import duties applied on most of food and agricultural products are 5 percent or less and 10 percent on certain processed foods, most imported products are also assessed a value added tax of 10 percent except on certain strategic products, such as corn, meat, poultry, egg, and fresh milk. The Indonesian sales tax is 2.5 percent. Alcoholic beverages are subject to luxury tax that varies between 40-75 percent according to the product category.

II. ROAD MAP FOR MARKET ENTRY

Entry Strategy

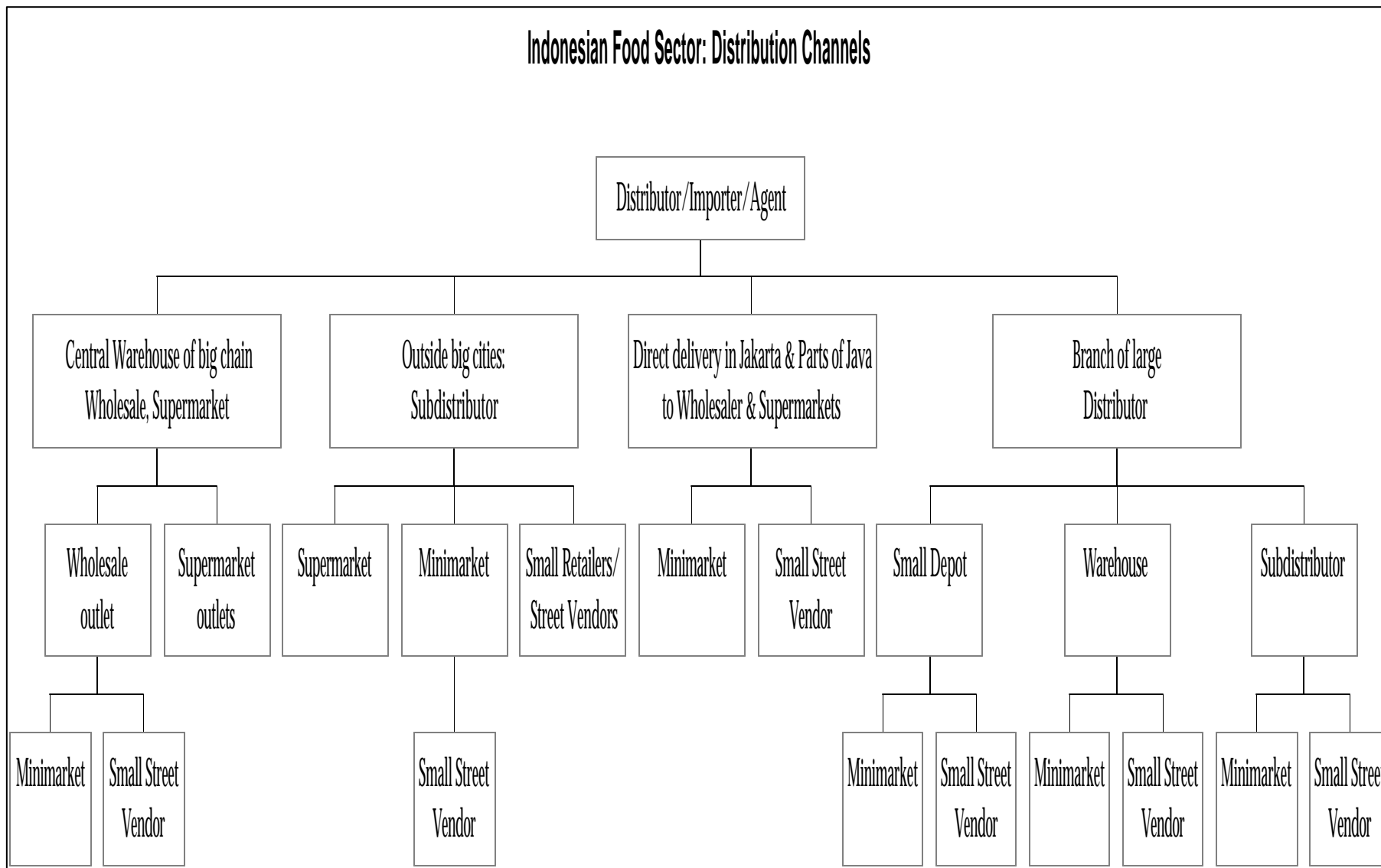
The best way to enter the Indonesian market is to appoint an agent. In general, the initial volume of imported product sales is small. An agent is needed to assure the widest distribution for your products as well as to undertake the marketing efforts necessary to create awareness for your products among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

In some situations, it may make sense to sell product directly to supermarkets or to appoint them as the exclusive distributors. This is particularly recommended for gourmet products, as upscale products are not likely to generate sufficient volume to interest an agent bringing in container loads. Nevertheless, initial sales efforts in Indonesia should include visits with potential agents as well as with key retailers to gain an understanding of the market.

Distribution System

Due to the widespread and diverse nature of the country, involving hundreds of islands, the distribution system is complex. In many cases, the infrastructure is inadequate, especially outside big cities and the island Java. The ability to move frozen and refrigerated products is limited. There are several national distributors, generally subsidiaries of consumer goods and food manufacturers, who serve the whole country and numerous agents and distributors with a more local reach. There are hundreds of wholesalers and millions of retailers.

Inadequate port facilities are often cited as the single largest constraint in the distribution system. Shallow draft that allow only small ships, inadequate loading and unloading facilities, and frequent congestion are some of the problems associated with the ports. Also cited by distribution firms are unreliable shipping schedules and an inadequate number of small ships serving Eastern Indonesia, particularly during bad weather periods, which result in frequent shortages and leads firms to hold higher than desired inventories.



Distribution System for Imported Products

Imported products often move to a distributor or agent, who in turn, sells 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 logistics.

Most imported products are sold to the modern retail stores, including hypermarkets, supermarkets, wholesalers, convenience stores, and mini-markets. 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: Bandung, Yogyakarta, Surabaya, Denpasar, Makassar, Manado, Balikpapan, Banjarmasin, Medan, Pekanbaru, Padang, Palembang, Batam. Generally, products move to 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.

Distribution channels will shorten. Large retailers will increasingly import produce and other products directly from foreign exporters, or will be supplied directly by local manufacturers and fresh produce suppliers or growers. The products are placed in central warehousing and distribution systems in major urban areas utilizing modern technology and equipment. They will open more outlets in cities on Java outside of Jakarta to make these systems efficient. Adequate infrastructure is a major problem on the other islands.

The success of large retailers, wholesalers, and hypermarkets in offering Indonesian consumers a wide variety of products at lower prices will stimulate growth of imported food sales. More middle and low-income consumers are beginning to shop in these outlets. Increasing competition will force existing supermarkets and other modern retailers to focus on targeted consumer groups, to become more sophisticated in their marketing efforts, and to improve efficiency of store operation.

The number of mini-markets and other small stores is also predicted to grow. The greatest expansion is anticipated on the islands of Java and Bali, in residential areas and cities outside of Jakarta.

A. Supermarkets, Hypermarkets, and Warehouse Outlets

This segment is the most likely to purchase imported products. Imports can account for anywhere between 5 and 30 percent of the food items sold, increasing to 60 percent for specialty retailers catering to higher end consumers. In the near future, smaller quantities of imported products are expected to be featured, but with a greater variety of brands and items.

Table3. Hypermarket, Supermarket, warehouse outlets

Retail Name & Market Type	Owner ship	Sales /year 2006	No. of Outlets (October 2007)	Locations (city/region)	Purchasing Agent Type
Alfa	Local & Singapore	Rp. 3,625 billion (\$397 million) for all PT Alfa Ritelindo Tbk businesses	32	Jakarta, Bogor, Tangerang, Bekasi, Bandung, Cirebon, Semarang, Solo, Yogyakarta, Surabaya, Jember, Malang, Makassar, Bandar Lampung, Bali.	Agent, Importer.
Carrefour	France	N/A	31	Jakarta, Bogor, Tangerang, Bekasi, Bandung, Surabaya, Semarang, Palembang, Medan, Makassar, Yogyakarta, Denpasar	Direct Agent, Importer.
Giant	Local & Dairy Farm-Hongkong	Rp. 4,808 billion (\$525 million) for all PT Hero Supermarket Tbk businesses includes Hero Supermarket	17	Jakarta, Bogor, Tangerang, Bekasi, Surabaya, Bandung, Sidoarjo	Direct Agent, Importer.
Hypermart	Local	Rp. 8,488 billion(\$929 million) for all PT matahari Putra Tbk businesses includes Food Mart	30	Jakarta, Bogor, Tangerang, Bekasi, Solo, Batam, Makassar, Malang, Pontianak, Bandung, Pekanbaru, Medan, Palembang, Manado, Banjarmasin, Surabaya	Agent, Importer.
Indogrosir	Local	N/A	3	Jakarta, Yogyakarta, Surabaya	Agent, Importer.
Makro	Netherlands	N/A	19	Jakarta, Tangerang, Bekasi, Bandung, Semarang, Yogyakarta, Solo, Sidoarjo, Medan, Pekanbaru, Palembang, Bali, Makassar, Banjarmasin, Balikpapan	Agent, Importer.
Ada	Local	N/A	5	Semarang, Bogor	Agent, Importer.
Asian Mart – Korean specialty store	Local	N/A		Jakarta	Agent, Importer.

Retail Name & Market Type	Ownership	Sales /year 2006	No. of Outlets (October 2007)	Locations (city/region)	Purchasing Agent Type
Bali Deli –specialty store	Local	N/A	1	Bali	Agent, Importer.
Borma	Local	N/A	15	Bandung	Agent, Importer.
Cut Price	Local	N/A	4	Jakarta, Bandung, Sidoarjo, Malang	Agent, Importer.
Budget Family	Local	N/A	6	Jakarta, Yogyakarta, Surabaya, Bekasi	Agent, Importer.
Caswell Mom’s – specialty store	Local	N/A	1	Jakarta	Agent, Importer.
Chandra	Local	N/A	6	Bandar Lampung	Agent, Importer.
Cosmo Japanese Food Center – specialty store	Local	N/A	2	Jakarta, Surabaya	Agent, Importer.
Diamond	Local	N/A	6	Jakarta, Palembang, Makassar, Batam, Yogya	Agent, Importer.
Dijon – specialty store	Local	N/A	1	Bali	Agent, Importer.
Food Hall (formerly Sogo) – specialty store	Local	N/A	7	Jakarta, Surabaya	Agent, Importer.
Food Mart (Formerly Matahari Supermarket)	Local	See Hypermart	33	Jakarta, Bogor, Tangerang, Bekasi, Sukabumi, Karawang, Cirebon, Solo, Semarang, Kudus, Klaten, Pekalongan, Purwokerto, Madiun, Jember, Bali, Bandar Lampung, Padang, Batam, Jambi, Samarinda, Pontianak	Agent, Importer.
Gelael	Local	N/A	14	Jakarta, Manado, Semarang, Kuta, Makassar, Bandar Lampung, Timika, Jayapura, Gorontalo	Agent, Importer.
Gogo Mart	Local	N/A	3	Makassar, Cianjur, Manado	Agent, Importer.
Gourmet Garage – specialty store	Local	N/A	2	Bali, Jakarta	Direct, Agent, Importer.
Hanil Mart – Korean specialty store	Local	N/A	1	Jakarta	Agent, Importer.

Retail Name & Market Type	Ownership	Sales /year 2006	No. of Outlets (October 2007)	Locations (city/region)	Purchasing Agent Type
Hanyang – Korean specialty store	Local	N/A	1	Jakarta	Agent, Importer.
Hardy's	Local	N/A	11	Bali, Banyumas	Agent, Importer.
Hari Hari Swalayan	Local	N/A	6	Jakarta, Bekasi	Agent, Importer.
Hero	Local & Dairy Farm Hongkong	Rp. 4,808 billion (\$525 million) for all PT Hero Supermarket Tbk businesses includes Giant	98	Jakarta, Bogor, Tangerang, Bekasi, Bandung, Serang, Sukabumi, Tasikmalaya, Yogyakarta, Semarang, Solo, Magelang, Surabaya, Kediri, Bali, Banjarmasin, Balikpapan, Samarinda, Lombok, Malang, Sidoarjo, Padang, Makassar, Papua	Direct, Agent, Importer.
K Mart – Korean specialty store	Local	N/A	1	Jakarta	Agent, Importer.
Kamome – Japan specialty store	Local	N/A	1	Jakarta	Agent, Importer.
Kemchicks – specialty store	Local	N/A	1	Jakarta	Agent, Importer.
Lion Superindo	Local-Delhaize Belgia	N/A	51	Jakarta, Bogor, Tangerang, Bekasi, Bandung, Sukabumi, Cilegon, Yogyakarta, Surabaya, Palembang	Agent, Importer.
Lucky Super market Group	Local	N/A	11	Jakarta, Surabaya, Medan, Pekanbaru	Direct, Agent, Importer.
Luwes Group	Local	N/A	9	Solo, Semarang, Purwodadi, Sragen, Wonogiri, Pati, Ponorogo	Agent, Importer.
Macan Yaohan	Local	N/A	8	Medan	Agent, Importer
Maju Bersama	Local	N/A	5	Medan	Agent, Importer.
Mu Gung Hwa – Korean specialty store	Local	N/A	1	Jakarta	Agent, Importer.
Naga	Local	N/A	7	Jakarta, Bekasi	Agent, Importer.
New Seoul Super-Korean speciality store	Local	N/A	1	Jakarta	Agent, Importer.
Papaya – Japan specialty store	Local	N/A	3	Jakarta, Surabaya, Bali	Direct, Agent, Importer.
Pepito – specialty store	Local	N/A	1	Bali	Agent, Importer.

Retail Name & Market Type	Ownership	Sales /year 2006	No. of Outlets (October 2007)	Locations (city/region)	Purchasing Agent Type
Ramayana	Local	Rp. 4,478 billion (\$489 million) for	92	Jakarta, Bogor, Tangerang, Bekasi, Cimahi, Serang, Sukabumi, Cianjur, Purwakarta, Cirebon, Kerawang, Cilegon, Semarang, Salatiga, Kudus, Surabaya, Sidoarjo, Gresik, Malang, Palembang, Medan, Jambi, Makassar, Balikpapan, Pangkal Pinang, Pekanbaru, Tarakan, Banjarmasin, Kupang, Binjai, Pematang Siantar, Padang, Batam, Bali, Tanjung Pinang, Palu, Pontianak, Bandar Lampung	Agent, Importer.
Ranch Market – specialty store	Local	N/A	6	Jakarta, Surabaya	Agent, Importer.
Sri Ratu	Local	N/A	8	Semarang, Pekalongan, Tegal, Purwokerto, Madiun, Kediri	Agent, Importer.
Rita	Local	N/A	5	Purwokerto, Kebumen, Cilacap, Wonosobo	Agent, Importer.
Sabar Subur	Local	N/A	4	Tangerang	Agent, Importer.
Sami Luwes	Local	N/A	5	Solo, Tegal	Agent, Importer.
Setaibudhi – specialty store	Local	N/A	1	Bandung	Agent, Importer.
Sinar	Local	N/A	3	Surabaya	Agent, Importer.
Suzuya	Local	N/A	4	Medan	Agent, Importer.
Tiara Dewata	Local	N/A	4	Bali	Agent, Importer.
Tip Top	Local	N/A	5	Jakarta, Bogor, Tangerang, Bekasi	Agent, Importer.
Yogya	Local	N/A	48	West Java, Bogor, Jakarta	Agent, Importer.
Yuki	Local	N/A	3	Medan	Agent, Importer.

B. Mini-markets and Convenience Stores

Mini-markets are rapidly growing in popularity. This is especially true in the cities outside of Jakarta. Mini-markets are essentially upgraded traditional road side stalls. They carry essential staple goods, some frozen items, and fresh fruits. Low prices compared to the major retailers is one of their selling points. Many mini-markets are conveniently located in

housing developments and residential areas. Most mini-markets chains have their own distribution facilities. Purchasing from importers or distributors is centralized and items can be delivered to a central warehouse or directly to stores.

Table4. Mini market

Retail Name & Market Type	Ownership	Sales/year 2006	No. of Outlets (October 2007)	Locations (city/region)	Purchasing Agent Type
Alfa Minimarket (PT Sumber Alfaria Trijaya)	Local	Rp. 3,625 billion (\$397 million) for all PT Alfa Ritelindo Tbk businesses	2,157	Jakarta, Bogor, Bekasi, Tangerang	Agent, Importer.
AM/PM (convenience) (PT Sinar Sahabat)	U.S. franchise	N/A	27	Jakarta	Agent, Importer.
Circle K (PT Circleka Indonesia Utama)	U.S. franchise	N/A	120	Jakarta, Bogor, Batam, Bandung, Bali, Yogyakarta	Agent, Importer.
7 Eleven (PT Suryamas Cahaya Lestari)	U.S. franchise	N/A	6	Bandung	Agent, Importer.
Indomaret (PT Indomarco Prismaatama)	Local	N/A	2,227	Jakarta, Bogor, Bekasi, Tangerang, Lampung, Java, Bali	Agent, Importer.
Minimart (PT Sentra Ritelindo)	Local	N/A	16	Bali	Agent, Importer.
Star Mart – mini market (PT Hero Supermarket Tbk)	Local	Rp. 4,808 billion (\$525 million) for all PT Hero Supermarket Tbk businesses includes Giant	64	Jakarta	Agent, Importer.
Yomart	Local	N/A	142	West java	Agent, Importer.

C. Traditional Sector

The traditional sector continues to dominate Indonesian food retailing. This sector includes small stalls, some of which are in traditional markets. Distribution channels are long and complex. Little imported product is carried by these outlets except for fresh fruit and beef offal used to make meat balls. An estimated 60 percent of imported fresh fruit is sold in traditional markets. U.S. apples (red delicious) are the most popular, followed by Chinese oranges and U.S. table grapes. Meanwhile, an estimated 80 percent of imported beef offals are distributed in the traditional markets. Since a ban on U.S. beef was implemented in 2005, offal is sourced almost exclusively from Australia.

III. COMPETITION

Local companies with a strong position in the food and beverage market

The local industry dominates the markets for baked goods, noodles, and other wheat-based products, snacks, frozen poultry products, processed dairy products, canned fish, soft drinks, beer, and bottled and packaged teas, tropical fruits and vegetables, and fresh sea food.

While businesses featuring fresh produce compete on their ability to supply competitively priced locally grown products, businesses featuring processed food and beverages compete based on brand name. There are several multinational companies in this sector, including Unilever, Nestle, Kraft, Danone, Heinz, Royal Numico that owns Nutricia and Sari Husada companies, Helios, Frito Lay, and Effem.

Competition in the import market

Temperate fresh fruit, fruit juice, beef, french fries, confectionary, tree nuts, cheese, and pet foods are mostly imported. Primary competing suppliers include Australia, New Zealand, France, Netherlands, South Africa, Canada, Brazil, China, Japan, Korea, Pakistan, Malaysia, and Thailand.

Table5. Competition between domestically produced goods and imports

Product Category	Major Supply Sources in 2006 (% Volume)	Strengths of Key Supply Countries	Advantages and Disadvantages of Local Suppliers
Fresh fruit Net import: 408,000 ton \$318 million	China 50% Thailand 16 U.S. 13 % Australia 6% Pakistan 3%	China: fuji apple, yalie pear, Shandong pear, red globe table grape, mandarin orange Thailand : longan, durian U.S.: red delicious apple, table grape Australia:pear, table grape, orange Pakistan : kino orange	Only tropical fresh fruit produced locally with inconsistent supply and unreliable quality
Other consumer oriented food products (food preparation, can food preparation, mayonnaise, gelatin, starch, pastry, frozen food preparation, salad dressing) Net import: not available \$398 million	Netherland 15% Malaysia 15% China 14% Thailand 12% US 10% Singapore 7% South Korea 7%	Consumer are familiar with products from Netherlands due to the long-term relationship Consumer prefer the taste and lower price of products from China and ASEAN	Most of the products are not produced locally

Product Category	Major Supply Sources in 2006 (% Volume)	Strengths of Key Supply Countries	Advantages and Disadvantages of Local Suppliers
Red meats fresh, chilled, frozen Net import: 62,000 ton \$86 million	New Zealand 51% Australia 48%	Australia and New Zealand competitive pricing and no reported cases of FMD and BSE	Shortage of supply. Most is sold fresh to traditional markets and modern outlets. Offal is used as an material for bakso (meat ball)
Processed fruits & Vegetables Net import: 68,000 ton \$66 million	U.S. 37% China 20% Canada 6% Thailand 6% Singapore 5% New Zealand 4%	U.S.: French fries & potato flakes Canada: frozen, processed vegetables China and Thailand: processed fruit and vegetable products. Brands are well known and price are cheaper	Only mushroom and pineapple are produced locally
Snack food excl nuts Net import: 34,000 ton \$46 million	China 36% Malaysia 27% Switzerland 6% Thailand 5% Singapore 4%	China, Malaysia, and Thailand: lower price Switzerland: popular chocolate confectionary	Local product is also abundant but consumers are willing to try new products.
Tree nuts Net import: 5,600 ton \$6 million	U.S. 42% Indonesia 29% China 9% Singapore 5% Malaysia 5%	U.S.: high quality nut. More nut products are entering Indonesia from Singapore through Batam port (Indonesia)	Local tree nut production is limited to the cashew nut
Pet foods Net import: 8,900 ton \$7 million	U.S. 39% Thailand 38% Australia 19%	Thailand and Australia: products with competitive price. U.S. Pet food imports are banned due to claims of BSE risk.	No pet food is produced locally.
Fish & Sea food Net import: 57,800 ton \$44 million	China 22% Japan 10% Singapore 10% Indonesia 9% Thailand 9% Malaysia 8%	All countries: mackerel and tuna.	High local fish and seafood production. High-end restaurants also need non-tropical seafood products
Cheese Net import: 10,600 ton \$31 million	Australia 58% New Zealand 24% U.S. 11% France 3% Netherlands 1%	Australia and New Zealand cheese is competitively priced	Demand from food industries and bakeries is increasing
Fruit & vegetable Juice Net import: 8,800 ton \$8 million	Australia 30% Singapore 12% U.S. 9% Brazil 8% Japan 7% China 5% Austria 4% South Africa 3% Netherlands 3%	Australia brands are popular. Geographic proximity gives Australia advantage due to short product shelf life	Health concerns are prompting Indonesian to choose quality fresh products

IV. BEST PRODUCT PROSPECTS

Many 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 for imported products exist in modern retail outlets in the major cities on Java such as Jakarta, Bandung, Surabaya, as well as Denpasar on Bali, the centre of tourism, and Medan on Sumatera. Potential also exists where foreign companies with a high number of expatriates are located, such as Balikpapan, Lombok, Sumbawa in Nusa Tenggara Barat, Pekanbaru on Sumatera, and Timika on Papua.

In most large cities, there is at least one supermarket that caters to the expatriate community providing products 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 ranged items with brand names well-known to these expatriates. Because importers purchase in small quantities and transportation costs, products are expensive compared to what expatriates pay at home.

The Indonesian expatriate community is made of a broader range of ethnicities than in the past. The trend is for more expatriates to come from Asian countries.

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

For U.S. products already present in the Indonesian market in significant quantities, fresh fruit continues to have the best sales prospects. This is especially true of the hardier fruits, such as apples and grapes. Canned foods, such as vegetables and beans are also common. Some of the best selling processed foods include frozen french fries, frozen and canned vegetables, breakfast cereals, snack food, biscuits, crackers, popcorn, baby food, dressings, sauces and seasonings, cooking and salad oils, and beverages.

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 refrigerated frozen foods such as pizza, frozen meat, delicatessen meat and cheese, and juices.

C. Products Not Present Because they Face Significant Barriers

Prior to the ban on U.S. beef implemented in 2005, the most important U.S. sales item in the retail sector were beef offal marketed in traditional outlets. Imports of U.S. chicken parts, which have great potential demand in Indonesia, were banned by the Indonesian government in 2000 due to questions regarding halal certification.

D. Recommendations

It is a good time to enter the Indonesian market. The retail sector is growing rapidly despite limited consumer purchasing power, which expected future economic growth suggests will improve. So now is the time to introduce Indonesians to new products and build brand awareness. However, it is important to have realistic expectations about the size of the market. There is also a need to be flexible and make a long-term commitment to market development.

Other recommendations for selling to Indonesia are:

- It is essential to invest in product promotion, especially for new products, to create awareness. Samples are particularly effective in this market.
- Competent Indonesian distributors are familiar with the Indonesian market and consumer preferences however, they are likely not familiar with your product. Imported products have failed because distributors lacked knowledge and training on how to use and handle a product to maintain quality and brand image.
- Your product must be priced competitively.
- Be prepared to deal with orders in small quantities and to the extent possible, which may require flexibility on required minimum quantities.
- Offer the market a range of products to give consumers a choice.
- Products that have at least a 9-month shelf life have fewer problems with customs officials. Expiration dates must be clearly marked.
- Find out as much as possible about the market and culture.
- Work closely with your local agent. Before choosing a distributor, make sure that channels of distribution are closely supervised.
- Singapore is a showcase and a trans-shipment point for the Southeast Asian region, particularly for products to Indonesia.
- Provide agents the complete documentation required to register the product for a ML number.
- Actively contact retailers directly, not only through the importer or agent to get more information regarding the product potential and sales.
- The cost of registering and importing a product can be high for a distributor. Local culture expects that distributors will have exclusive distribution rights. A distributor will resent a supplier that sells to more than one agent.

V. POST CONTACT AND FURTHER INFORMATION

The Foreign Agricultural Service (FAS), U.S. Embassy Jakarta maintains up-to-date information covering food and agricultural import opportunities in Indonesia and would be pleased to assist in facilitating U.S. exports and entry to the Indonesian market. Questions or comments regarding this report should be directed to FAS Jakarta at the following local or U.S. mailing address:

International Post: **Foreign Agricultural Service**
U.S. Embassy Jakarta
Jl. Medan Merdeka Selatan # 3-5
Jakarta 10110 - Indonesia
Tel: +62 21 3435-9161
Fax: +62 21 3435-9920
e-mail: agjakarta@usda.gov
Home page: www.usembassyjakarta.org/fas

U.S. mail: **Foreign Agricultural Service**
U.S. Embassy-Jakarta
Box 1, Unit 8129
FPO AP 96520-0001

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

VI. OTHER RELEVANT REPORT

1. Food and Agricultural Import Regulations and Standard Annual Report (ID7027)

<http://www.fas.usda.gov/gainfiles/200708/146291902.pdf>

2. Export Certificate FAIRS Annual Report (ID7032)

<http://www.fas.usda.gov/gainfiles/200710/146292698.pdf>

3. Indonesian Exporter Guide Update (ID7034)

<http://www.fas.usda.gov/gainfiles/200710/146292580.pdf>

A: Products Present in the Market That Have Good Sales Potential

Best market prospects for imported U.S. food products and competing suppliers presence, as identified by the Agricultural Trade Office in Jakarta based on Indonesian Central Bureau Statistics data are as follows:

Product Category	2006 Import (\$mil)	2006 Import from US (\$mil)	5Yr. Avg Annual Import Growth (%)	Import Tariff Rates	Key Constraints to Market Development	Market Attractiveness for USA
Dairy Products excl cheese	547	80 (Mainly Non fat dry milk, Lactose, whey)	14.8	5% except Yogurt & SCM - 10% during 2006-2009	Competition from Australia and New Zealand	Demand for dairy processors, food & beverage industries, and bakeries are increasing
Fresh fruit	318	40 (Mainly Apples & Grapes)	20.60	5% except mandarin 25%	Competition from China, Thailand, Australia, and Pakistan. Recent regulations inhibit some US fresh fruit imports	Health awareness pushes the demand for quality fresh products
Other consumer oriented food products	398	40 (Mainly food prep, canned food, mayonnaise, gelatin, starch, pastry)	15.8%	5%	Competition from Netherlands, Malaysia, China, Thailand, Singapore and South Korea	Food service and food processors need more and consistent supply of products due to growth
Red meats fresh, chilled, frozen	86	0	16.6	5%	Ban of US beef due to BSE Competition from Australia and New Zealand	Prime beef for high-end restaurants and offal for the lower to mid-class food service industry
Processed fruit & Vegetables	66	24 (Mostly onion powder, French fries potato flakes, sauces, celery)	18.6	Mostly 5% 10% for processed fruit during 2006-2009	Competition from China, Canada, Thailand, and Singapore	Increased consumption of fruit juice due to health awareness
Snack food excl nuts	46	0.4 (Mainly confectionary, potato chips, popcorn)	-8	5%	Competition from China, Malaysia, Switzerland, Thailand, Singapore	Retail industry development pushes sales of snack food products
Tree nuts	6	2.6 (Mostly Almonds)	44.4	5%	Competition from China and local products	Fast-growing bakery industry needs
Pet foods	7	3 (Mostly dog & cat food)	18.8	5%	Competition from Thailand and Australia	Demand exists for niche market
Fish & Sea food	44	2 (Mostly crab, crab meat, & other seafood)	30.6	5% except fish canning - 10% during 2006-2009	Competition from China, Japan, Singapore, local products, Thailand, and Malaysia	High-end restaurants need non-tropical seafood products

Product Category	2006 Import (\$mil)	2006 Import from US (\$mil)	5Yr. Avg Annual Import Growth (%)	Import Tariff Rates	Key Constraints to Market Development	Market Attractiveness for USA
Cheese	30	3	5.2	5%	Competition from Australia, New Zealand, France, and Netherlands	Demand from the food industry and bakeries are increasing
Fruit & vegetable Juice	8	1 (mix fruit juice)	18.4	10% during 2006-2009	Competition from Australia, Singapore, Brazil, and Japan	Health awareness creates demand for quality fresh products