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Market Development Reports

Food Processing Sector Report

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Report Highlights:

Indonesia, the world's fourth most populous nation, offers significant market potential for U.S. suppliers of food and agricultural ingredients into the local food processing sector. The total sector value is nearly US\$6.0 billion and is expected to continue to expand despite the region's economic problems. Sector growth will be boosted by recent foreign investment agreements with U.S. based multinationals in the wake of liberalized investment regulations. A further consideration is the establishment of the AFTA trade zone that will expand opportunities in the ASEAN region. Best market prospects include wheat, food-use soybeans, beef, dairy products, flavorings, processed poultry products, processed potato products, fruit concentrates, and peas & lentils.

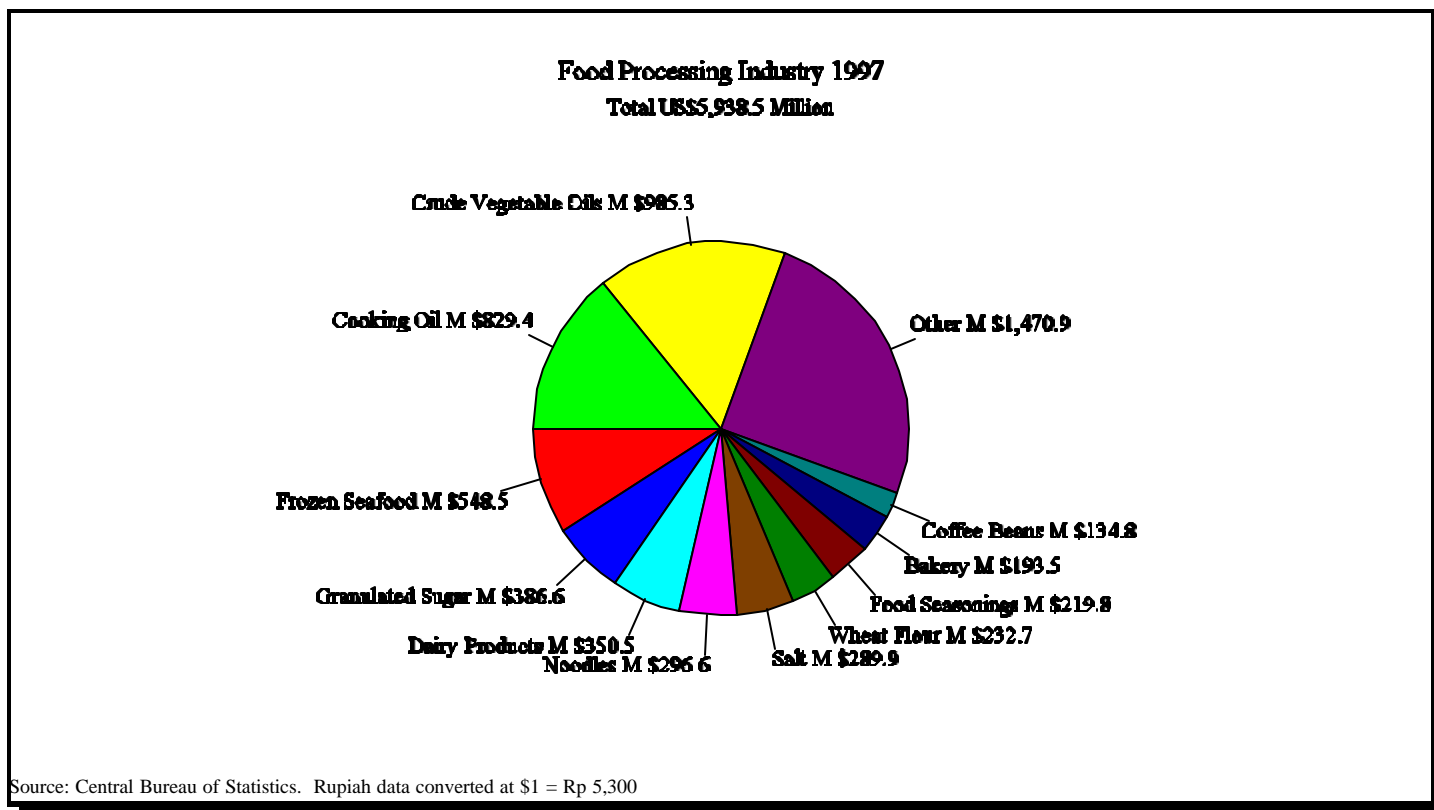
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FOOD PROCESSING SECTOR REPORT: INDONESIA

SECTION I. MARKET SUMMARY

Indonesia, the world's fourth most populous nation, offers significant market potential for U.S. suppliers of food and agricultural ingredients into the local food processing sector. In 1997, the most recent year for which data has been published, the sector value was US\$5.94 billion. However, on a per capita basis, the market for processed food is small: \$30 per annum. The staple diet in the villages of rice with side dishes of vegetables and either egg, chicken or meat includes little processed food. The urban middle class, who comprise 20 percent of the population of over 205 million, are the main consumers of processed food.

The Indonesian processed food industry encompasses most types of processed food found in a developed market, but in a different ratio of volume as shown in the graph below.



The value of imports used in food processing in the same period was \$228.7 million. The following table shows the industry that used the imports in its production, rather than the commodity imported. Hence non-food items such as packaging would be included. However, these data do not include imports by the government logistics organization (BULOG), which in 1997 was the major importer of food materials.

Industry in which Import was Used	Landed Value (\$M)	Percentage of Total
Dairy Products	71.2	31.2%
Wheat Flour	61.2	26.7%
Salt and Snack Foods	17.9	7.8%
Canned Fish	11.6	5.1%
Confectionery	10.0	4.4%
Canned Fruit	6.4	3.7%
Malt Liquor	7.2	3.2%
Bakery	6.5	2.8%
Crude Vegetable Oil	5.1	2.2%
Food Seasonings	4.9	2.1%
Other	24.6	10.8%
Total	228.7	100%

Source: Central Bureau of Statistics. Data converted at \$1 = Rp 5,300

The value of the currency dropped from Rp 2,250 against the US dollar in 1996 to a low about Rp 15,000 in 1998, before rebounding to around Rp 6,500 by July, 1999. Consequently:

- C Purchasing power among middle-class consumers has reduced significantly, limiting their capacity to buy imported products or processed food containing imported ingredients.
- C Many food processors have eliminated or reduced the imported component of their products.
- C Currency devaluation has provided a comparative advantage for Indonesian-based food processors, providing export opportunities within the Asian region.
- C Multi-national food processors that produce household brand names are continuing to explore investment opportunities in Indonesia's food processing sector - both for domestic consumers and for export to the region.

There are at least 4,500 food processing companies in Indonesia, but less than ten major groups dominate the industry. The great majority of companies in the industry are small-scale family owned businesses. Major groups are typically vertically integrated, owning primary production, processing and distribution facilities.

While there is no anti-monopoly law in force in Indonesia, new legislation has been passed to come into force in March 2000. However, the likely effectiveness of the legislation is open to question due to vague language in the definition of monopolistic practices. The effectiveness of the legislation will be established only after testing in the courts.

Sales of food products to a majority of Indonesian consumers remain dominated by the traditional or village-level wet markets. Supermarkets and other modern retail outlets have been established only in the past ten years in Indonesia, and remain concentrated in the major cities.

Deregulation of the market in the recent past has removed most import barriers.

- C The majority of ingredients for food processing may be readily imported after satisfying Health Department regulations.
- C An important requirement for food imports is certification acceptable to the Muslim association of Indonesia (MUI) that the product is *Halal*.
- C Import documentation must be complete and in accordance with Government regulations to avoid costly delay.

Indonesian importers face difficulty in arranging letters of credit, thus the export credit guarantee programs offered by US Government for certain products should be investigated to assist in facilitating a sale.

ADVANTAGES AND CHALLENGES FACING U.S. PRODUCTS IN INDONESIA	
Advantages	Challenges
Market scale - over two hundred million people in the population	Weak purchasing power of the majority of the population
Investment by US multi-nationals requiring world standard ingredients	Global purchasing organizations buy from the cheapest acceptable source
Quality of US products is considered highly	Competitors from developed countries considered equivalent to US products
The US Government offers export credit guarantees	US exporters are reluctant to offer extended terms of credit
Food technology not available in Indonesia may be offered	US certificates of compliance with Muslim food purity are required
Production capacity may be bought cheaply for regional export strategies	The Indonesian political and economic situation carries a degree of risk
Lesser developed status presents great potential for growth	Wide cultural differences present difficulties in negotiations

SECTION II. ROAD MAP FOR MARKET ENTRY

Entry Strategy

The range of products represented in the industry makes recommendation of one strategy difficult. Generally applicable principles are as follows:

- C Personal contact and local representation is essential if a permanent presence in the market is envisaged.
- C Local representation requires careful and detailed research to confirm claims. Prospective representatives who claim connections to important people should be treated with extreme caution. Such connections are not necessary - commercial acumen is greater value in the market than "good connections".

- C Do not make any commitment to grant exclusive rights to a product before gaining experience of a prospective representative's capabilities.
- C Pay attention to accounting standards applied in the preparation of reports supporting the financial standing of candidate representative's or partners.
- C Use the facilities of the U.S. Government, in particular the Agricultural Trade Office or the respective USDA cooperator, to obtain reliable advisor services.

An Indonesian company may be established as 100 percent foreign owned but caution should be exercised in taking this path. Inclusion of a competent local minority partner is recommended to assist with adaptation to the business environment and culture. Infrastructure in the country is underdeveloped, the law is based on Dutch principles and the use of English is generally limited to the well-educated.

Purchase of a majority share in an existing Indonesian company is an option worthy of consideration in the current circumstances. Many companies with useful production capacity have been severely affected by the financial crisis, and hence are open to investment or outright purchase.

Foreign investment law has changed radically over recent years, and change towards a more liberal regime continues. Do not use reports dated earlier than 1999 for guidance, and seek current information before deciding strategic options.

Market Structure

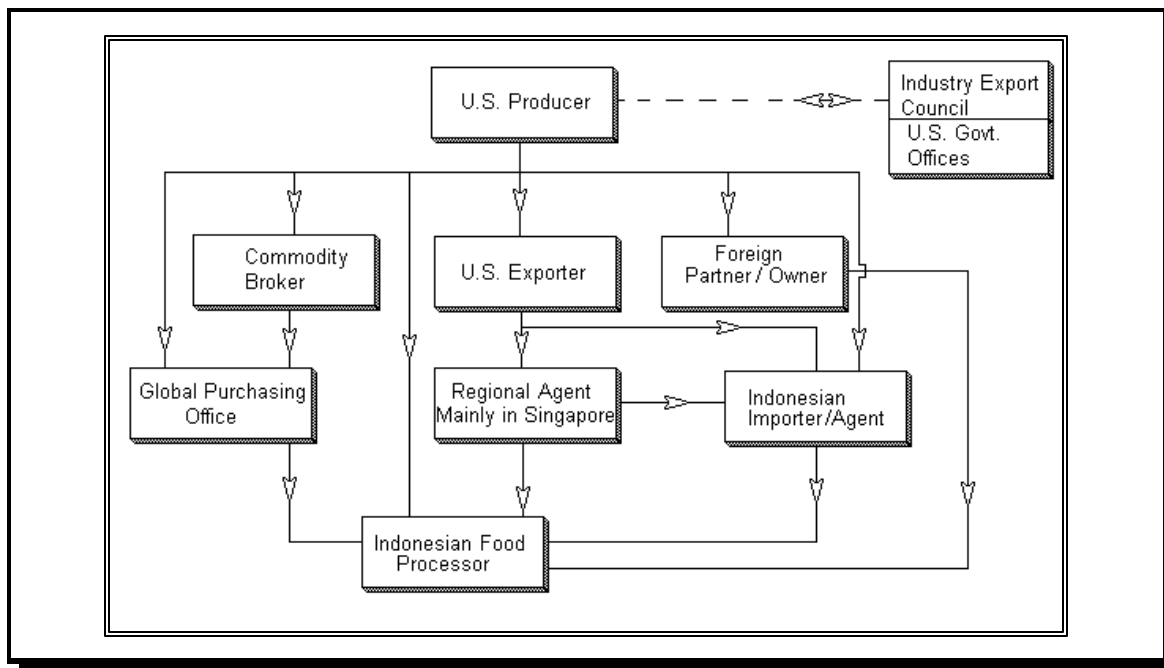
Imported food processing requirements are categorized as follows:

- C Primary materials such as frozen boned beef, wheat or skimmed milk powder.
- C Essential complementary ingredients such as flavoring, sausage casing or preservatives.
- C Packaging (which is not included in the scope of this report).

Primary materials are most commonly imported directly by the food processor. Complementary ingredients are usually bought from a local importing agent because they are used in smaller quantities and often have limited shelf life. Hence food processors find it more convenient to rely on a local supplier.

Some "local suppliers" are agents in Singapore, which is a proximate commercial hub that some producers find useful as a regional distribution point. Food processors buy from local agents in some cases because the exporter has tied his product to an exclusive agency. Some companies implied dissatisfaction with agents and would import directly if an alternative source were located.

Purchase decisions in a number of cases are forced by global recipe requirement or product specification by multi-national food processors. Such organizations frequently have a central purchasing system to obtain the best price on the world market, and hence exports to Indonesia may have to be marketed in the United States or in Europe.



Company Profiles

The magnitude and range of the industry is illustrated in the following table. A wide range of scales of operation may be deduced from the number of firms in various sectors and the total sector values.

INDONESIAN FOOD PROCESSING INDUSTRY OVERVIEW			
Food Processing industry Sub-sector	Number of Firms	Sales in U.S. Dollar (\$million /1997)	Estimated Growth (Percentage increase over previous year)
Meat Processing	38	36.9	-20
Dairy	21	350.5	-15
Ice Cream	10	9.3	-20
Canned Fruit & Vegetables	15	92.2	-10
Preserved Fruit & Vegetables	14	17.6	-5
Fruit Juice and Sauces	20	4.1	-15

Food Processing industry Sub-sector	Number of Firms	Sales in U.S. Dollar (\$million /1997)	Estimated Growth (Percentage increase over previous year)
Canned Fish	28	67.1	0
Fish - Salted / Processed	315	97.4	0
Frozen fish and Shrimp	135	548.4	10
Edible Oils and Fats	286	1897.0	10
Rice / Corn Mill & Husking	332	115.4	0
Coffee & Cocoa Beans	142	217.7	10
Nuts & Root Products	117	18.8	-10
Copra	17	2.4	0
Flour - Wheat & Other	55	247.1	-15
Noodles and Spaghetti	331	296.6	-15
Bakery, Cakes & Biscuits	594	206.4	-10
Sugar & Syrup	126	409.4	-5
Confectionery	113	188.6	-15
Tapioca & other Starches	183	71.7	-10
Tea & Coffee	222	174.1	-10
Soy Sauce	87	59.6	0
Soy Bean Cake	195	37.3	-10
Chips (prawn crackers)	581	47.1	-20
Spices	23	107.0	-10
Seasoning & Shrimp Paste	43	224.3	-15
Alcoholic Beverages	33	27.0	-5
Soft Drink, Water & Ice	431	309.4	-10
Misc, - Salt, Seaweed	149	88.2	-10

Profiles of Major Food Processing Companies:

The following section includes only a selection of the several thousand companies in the industry. Because of the importance of a small number of groups in the food processing industry, a profile of largest group is presented and competitive groups are described more briefly.

PT. Indofood Sukses Makmur Tbk. (PT. ISM)

Indofood is the biggest group in the industry, and is in turn a part of the Salim group. The present company was founded in 1990. PT. ISM had announced an agreement to sell shares to Nissin, but the agreement was terminated in April 1999. The company then opened negotiating with San Miguel Corp from The Philippines, but those negotiations have again been unsuccessful.

The operation is vertically integrated, including primary production, initial processing, final processing and distribution. Group sales in 1998 were Rp 8,834 billion (approximately \$1.1 billion) compared to Rp 4,989 billion (approximately \$1.3 billion) in 1997. Conversion of the company's results (published in rupiah) to US dollars is problematical due to the volatility of the exchange rate.

Major component and subsidiary companies are shown in the following table. Since results for each company are not available, sales are estimated as a percentage of the group turnover from information provided by PT. ISM.

Company Name and Type of Food Processor	Food Sales 1997	End-Use Channel (see Note 1)	Production Location	Procurement Channels
PT. Indofood Sukses Makmur Tbk (Flour Division) Primarily Bogasari Flour mill	22%	PT. ISM Instant Noddles Division 15% Large Scale Industry 35% Small Ind. 50%	Jakarta Surabaya Capacity 3.6 million tons per year.	Direct Import of Wheat Primarily from Australia, Canada & Argentina.
PT. Indofood Sukses Makmur Tbk. (Noodles Division) Instant Noodles	35%	Super 10% Tradition 85% HRI 5%	18 sites distributed throughout Indonesia.	Primarily within group.
PT. Intiboga Sejahtera Edible Oils and Fats	18%	Super 10% Tradition 85% HRI 5%	Jakarta Surabaya Capacity 651,000 mt cooking oil & 240,000 mt margarine	Primarily within group.
PT. Indofood Frito- Lay Corporation Snack foods	2.4%	Super 10% Tradition 88% HRI 2%	West Java Semarang	N/A
PT. Indofood Sukses Makmur Tbk. (Food Ingredients Division)	N/A	Supplies to PT. ISM	West Java East Java Semarang	N/A

Company Name and Type of Food Processor	Food Sales 1997	End-Use Channel (see Note 1)	Production Location	Procurement Channels
PT. Indosentra Pelangi Food seasonings	1.6%	Super 15% Tradition 80% HRI 5%	West Java Semarang	N/A
PT. Gizindo Primanusantara Baby Foods	1.3%	Super 40% Tradition 58% HRI 2%	West Java	N/A
PT. Artanugraha Mandiri Coffee	<1%	N/A	Semarang	N/A
Five Distribution Companies	11%	N/A	Cover all of Indonesia	N/A
Palm Oil Plantations and Edible Oil Trading	8%	N/A	Sumatra Jakarta	N/A

Note: 1. "Super" denotes supermarkets, hypermarkets and minimarkets (modern sector). "Tradition" denotes village markets and small shops (traditional sector). "HRI" denotes the hotel, restaurant and institutional sector.

ABC Group

- C The second largest food processor, turnover in 1998 was Rp 600 billion (about \$75 million).
- C Active in the food industry since 1975, and in 1999 formed a joint venture company PT. Heinz ABC Indonesia with Heinz Inc.
- C Market leader in Soy Sauce with 50% share & dominates condiment sector.
- C Other product - instant noodles - beverages and canned foods.
- C Approximately 90% of customer purchases are through traditional markets.
- C With the investment by Heinz the ABC production facilities are being utilized to produce Heinz brand products for the Asian market.
- C 85% of the input to production is of local origin. Packing constitutes a major part of the 15% import component. Heinz ingredients must meet global brand specification.

Pronas Group

- C Pronas dominates the canned meat sector, with a turnover in 1998 of Rp 60 billion (about \$7.5 million).
- C The group, established in 1950, has expanded through growth and acquisitions.
- C The group includes two meat canning companies, a vegetable cannery, beverages, distribution and Circle K franchise.
- C Customer purchase ratio is estimated at 75% via traditional markets, 20% through supermarkets and 5% to the HRI sector.
- C Competition in canned meat comes from China and South America.

Freische-Foremost Group

- C Freische-Foremost is a multinational group established in Indonesia for over 30 years.
- C The two primary companies are PT. Freische Vlag Indonesia and PT Foremost Indonesia. Local shareholders include Pronas.
- C The main products are sweetened condensed milk and milk powder. Estimated sales are \$100 million per year.
- C A distribution company has been bought to improve performance.
- C 75% of production is sold through traditional markets and 25% through supermarkets. Penetration of the HRI sector is planned.
- C The great majority of the dairy product used in production is imported.

Sierad Group

- C The Sierad Group, a locally owned business, is a major force in poultry industry. Turnover is in the order of Rp 48 billion (\$6 million) per year.
- C The group includes day old chicken business, chicken feed, chicken meat, frozen chicken, chicken nuggets, veterinary products and holds the franchise for Wendy's Restaurants and Hartz Chicken.
- C Broiler parent stock was purchased from the U.S. The group has bred a special chicken to suit the Indonesian taste using a French breed, and now produces two lines of chicken.
- C Sierad has grown during the recession through establishment of a retail freezer network to cope with the lack of frozen food infrastructure.

Orang Tua Group

- C The Orang Tua Group dominates alcoholic beverages, except for beer. A brother of the founder of the ABC Group established in the company in 1948.
- C Product are wine, whisky, vodka, traditional Indonesian health drinks, confectionery and personal care products.
- C The company includes five production facilities and employs 8,000 people. Production of beverages is approximately 60,000 liters per month.
- C Distribution is via PT. Arta Boga Cemerlang - part of the ABC Group.

OTHER COMPANIES IN THE FOOD PROCESSING INDUSTRY

Company Name and Type of Food Processor	Estimated Market Share	End-use Channel	Production Location	Procurement Channels
PT. Arnotts Indonesia (biscuit - wafers)	10% \$10-15M	Super 25% Trad. 75% HRI	Jakarta-100% foreign owned by Campbell's - United States	Flour - Europe

OTHER COMPANIES IN THE FOOD PROCESSING INDUSTRY

Company Name and Type of Food Processor	Estimated Market Share	End-use Channel	Production Location	Procurement Channels
PT. Nabisco Foods (biscuit)	10% \$10-15M	Not avail Exports to ASEAN	Jakarta-J.V. Roda Mas & Nabisco	Flour local
PT. Khong Guan (biscuit)	32% \$30-40M	Super 20% Trad. 75% HRI 5%	Jakarta Locally Owned	Primary local
PT. Konimex Food Div. Sobisco (biscuit, spreads)	N/A	Super 60% Trad. 40% HRI	Central Java Locally owned by Konimex	Local importer
PT. Probitas Jaya Utama (bread, bakery)	N/A	Super 50% Trad. 50% HRI	Jakarta Locally Owned	Local importer
PT. Nutricia Indonesia (baby food - dairy)	30% \$20-30M	Super 45% Trad. 50% HRI 5%	Jakarta-100% foreign owned Nutricia - NL	Milk powder- NZ, Europe
PT. Susu Bubuk Sari Husada (baby food - dairy)	40% \$30-40M	Super 30% Trad. 70% HRI	Jogjakarta Part owned Nutricia	Milk powder- NZ, U.S.
PT. Indomilk (powdered milk, fresh milk, UHT, SCM)	20% \$60-70M	Not avail	Jakarta - Salim Group	Milk powder- NZ, Australia, Europe
PT. Nestle Indonesia (powdered, condensed milk)	20% \$60-70M	Not avail	Jakarta-100% foreign owned Nestle	Milk powder- Europe, NZ
PT. Madusari Nusaperdana (sausages, meat)	30% <\$5M	Super 55% Trad. 30% HRI 15%	Jakarta Locally Owned	Beef - Australia
Aloha Food Industry (snack foods)	N/A	Super Trad. 100% HRI	East Java Locally owned	Local importer
PT. Smartindo (snack foods)	N/A	Super 15% Trad. 80% HRI 5%	Jakarta Local owner bought foreign share	Local
Sekar group (Crackers, sauces, nuts, frozen shrimp, frozen foods, salt)	N/A	Super 20% Trad. 50% W/S 30% Export 5%	East Java & Kalimantan Locally owned	Direct import of flavors & tomato paste

OTHER COMPANIES IN THE FOOD PROCESSING INDUSTRY

Company Name and Type of Food Processor	Estimated Market Share	End-use Channel	Production Location	Procurement Channels
PT. Sinar Meadow International Indonesia (shortening, oils)	>50%	Sales to Industrial Users	Jakarta -J.V. Sinar Mas & Goldman Fielder (Aust)	Local and from Australia J.V. partner
PT. Hakiki Donartha (Dairy creamer, whey, milk powder, raisins, yeast, enzymes, popcorn)	N/A	Sales to Industrial Users	East Java Locally owned	Direct importer

(Note: Interviewees were reluctant to disclose annual turnover in most cases, and rapid fluctuations in exchange rate over wide range make conversions to U.S. dollars of doubtful validity. Estimate of scale of the business are given where possible.)

Sector Trends

Investment Trends: Foreign investment in the food processing sector is increasing as a result of liberalized investment regulation and the need for new capital in the wake of the near collapse of the economy. A further consideration is the establishment of the AFTA trade zone giving favored treatment to regional production. Each of the following U.S.-based corporation operation's in Indonesia exports to the region using their world brand names:

- C Heinz - PT. Heinz ABC Indonesia
- C Campbells Soups - PT. Arnott's Indonesia (via Australian subsidiary)
- C Nabisco - PT. Nabisco Foods

European investment is strongest in the dairy foods industry with Nestle, Freische-Foremost and Nutricia all long standing participants. Japanese investment in the sector does not match its standing in other Indonesian manufacturing industry. Nissin has a joint venture with Indofood to manufacture biscuits, but withdrew from its bid to buy a major share of the industry through Indofood.

Consumption Trends: The major influence on consumption is reduced purchasing power of the middle class. During the early to mid-1990's a modern middle class consumer group developed in the cities. The crash in 1997 hit this class hard: they have developed tastes that they can no longer afford. However, re-emergence of this consumer group is predicted in the medium term.

Western society trends to health and diet foods are not present in Indonesia. The market is at the stage of embracing Western fast food without regard to nutritional values. As important issue to be considered is that 85% of the population profess the Islamic religion. Strict adherence to Muslim pure food certification is essential to success in the Indonesian market. This is not a matter to be treated lightly.

SECTION III. COMPETITION

Imported food ingredients constitute only a small part of the total input to production. The economic crisis has resulted in substitution by cheaper products. Where substitution of ingredients is not possible, consumption of the product has fallen due reduced purchasing power of the consumers.

Imports of Products Identified in the Survey and Their Present Sources	
Wheat	Australia, Canada, Argentina
Boned Beef	Australia
Wheat Flour	Europe
Milk Powder	New Zealand, Australia, Europe, United States
Fresh Fruit	United States, Australia
Tomato Paste	Turkey
Sausage Casings	United States, Spain
Bread Crumbs	Australia, United States
Emulsifiers	United States
Flavorings	Singapore, United States

Comments from the industry regarding U.S. exporters as compared to exporters from other nations included:

- C Prices are higher in many cases.
- C Contract terms and conditions are often more limiting or demanding.
- C Minimum order quantities are frequently higher than the need.
- C Response to requests is sometimes slow, or in some cases no response was received.
- C Communications are difficult due to the 12 to 15 hour time zone difference.
- C Special requirements, such as the Halal certificate, sometimes cause difficulty.

SECTION IV. BEST PRODUCT PROSPECTS

A. Products Present in The Market Which Have Good Sales Potential

- C Wheat / Wheat Flour - possibly by establishing milling facilities in Indonesia.
- C Beef - tough competition is lower grade Australia beef processing.
- C Dairy products - local production cannot meet demand.
- C Fruit - temperate climate fruit cannot be grown successfully in Indonesia.
- C Flavorings - "modern" flavors not available elsewhere.
- C Soybean products - ISP, Soy Flakes.
- C Processed poultry products.
- C Processed potato - locally grown potato is not suited to processing.

- C Fruit concentrates.
- C Peas and lentils.

B. Products Not Present in Significant Quantities but Which Have Sales Potential

- C Turkey - MDM might replace other meats for processing.
- C Non-alcoholic wine - the majority of consumers do not use alcohol.

C. Products Not Present because They Face Significant Barriers

- C Ham and pork may be eaten by only 15% of the population. Their presence in a food processing plant would result in loss of pure food certification. There is a niche market for expatriate and non-Muslim consumers.

SECTION 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 Retail Sector Report: Indonesia", "The HRI Food Service Sector Report: Bali", "Market Brief - Indonesian Wine Imports"; "Market Brief - Imports of U.S. Fresh Fruit: Indonesia". As of September 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>

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