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Indonesian Bakery Industry

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Report Highlights:

The Indonesian bakery industry is underdeveloped for a nation with the world's fourth largest population. Bread and other wheat derived food is considered a supplementary or luxury item, whereas rice is the staple food basis. Nevertheless, because of the population of over 200 million people, Indonesia offers great potential as a market for wheat derived products. In 1999, the most recent year for which complete data is available, the wheat derived product sector value was \$690 million.

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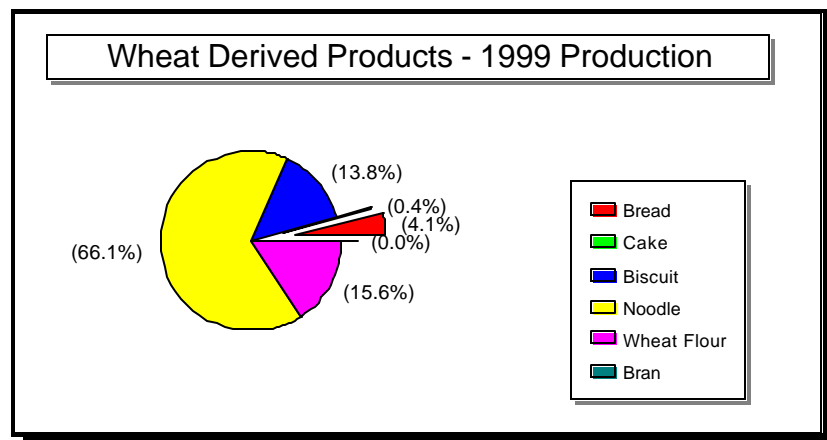
Market Brief: Indonesian Bakery Industry Underdeveloped, But Poised to Expand

Section I: Market Overview

The Indonesian bakery industry is underdeveloped for a nation with the world's fourth largest population. Bread and other wheat derived food is considered a supplementary or luxury item, whereas rice is the staple food basis. Nevertheless, because of the population of over 200 million people, Indonesia offers great potential as a market for wheat derived products. This report on the bakery sector covers production of bread, cakes, biscuits, noodles and the flour milling sector. The noodle industry, while not strictly within the bakery sector is included because it is one of the most significant users of wheat flour in the Indonesian context.

In 1999, the most recent year for which complete data is available, the wheat derived product sector value was \$690 million. However, on a per capita basis the market for bakery products is small. Food consumption and nutrition data

indicates that urban dwellers consumed 200 grams of flour per capita per month, while the rural population consumed only 150 grams of flour each month. The data shows that consumption of flour both in the cities and the villages is directly related to income, with the lowest income groups consuming no flour whereas the relatively high income groups consumed approximately twice the average quantities given above.



No wheat is grown in Indonesia. Therefore, all flour milled in-country is from imported wheat. Of the four million tons of flour produced, industry sources estimate that 15 percent or 600,000 tons are used in baking. There are at least 400 commercial-size bakeries in Indonesia, predominantly small businesses in the provincial cities and towns, with industrial scale bakeries existing only in major cities in Java and Bali. A similar number of small enterprises produce noodles, but the majority of these are small-scale family businesses not registered in the business directory.

Annual consumption of bread had increased from 4.7 kg per capita in 1991 to 5.4 kg per capita by

1995 as the result of a Government policy of encouraging consumption of bread and wheat derived foods to diversify food staples and hence limit the demand for rice.

In contrast to the small-scale bakery operations common in Indonesia, the flour milling industry is dominated by major groups on the vertically integrated model. The largest of these groups by far is Bogasari Flour Mills owned by the Indofood Group, which dominates the Indonesian food processing industry. This mill is capable of processing 75 percent of the flour consumed in Indonesia. Three smaller mills - PT Sriboga Raturaya, PT Panganmas Inti Persada, and PT Berdikari - account for the remainder of flour production in Indonesia.

Bakery products are sold to consumers via the traditional or village markets or direct from the bakery in the majority of cases. Supermarkets and other modern retail outlets now offer bakery products, but have been established only in the past ten years in Indonesia, and the modern retail sector is present only in the major cities.

Some hotels have modern baking facilities and sell higher quality products to the affluent sectors of society. Fast food outlets are minor consumers of bakery product since the majority sell fried chicken, and rice is more popular as an additional item than is bread.

Deregulation of the market in recent years has removed most import barriers. The Government Bureau for Logistic Arrangements (BULOG) no longer holds the monopoly over wheat imports. Consequently Bogasari Flour Mills is currently the major importer of wheat.

Advantages and Challenges Facing U.S. Products in Indonesia	
Advantages	Challenges
Market scale- population exceeds 200 million	Weak purchasing power of average consumer
Quality of US products is highly considered	Products from other developed nations considered equal in quality
New baking technology not currently available can be introduced in Indonesia	US certificates of compliance with Muslim food purity are not always acceptable
The purchase of facilities for bakery development is inexpensive	The Indonesian political and economic situation present a certain degree of risk
An increasing demand for wheat is expected as the economy recovers	Wheat from Australia dominates the market with lower transport costs
Developing nation status presents a great potential for growth	Wide cultural differences present difficulties in negotiations.

A variety of bakery schools and training facilities have also been established in the last fifteen years. Many of these facilities were established with assistance and direction from U.S. Wheat to train

Indonesians in bakery technology. Many similar new institutes have opened in 2000 and focus on training mid and small-scale bakeries the necessary skills to be successful. Staff for these training facilities are often recruited through the hotel industry, or because they have practical experience in the Indonesian bakery industry. However, many of these instructors lack the proper training and certifications to make them highly competent and credible in their positions.

Section II: Road Map for Market Entry

Entry Strategy

Generally applicable principles for entry to the Indonesian market are as follows:

- Personal contact and local representation is essential if a permanent presence in the market is envisaged.
- Selection of a local representative requires careful and detailed research to confirm claims. Commercial acumen is of greater value in the market than "good connections".
- Pay attention to accounting standards applied in the preparation of reports supporting the financial standing of candidate representative's or partners.
- Use the facilities of the US Government, in particular the Agricultural Trade Office, to obtain reliable advisor services.
- Strict adherence to the Muslim pure food requirements (halal certificate) MUST be taken seriously. Over 85% of the Indonesian population practice Islam, and foods that do not meet the halal requirements will not sell well.

The following facts should be noted for successful market entry into Indonesia:

- A company may be established as 100% foreign owned in Indonesia, but inclusion of a competent local minority partner is useful to assist with adaptation to the business environment and culture.
- Infrastructure in the country is underdeveloped, the law is based on Dutch principles and fluency in English is limited to the upper echelons of society.
- Purchase of a majority share in an existing Indonesian company is currently a viable option because many companies with useful production capacity have been severely affected by the financial crisis and are now open to investment or purchase.

Market Structure

Opportunities for imported bakery products are small scale due to shelf life limitations. The essential requirements are as follows:

- Wheat grain to be milled into flour.
- Flour of high quality for the requirements of foreign managed bakeries and biscuit manufacturers.
- Ingredients including yeast, fruit and nuts, whey and lactose.

- Low volume imports of finished bakery products to cater to expatriates and Indonesians accustomed to a foreign lifestyle.

Wheat is generally imported by the milling companies since the Government has withdrawn from the sector. Complementary ingredients for the bakery industry are usually bought from a local importing agent because they are used in smaller quantities and often have limited shelf life. Hence bakeries find it more convenient to rely on a local supplier.

Since bakeries are a "non-indigenous" industry there is an opportunity to participate in training to improve baking technology. The flour millers and major importers and distributors of bakery products are active in training bakers. Schools or training facilities are established in a number of cities and towns throughout Indonesia. Studies have shown that these schools are in need of technical training/certification, management training, help with developing recipes, and educational supplies such as manuals, recipe books, and training posters. US exporters should consider assisting in these training programs to improve the technology in the industry and thereby increase demand for ingredients. Assistance might best be directed at training the instructors in the established schools, many of whom lack proper certification and/or experience. The most appropriate channels could be identified through consultation with the US ATO office in Jakarta.

Sector Trends

As illustrated by the table below, reduced consumption of bakery goods since the economic crisis of 1997 has been difficult for the bakery industry. However, sales are expected to increase as the middle-class consumers (10-15 million people) recover in the medium term. There is potential for an increase in bakery goods such as hamburger buns as the fast food market continues to grow in Indonesia. However, the current limited purchasing power of the majority of the population is currently limiting this growth. Despite this fact, many fast food companies are consuming large quantities of flour, such as Dunkin Donuts, which uses 150 tons of flour per month in its Indonesian operations.

	Sales 1998 (US\$)	Sales 1999 (US\$)	Growth
Bread	23,122,476	28,429,452	23.0%
Cake	1,708,233	2,457,010	43.8%
Biscuit	67,595,390	95,322,869	41.0%
Noodle	474,232,871	455,244,484	-4.0%
Flour Milling	70,606,764	107,343,112	52.0%

Bakery production in Indonesia includes a high proportion of pastry and cakes. The pastry sector is estimated to consume as much as 60 percent of the flour used in the baking industry. Additional ingredients include many sweet substances, the most popular being chocolate.

Bogasari Flour Mills has become more commercially orientated since the market was deregulated and has launched a new high quality grade of flour aimed at the baking industry. The product named as Cakra Kembar Mas is milled from hard grain wheat and strict quality control is applied. With the introduction of Cakra Kembar Mas aimed at the quality bakery sector, the existing hard wheat flour, Cakra Mas, will be supplied predominantly to the noodles

industry. The other two grades of flour, one a blend of soft and hard wheat flour and the other entirely soft wheat flour will continue in production for cakes and retail flour sales.

Consumer protection legislation and food packaging and labeling regulations are now in force in Indonesia as of the year 2000. The detail of labeling requirements is yet to be determined, but the draft regulations require labeling only in the Indonesian language. It is most probable that the regulations will be relaxed to allow labeling to include Indonesian and a foreign language.

Section III: Competition and Market Opportunities

Competition for bakery products in the current economic situation is primarily substitution by processed food derived from locally grown primary products. Since wheat must be imported, many people are unable to pay the resulting higher prices, and are turning to other starch sources such as tapioca and maize.

Tips for Success

The following suggestions are derived from studies of the Indonesian bakery industry and the compilation of suggestions and complaints of Indonesian bakery industry participants:

- Competitive pricing is very important in light of the current economic uncertainty.
- Must be flexible with contract terms and conditions and responsive to requests for product information. Several producers complained that U.S. suppliers did not want to bother with shipping small quantities the long distance to Indonesia, and were not as flexible as European suppliers.
- Be prepared to deal with communications difficulties due to the 12 to 15 hour time zone difference.
- Play up the superior quality of U.S. products, this is a major selling point.
- Potential producers should be prepared to provide training and educational materials to Indonesian partners and employees to ensure a consistent quality product.
- Ensure high level of quality/consistency of U.S. wheat; some Indonesian firms have complained that U.S. wheat is not as consistent/pure as Australian wheat.

Products Present in the Market That Have Good Sales Potential

- Wheat grain to compete with Australian grain (must be higher quality, comparable price).
- Wheat Flour- requires establishment of milling facilities in Indonesia.
- Bakeries- by investing in local production.
- Education and training in bakery technology and management training.
- Fruits, nuts, jams, sauces, and fillings for use in the bakery industry.
- Whey and lactose.

Products Not Present in Significant Quantities but That Have Good Sales Potential

- Higher quality wheat flour; locally produced flour has been reported to be of low quality.
- Packaged cake, pancake, muffin, and bread mixes.

Note: It is difficult to compete in the finished bakery products market because of the limited shelf life of these products.

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

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

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