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HRI Food Service Sector

Report

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Report Highlights:

Prospects for demand and market development in Indonesia's HRI sector are clouded by ongoing security concerns in the aftermath of the 12 October 2002 Bali bombings. The sector's demand for imported foods continues to be dominated by upscale Hotels and Restaurants, which were the most severely impacted by the decline in tourism, departure of expatriates, and cancellations of meetings and conferences at Indonesian hotels following the bombings. Full recovery of the sector is not expected until the end of 2003. Nonetheless, opportunities for U.S. exporters of meat, fresh fruit, baking ingredients, and potato still exist.

Includes PSD changes: No
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Section I: Market Summary

Industry Description

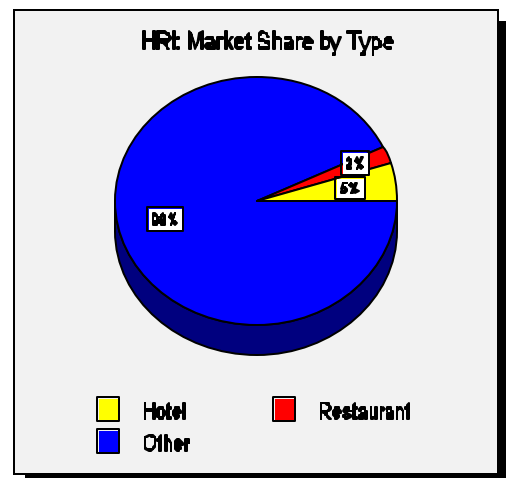
The Hotel, Restaurant, and Institutional (HRI) industry in Indonesia is extremely diverse. It consists of Hotels, Restaurants that serve local, Western, and Asian food, Fast Food outlets, and Clubs. Small restaurants, street stalls known as *warungs*, and hawkers that sell food to customers on the street, however, comprise the majority of retail outlets. Catering operations servicing airlines, factories, mining and oil operations, and private social functions are also prominent. Cruise and military ships, prisons, and hospitals are also served by caterers. Caterers and Institution Food providers dominate the market's business.

Sales of Imported Food

It is estimated that only 15 percent of the food items purchased by the HRI trade are imported products. This relatively small proportion of imported food offered in the HRI outlets reflects the fact that the sector is dominated by Caterers and Institutional suppliers, who serve primarily Indonesian consumers and rely almost exclusively on local products.

The majority of imported products are sold to Four and Five-Star Hotels and upscale Restaurants that sell Western food. However, as the accompanying figure illustrates, Hotels and Restaurants account for less than ten percent of Indonesia's total HRI market.

Of the sector's food imports, approximately 60 percent is destined to Hotels and Western Restaurants and Fast Food outlets, with the majority of this going to Hotels. Institutions account for about 20 percent of imported product sales and Caterers for the remaining 20 percent. Nevertheless, imported food items are present in all the HRI sub-sectors. For example, one major cash and carry wholesaler in Indonesia sells nearly 175 different types of products to the HRI trade.

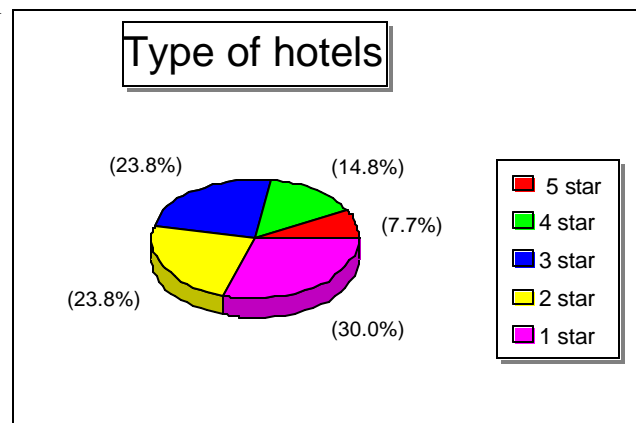


The average Indonesian consumer is not a buyer of imported foods due their purchasing power relative to the cost of imported goods. As such, the HRI trade is only likely to buy imported foods if a significant number of their customers are foreign and/or they offer an international menu. This means that the Institution and Catering sub-sectors, who dominate the market, in general do not buy imported food. For example, meals for domestic Indonesian flights consist largely of locally-produced items, while a major catering company that serves airlines in Indonesia primarily serves imported foods on international flights by foreign airlines only. Similarly, Caterers that supply Indonesian crews in outer-Island mining and oil operations, provide primarily local food products.

While the distribution of imported products in the HRI sector is limited relative to the size of the overall market, a wide variety of imported products are used. These include canned meats, fruits, and vegetables; chilled and frozen beef; poultry, including, duck, and turkey; dairy products, such as milk, cheese, butter, and whipping cream; bakery ingredients, including chocolate, canned cherries, dried fruits, and nuts; french fries and mashed potato mixes; fresh fruits and vegetables; seafood; sausages and other deli meats; soups and soup bases; jams and bread spreads; condiments, such as pickles, olives, mustard, salad dressings, and mayonnaise; barbecue, soy and other sauces; beer, wine, and liquor; other beverages, such as juices, coffee, and soft drinks; pancake mixes and syrups; spices and seasonings; cooking ingredients, such as vinegar and oils; and tomato paste and puree.

Market Overview

In 2002, before the Bali bombing, Indonesia's HRI sector was on its way to solid recovery following the extended period of contraction caused by the 1997 economic crisis. The HRI sector in Indonesia was badly affected by the sharp decline in demand that resulted from the 1997 economic crisis and its aftermath. In the three year period following those events, the HRI sector reported sales decreases of 50 - 60 percent. The decline in sales was due largely to the sluggish economic conditions compounded by ongoing political instability. These conditions were exacerbated by a departure of a large number of expatriates from Indonesia, a substantial reduction in the number of business travellers and tourists, and the cancellation of meetings, banquets, and private functions. Occupancy rates in some hotels fell to as low as 10 - 20 percent and banquet revenues dropped 50 percent. Importers of foreign food products reduced product offerings in response to the Rupiah's instability and devaluation. Some raised prices and margins. As a result, the HRI trade increasingly turned to cash and carry importers/wholesalers to obtain their product needs.



At the end of 2000, and more solidly in 2001, the sector began to recover, driven by strong consumer demand and a return of tourists and expatriates. New Western Fast Food Outlets opened, Jakarta hotel occupancy rates grew, and visitors to Bali reached pre-crisis levels. Nonetheless, ongoing political uncertainty prevented a full recovery, with periods of stability quickly followed by more uncertainty, which led to more cancellations and the concomitant decline in food sales. The roller-coaster nature of the domestic political situation was exacerbated by the WTC attack on September 11, 2001, which resulted in a decline in visitors to Indonesia. The bombing at two of Bali's busiest nightclubs on October 12, 2002, and the subsequent collapse in the number of visitors to Bali and other parts of Indonesia, provided the most recent and severe shock to Indonesia's HRI sector.

In the two month period following the terrorist attacks, occupancy rates in Bali were in the single digits.

Imports of food products to the tourist resort Island came to a virtual halt. One importer of U.S. beef reported that the product remained in cold storage, with no prospects for when it may be marketed. Looking to the future, barring further terrorist events, the tourist industry will gradually recover, but in 2003 tourist arrivals are still forecast to plummet 20 percent. That part of the HRI sector serving the tourist industry will be similarly negatively impacted, with a proportional decline in demand for imported food products expected.

Sales Outlook

The strength of the HRI sector, and its purchases of imported food products, will continue to hinge on Indonesia regaining political and economic stability, no further terrorist events occurring, and most importantly, Indonesia once again being singled-out as a place to visit by international travelers and business people. As long as travelers, expatriates, and business people shun Indonesia, the HRI industry will continue to sustain losses, and market players will increasingly focus on servicing local customers. And it is precisely this portion of the market that has traditionally not been a buyer of imported goods. A revival of demand from Hotels and upscale Restaurants will be required for U.S. sales to regain a solid foothold.

Future Trends

While strong consumer demand has been one of the few bright spots in Indonesia's economy in the last two years, consumers will still be very price and value conscious in their food buying patterns for the foreseeable future. Increases in power, gasoline, and telephone prices scheduled for early 2003 will add a further burden to consumer purchasing power. They will eat out less regularly and be looking for less sophisticated products. In addition, given the decline in expatriates living in Indonesia as well as the decline in visitors, the customer base for most of the HRI trade is expected to shift to an even higher percentage of Indonesian customers, in contrast to the high percentage of expatriate customers in pre-crisis years.

Other trends foreseen in the coming years are the following:

- More international and family-style, free-standing restaurants will be opened.
- Casual dining at cafes, food courts, and restaurants will grow in popularity at the expense of fine dining.
- Traditional 3-star hotels are upgrading to become 4-star hotels.
- The presentation of the food will become increasingly important.
- More restaurants and fast food outlets will open

Food Outlet Franchises in Indonesia			
No	Outlet	Company	Total Outlet 2002
1	A&W	PT Biru Fastfood Nusantara	52
2	American Chili's	PT Fasindo Tata Boga	1
3	Chicago Ribs	PT Indoribs Nusantara	1
4	Dunkin Donuts	PT Dunkindo Lestari	300
5	Fashion Café	PT Inti Citra Sejati	1
6	Hard Rock Café	PT Hasta Rahayu Citra	2
7	Hartz Chicken Buffet	PT Sierad Pangan	8
8	Kenny Roger	PT Kirana Rasa Nusa	1
9	Kentucky Fried Chicken	PT Fast Food Indonesia, Tbk	190
10	Lawry's The prime Rib	PT Marmitria Jimindo Sukses	1
11	Mc Donald's Indonesia	PT Ramaka Gerbang Mas	108
12	Pizza Hut	PT Sari Melati Kencana	73
13	Planet Hollywood	PT Planet Dwimas	2
14	Popeye Fried Chicken	PT Popindo Selera Prima	24
15	Sizzler	PT Bestfood Nusantara	6
16	Subway	PT Sari Rejeki Inti Boga	na
17	Texas Chicken	PT Cipta Selera Murni	na
18	Tony Romas	PT Mas Millenium Indonesia	2
19	Wendy's	PT Wendy Citarasa (PT Sierad Produce Tbk)	28
20	Coffee Bean	PT Tiga Satu Dwima	1
21	Star Bucks Coffee	PT Sari Coffee	3
22	Chi Chis Mexican Restaurant	PT Berkah Manca Boga	2
23	TGI Friday	TGI Friday	1

Advantages and Challenges Facing U.S. Products in Indonesia	
Advantages	Challenges
U.S. products are well known for good quality and taste.	Many U.S. foods are expensive for the price sensitive Indonesian market. Import tariffs of less than 20 percent exist for most high-value products.
Huge market potential (consumer base of 220 million people).	Insufficient infrastructure and transportation inhibits distribution to outlying islands.
The popularity of American culture extends into the food sector.	Competition from other sources, especially Australia and New Zealand.
Growing upper and middle class with increasing purchasing power and demand for imported food.	Sensitivity to Indonesian culture and work style is essential to marketing and consumer awareness efforts.
Some market players have adjusted to the economic realities and are optimistic doing food business.	A certain degree of inherent instability in the market can be expect to continue.
Some food items cannot be produced locally.	U.S. companies need to work with U.S. consolidators and be prepared to send smaller quantities.
Sizeable expatriate community that wants to buy U.S. foods and eats in Western-style restaurants.	Import regulations and customs clearance procedures can be complex and difficult.
The HRI trade is very dynamic and ready buyers and distributors exist for American items.	Many Indonesian companies are still experiencing financial difficulties.

Section II: Road Map for Market Entry

Entry Strategy

A U.S. exporter that is interested in selling to the HRI trade in Indonesia should look for a reputable importer/distributor to represent their products. These companies have the import licenses and knowledge of customs clearance procedures that are required to successfully bring in products. They will also have the capability and be in a position to ensure the widest distribution for your items.

Jakarta and Bali are ideal locations to target in your market entry efforts. These cities have a sizeable

HRI trade, which consists of 5-star hotels and upscale and international restaurants. They also have sizeable expatriate communities and large numbers of foreign visitors that will help to facilitate market entry. However, one should expect business in Bali to remain sluggish in 2003 while recovering from the October 2002 bombings.

Initial sales efforts should include personal visits to potential HRI users. This can be accomplished in conjunction with your agent. It is important to provide information on your products to chefs and food and beverage personnel. The leading hotels and HRI outlets should be identified and targeted. When "trendsetter" hotels bring in a product that people like, all the other hotels will follow suit.

Distribution Channels

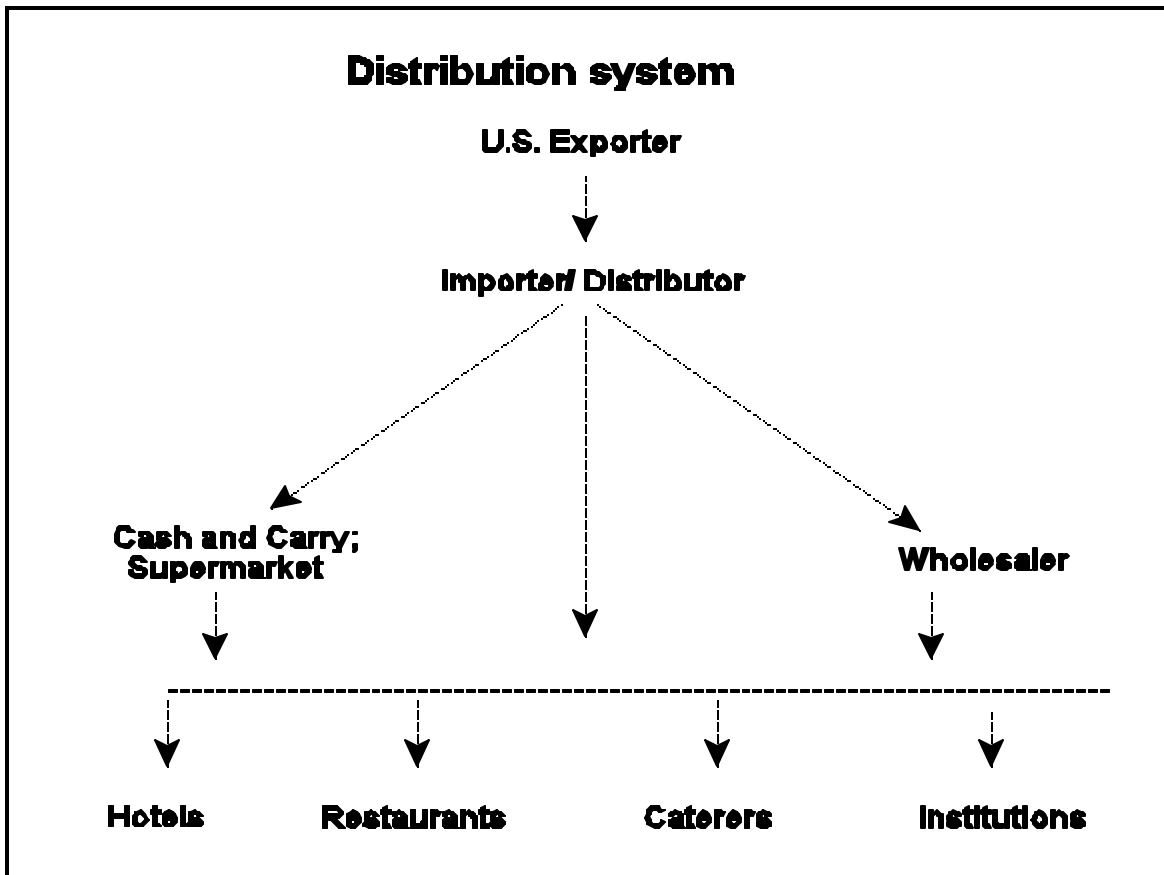
The distribution system for most imported products is relatively short. Products move from the U.S. exporter to an importer/distributor in Indonesia who delivers the items directly to the HRI user. Wholesalers may be used in cases where HRI users are small or located in cities outside of Jakarta.

Some HRI users import items directly from the U.S. exporter. This is primarily the case of buyers who purchase sufficient quantities of items to use container loads themselves or require unique products. For example, a number of Western Franchise Restaurants or Fast Food outlets will import direct in order to get products from the U.S. to exact specifications. In these situations, a freight forwarder or other intermediary may be used for Indonesian customs clearance purposes. Most of the fast food outlets also get their french fries supply from the importer/distributor through an exclusive contract.

The nature of the distribution system differs by size of the user, rather than by sub-sector type. As just indicated, the ability to purchase and use container loads of products will play a more important role in the decision to import directly than will sub-sector type. Supermarkets and hypermarkets are more important in the distribution system for the HRI trade in Indonesia than in the United States. This is especially true for smaller users. HRI buyers will purchase canned and other items from supermarkets that they are unable to obtain easily through existing import channels.

Due to Indonesia's geographic vastness, a nationwide distribution system for imported food products does not exist. Goods that are destined for users outside of Jakarta usually land in Jakarta first. There, shipments are broken down and/or consolidated for re-shipment by air, train, truck, or ship to other locations. If container load quantities are required, however, the goods may move directly to their final destination. There are regular air shipments from Australia to Jakarta and Bali.

Surprisingly, most of the HRI trade indicate they do not have problems gaining access to the types of imported products that they require from the existing distribution system. In most cases, they lay out specifications for the items and ask reputable importers/distributors to source.



The distribution system for imported foods is somewhat different than that for domestically-produced items. The HRI trade buys Indonesian products directly from local manufacturers or their distribution agencies, wholesalers, or wet markets.

Changes in Distribution

In general the importer/distributor system is likely to remain dominant although some HRI users are able to import direct. Cash and carry wholesalers will play a more important role in the distribution network. These outlets currently sell to hotels, restaurants, caterers, and institutions. They do not offer credit, thus are not popular with some of the larger, upscale HRI users. However, they are expanding their range of services and items for the HRI trade and may offer improved marketing and delivery in the future.

Other changes that are anticipated in the distribution system are the following:

- ! There will be more importers and competition as the Government opens up the economy and tries to break up monopolies.
- ! Parallel imports will become increasingly hard to control, with increased direct imports.

Other recommendations for marketing your products to the HRI trade in Indonesia are as follows:

- ! Competitive pricing is important. Think long-term and achieve turnover, rather than margin.
- ! Participate in trade exhibitions.
- ! Educate your distributor and the HRI trade on the use, pricing, handling, and preparation of your products.
- ! Work with the trade in Hong Kong or Singapore to gain acceptance of your items there. Meet with Regional international hotel and/or restaurant personnel in these cities. Container loads of items can then be sent to these destinations, with smaller shipments re-distributed to Indonesia.
- ! Obtain Halal certification of your products as appropriate.
- ! Familiarize yourself with Indonesian tastes and work closely with food and beverage personnel and chefs to modify your products if required.

Company Profiles

ATO Jakarta maintains an extensive list of companies involved in all the major sectors within the HRI industry. This includes hotels, major restaurants, and caterers. This list can be obtained by contacting the ATO office at the contact points noted at the end of this report.

Sub-Sector Trends

Catering operations will experience strong expansion in the coming years. This is due to new mining operations in various parts of Indonesia and the expected entry of new, smaller catering companies into the market to cater private social function.

Section III: Competition

Locally Produced Products

As indicated earlier in this report, only about 15 percent of the food product items that are used in the HRI trade are imported. This is due to the large number of outlets that serve primarily local consumers and their limited use of imported foods.

The extent to which Four and Five-Star hotels use imported products depends upon their clientele and the nature of their outlets. The coffee shops of the major hotels are likely to use a relatively high percentage of local products, while their Japanese, Korean, French, and Italian restaurants depend heavily on imported products mostly, for ingredients and certain food product item. Generally, approximately 40 percent of the volume of food purchases of the Five-Star hotels is imported products. The volume bought by Four-Star hotels is less than this figure.

Western franchise restaurants use a higher percentage of imported products. Their menus are often developed and set in the U.S. and their head offices in other countries; thus they are likely to buy as much as 70 - 100 percent imported products.

Fast food outlets source as much product as possible locally. In volume, approximately 30 - 40 percent of their food purchases is imported. Some have adjusted their menus to suit local tastes. Major imports for this sector are french fries, red meats, and cheese.

The types of items that are usually purchased by the HRI trade from Indonesia consist of fresh fruits and vegetables, red meat, milk and skim milk, chicken, sauces, fresh seafood, bread, rice, flour, sugar, and canned goods.

Foreign Competition

The major sources of foreign competition for the U.S. are Australia and New Zealand. The Australian market share is especially strong and increased during the recent economic crisis.

It is estimated that about 75 percent of the imported products which move into the HRI trade are sourced from these two countries. Good quality products, lower prices, and regular deliveries are often alluded to as reasons for buying from these two suppliers. Fresh and chilled items comprise the major purchases from Australia and New Zealand.

Australia- beef, seafood, fresh fruits and vegetables, dairy products, wines, and some processed products.

New Zealand- dairy products, lamb and beef.

The U.S. is estimated to account for a 20 percent share of imported foods for the HRI trade. U.S. franchise restaurants, such as Tony Roma's or Hard Rock Café or Lawry's, are particularly large purchasers of U.S. items.

Food products that are purchased from the U.S. include frozen french fries, fresh fruit, beef, deli meats, wine, turkey, and duck. U.S. processed food purchases include instant mashed potatoes, canned fruits and vegetables, pancake mixes and syrups, condiments, jams and spreads, vinegar, and spices and seasonings.

Europe's market share is about 5 percent. Chocolate, bakery ingredients, butter, pickles, vinegar, sauces, pastas, mustard, wines, cheeses, smoked salmon, and some grocery items are European foods that are moving into the HRI sector.

As a result of the 1997 financial crisis, most restaurants switched from purchasing U.S. products to those from Australia and New Zealand. U.S. beef sales were especially hard hit by this practice. Only

in 2001 did U.S. beef sales begin to rebound.

Changes in Competition

Prospects for advances in U.S. market share hinge on overall demand from the Restaurant and Fast Food outlets, which ultimately depends on economic and political stability in Indonesia. Presuming the sector rebounds, U.S. overall market share could grow with increased meat, fresh fruit (primarily grapes and apples), potato product, and bakery ingredient sales. The HRI trade that uses primarily local items is unlikely to switch to imports. Imports from New Zealand and Australia will continue to dominate the market.

Section IV: Best Product Prospects

A. Products That Are Present in the Market That Have Good Sales Potential

U.S. products with the best sales prospects include U.S. beef cuts and beef livers; duck and turkey; french fries; pastry products; sauces and seasonings; oils and vinegars; cereals; canned seafood and canned food; reasonably-priced wines; fresh fruits; liquor, beer, soft drinks, and juices; tortillas and Mexican products; tree nuts; and ice cream. These are items that are already available in the Indonesian market.

B. Products That Are Not Present in Substantial Quantities but That Have Good Potential

Items that are not present in significant quantities, but have potential are: smoked salmon; veal; gourmet meats and specialty foods, such as olive oils, canned clams, caviar; pre-prepackaged foods; including chicken nuggets, fish fillets, pies, sausage rolls; frozen vegetables; specialty non-alcoholic beverages and juices; soft drinks, such as Dr. Pepper and Diet Cherry Coke; and bakery ingredients; including ready-mixed custards, pastry, butter fat, and instant mixes.

C. Products Not Present Because They Face Significant Barriers

Caterers and Institutional suppliers would buy U.S. leg quarters if not for the ban the Indonesian government has placed on the imports of these products. This relatively low-cost protein source would be ideal for Caterers preparing ready-to-serve meals, and many have expressed their desire that the ban be removed.

D. Future Trends in Food Consumption

- ! Demand for fresh seafood will increase.
- ! Consumption of bakery products and Western pastries will increase.
- ! Consumption of meat and chicken will increase. Per capita meat consumption is still relatively

- low, with ample room for growth.
- ! Greater demand for more Asian food presented in a modern way. Currently, shopping mall food courts that serve Asian items are packed with customers.
 - ! Younger generation has different tastes and will try new and more exclusive products.
 - ! A broader range of products will become popular with the HRI trade. Small users are currently buying primarily canned items, but in the future will purchase chicken nuggets and apples in bulk bags.
 - ! The HRI trade will buy more pre-packaged foods for convenience.
 - ! The emphasis on halal is increasing, and less pork will be available in the future in HRI outlets, including Chinese restaurants.

E. Different Product Demands by Sub-Sector

Different "best prospects" for U.S. items exist, depending upon the type of HRI user. Five-star hotels are looking for U.S. beef, gourmet and specialty foods, wines, and frozen vegetables. In contrast, Western-style franchise restaurants and fast food outlets believe that pre-packaged foods (such as chicken nuggets and fillets), french fries, and beer and soft drinks have the best sales possibilities. Caterers, on the other hand, are seeking U.S. canned foods, chicken parts, meats, wines, fresh fruits, and bakery ingredients.

F. General Recommendations

- ! Familiarize yourself with import regulations and assess the market conditions and opportunities for the product or products you wish to sell.
- ! Study methods of doing business in Indonesia and form a good relationship with a reputable importer/distributor to avoid high costs, inefficiency and other obstacles.
- ! Invest in local promotion of your product to bolster market penetration, brand recognition, and product sales.
- ! Be flexible and able to deal with small order quantities (flexible minimum orders). Consider working with a reputable freight consolidator to increase shipping options.
- ! When possible, limit your sales efforts to products with a shelf life of nine months or greater with clearly marked expiry dates.
- ! Study the culture and tastes of your target market, and adapt your products, packaging, and promotions to suit these tastes.

Section V: Post Contact Information

The U.S. Agricultural Trade Office maintains up-to-date information covering the HRI trade in Indonesia and would be pleased to assist in facilitating exports and entry to the Indonesian 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
Wisma Metropolitan II, 3rd Floor
Jalan Jenderal Sudirman Kav. 29 - 31
Jakarta 12920, Indonesia
Tel: 62-21-526-2850; Fax: 62-21-571-1251
email: atojkt@cbn.net.id
Homepage: <http://www.usembassyjakarta.org/fas>

Please contact our home page for more information on exporting U.S. food products to Indonesia, including "Hotel and Restaurant Industry: Bali"; "Market Brief-Imports of U.S. Fresh Fruit: Indonesia"; "Market Brief - Indonesian Wine Imports"; "Market Brief - Indonesian Bakery Industry"; Market Brief - Indonesian Beverage Industry"; "Market Brief - Indonesia Meat Processing Industry"; "Market Brief - Beef Liver & Chicken Leg Quarter"; "Market Brief - Furniture Industry"; "The Exporter Guide 2002"; and Retail Sector Report. As of January 2003, the "The Food Processing Sector Report: Indonesia update" also available.

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>