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Indonesia

HRI Food Service Sector

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Approved by:

Fred Kessel

U.S. Embassy, Jakarta

Prepared by:

Fahwani Y. Rangkuti/Chris Rittgers

Report Highlights:

Indonesia's HRI sector is expected to experience double-digit growth over the next few years. Among the players in this sector, upscale hotels and restaurants, international fast-food franchises, and modern bakeries are the primary users of imported food products. Seafood, fresh fruit, baking ingredients, and frozen potatoes are among the leading U.S. products the sector imports.

Includes PSD Changes: No
Includes Trade Matrix: No
Annual Report
Jakarta [ID1]
[ID]

SECTION I: MARKET SUMMARY

Market Overview

Indonesia is an archipelago nation of around 220 million people (2005), making it the world's fourth most populous nation. One of the world's largest democracies, Indonesia has accomplished a relatively smooth democratic transition in recent years. Although still facing a number of challenges, President Susilo Bambang Yudhoyono is credited with strengthening Indonesia's economic performance and bringing further political stability. The economy grew at around 5 percent in 2005, but is forecast to reach 5.3 percent 2006. Necessary reductions in fuel subsidies in 2005 hindered economic growth, and the impact of this action on purchasing power will continue to be a drag on the economy in 2006. The HRI sector is estimated to contribute about 16.2 percent to Indonesia's overall economy.

U.S. agricultural exports were valued at nearly \$1 billion in 2004, and were up about 8 percent during the first 10 months of 2005.

Table 1. U.S. Agricultural Exports to Indonesia

Year	GDP (%)	U.S. Agricultural, Fish & Forestry products export total (million of US dollars)	Consumer-oriented agricultural total (million of US dollars)
2002	3.6	859	85
2003	4.0	1,039	100
2004	4.6	987	145
2005*	5.1	1,000	160
2006**	5.3	1,050	175

Source: BICO Report

*estimate : Nov 2005: \$949 million and \$157 million

**forecast

Industry Description

Indonesia's HRI sector is extremely diverse, consisting of hotels and restaurants that serve local and international cuisine, fast food outlets, clubs, small restaurants, street stalls known as warungs, and hawkers that sell food to customers on the street. Catering operations serve airlines, factories, private social functions, cruise and military ships, mining and oil operations, prisons, and hospitals. The sector is concentrated in the urban areas, with Jakarta having the highest number of food service outlets, followed by Surabaya, Bandung, Bali, Medan, and Makassar.

Sales of Imported Food

Among the players in the HRI sector, four and five-star hotels and up-scale restaurants specializing in Western and other non-Indonesian foods are the dominant users of imported food products. Western style fast food outlets also purchase imports, but the variety is limited (frozen french fries, mozzarella cheese, and condiments). Other players in the market (local caterers and restaurants) tend to purchase primarily local products. The average Indonesian consumer is not a significant buyer of imported products due to their low purchasing power relative to the cost of imported items. As such, the HRI trade is only likely to buy imported foods if a significant number of their customers are ex-patriates, and/or they offer an international menu. This means that the Institutional and Catering sub-sectors, which dominate the market, in general are infrequent buyers of imported products. However, the expansion of franchise restaurants (including fast food), casual dining cafés,

international and family style restaurants, and food courts is expected to increase demand for imported food in the sector.

Prior to the ban on imports of U.S. beef implemented in July 2005, U.S. beef was the highest value sales item among U.S food products in the HRI sector, which was purchased primarily by upscale restaurants. Frozen potato products is the second most important imported U.S. product used by the sector.

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.

Table 2. Variety of imported products in Indonesian market

Products	Description
Beef	chilled and frozen
Poultry	duck, and turkey
fruits	Fresh
Vegetables	fresh and frozen (carrot, peas, olive, pickle)
dairy products	milk, cheese, butter, and whipping cream
bakery ingredients	chocolate, canned/glass cherries, dry fruits and nuts, pancake mix and syrups filling
Potatoes	Frozen
sea food	Salmon, crab, scallops, etc
soups and soup bases	Canned
jam and bread spread	
Condiments	mustard, mayonnaise, barbeque sauce, soy sauce, etc
alcohol beverage	beer, wine, and liquor
non alcoholic beverage	juices, coffee, tea, and soft drinks
cooking ingredients	Vinegar, vegetable oil (corn, soybean, canola, etc), tomato paste and tomato puree

Tourism Industry

Much of the HRI sector serves the tourist industry. In recent years, Indonesia's tourist industry has been negatively affected by perceptions about the security situation in the country. Nonetheless, the HRI's need to serve this industry still requires significant imported food products. Although Indonesia has 13 major ports of entry and many destinations, Bali is still the most visited. Singapore, Japan, Malaysia, Australia, and Taiwan accounted for the highest tourist arrival by nationality during 2000-2004.

Tabel 3. Tourist arrival and revenue earned

Year	Tourist arrival (million)	Revenue (\$ million)
2002	5.033	4,306
2003	4.467	4,037
2004	5.320	4,778
2005*	4,500	3,700
2006**	5,500	5,000

Source: Central Bureau of Statistic

*estimate

**forecast

As stated above, the tourism sector, an important source of revenue, has been struggling to recover in the past few years due to security concerns. That part of the HRI sector serving

the tourist industry, especially Bali, has been impacted negatively, with a proportional decline in demand for imported food products. The demand for imported food products dropped an estimated 40 percent following the October 2005 terrorist bombings in Bali, and activity in the sector during the 2005/06 New Year Holiday period was disappointing. Nonetheless, early indications suggest that demand will rebound in 2006, with a faster recovery expected than that following the 2002 Bali bombing. Full recovery is expected at least by the time of the 2006 holiday season.

Infrastructure

Indonesia has several air and seaports but the main ports of entry are Batam (45 minutes by boat from Singapore), Ngurah Rai (Bali), and Soekarno-Hatta (Jakarta). Most of the food products imported arrive through main airports and seaports of Jakarta and Surabaya. The lack of an integrated cold-chain system and associated infrastructure continues to be one of the biggest constraints to food distribution in Indonesia.

Advantages and Challenges Facing U.S. Food Products in Indonesia	
U.S products are well known for good quality and taste.	Many U.S. food are too expensive for the price sensitive Indonesian market.
Huge market potential; upper and middle income groups combine to represent 15% percent of the population, or equal to about 33 million people.	Insufficient infrastructure (cold chain) and transportation inhibits distribution.
The number of foreign cuisine restaurants and international hotel chains is increasing.	Stiff competition from other sources, especially Australia, New Zealand, France, Japan and China.
American food products are popular.	Sensitivity to Indonesian culture and work style is essential to marketing and consumer awareness efforts.
Some food items cannot be produced locally.	An erosion in purchasing power has caused some consumers to turn away from expensive imports.
Sizeable expatriate community (including Asian expats) that seeks U.S. foods and eats in Western-style restaurant	U.S. companies need to work with U.S. consolidators and be prepared to send smaller quantities.
The HRI trade is very dynamic and ready buyers and distributors exist for US food items	Import regulations and customs clearance procedures can be complex and difficult
Relatively low import tariff of around 5% exist for most high-value products.	Effort is required to introduce new to market products.

SECTION II. ROAD MAP FOR MARKET ENTRY

A.ENTRY STRATEGY

A. U.S. exporters interested in selling to the HRI trade in Indonesia should look for a reputable importer/distributor to present their products. Direct contact (face-to-face) is highly recommended for first time market contact. 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 effort. These cities have a sizeable HRI trade, which consists of 5-star and boutique hotels and upscale and international restaurants. They also have sizeable expatriate communities and a large number of foreign visitors that will help to support sales.

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/restaurants bring in a product that people like, the others will often follow suit.

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.
- Obtain Halal certification for 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

B. MARKET STRUCTURE

The distribution system for most imported products is relatively simple. 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.

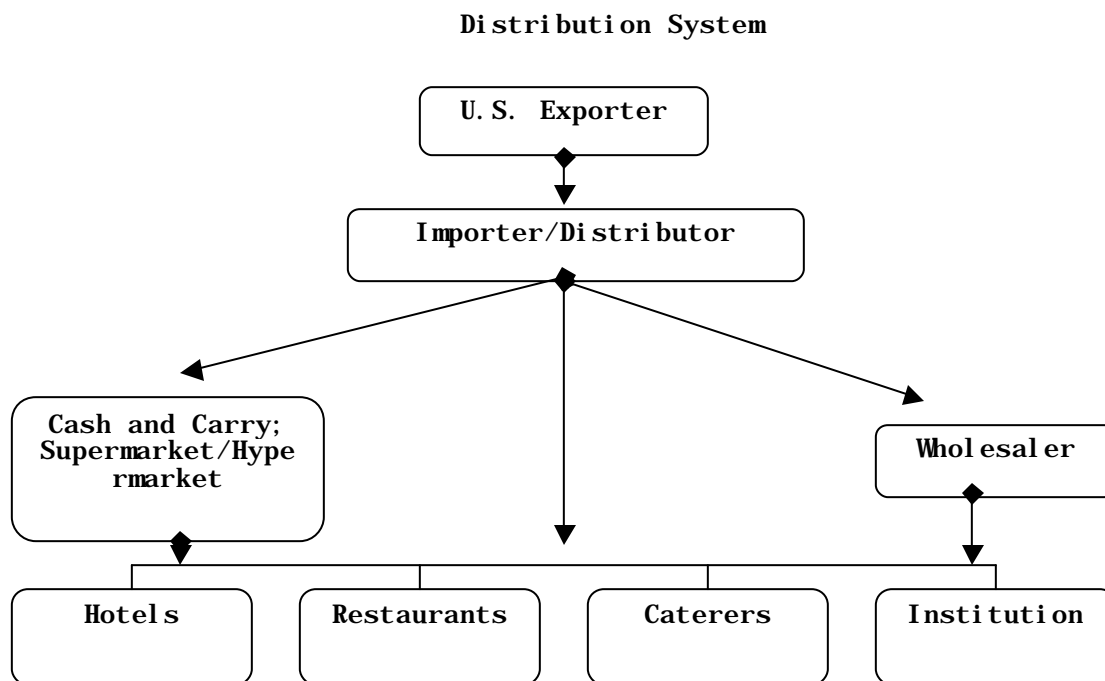
Some HRI users import items directly from the U.S. exporter. This is primarily the case of buyers who purchase sufficient quantities of items to use container loads themselves or require unique products. In these situations, a freight forwarder or other intermediary may be used for Indonesian customs clearance purpose. Most of the fast food outlets also get their frozen potatoes/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. Supermarkets and hypermarkets are also important in the distribution system for the HRI trade. This is especially true for smaller users. HRI buyers will purchase canned and other items from supermarkets/hypermarkets that are unable to obtain easily through existing import channel.

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 or Surabaya sea port first. There, shipments are broken down and/or consolidated for re-shipment by air, train, truck, or ship to other locations. There are regular air shipments from Australia to Jakarta.

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 food 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 market.



C. SUB-SECTOR PROFILES

Hotels and Resorts

In 2004, there were 1,014 star rated hotels with 102,390 rooms in Indonesia, and 142 of these (19,522 rooms) were in Bali. Besides the tourist visitors, hotels in urban areas are important locations for meetings and banquets. For most hotels in urban areas, the banquet business is the most important source of revenue. Hotels in foreign tourist destinations (Bali) and the main urban areas (Jakarta, Bandung, and Surabaya) are more likely to serve imported food products.

Restaurants

Wide income disparity in Indonesia also results in a wide variety of food service industry outlets, from premium upscale restaurants to the small warung/street stall vendors. International franchise outlets have a relatively strong presence, and local restaurant and bakery franchises outlets are also rapidly increasing. Restaurants serving noodles, Japanese food, pizza, fried chicken, and bakery outlets are prominent. About 28 percent of the population eats at fast food restaurants at least once a week. Premium western and other foreign cuisine restaurant consume more imported food products. Most Korean restaurants in Jakarta prefer to serve US beef. Local restaurants, offering traditional food, use a lot of beef offal in particular.

Growth in the number of restaurants has come in conjunction with the proliferation of new shopping malls in recent years. Coffee shop outlets and bakeries are also an area demonstrating rapid growth. The dominant imported products these outlets use are frozen

potato products, dressing sauces, whipping cream, and bakery ingredients. In addition, the number of Chinese restaurants and mixed style western and Asian food fusion restaurants is increasing.

Demographic, cultural, and economic factors have led to an increasing preference for away-from-home eating.

Table 4. Sales in Consumer Foodservice by Sector: Value (Rp. billion)

	2002-2003 (value sales growth %)	Value Sales (Rp. billion)				
		1999	2000	2001	2002	2003
Cafes/bars	15.1	7,700	8,800	10,400	12,100	13,900
Full-service restaurant	17.9	32,900	41,400	52,700	63,600	75,000
Fast food	16.9	2,600	3,400	4,300	5,000	5,900
100%home delivery / takeaway	14.5	81	90	110	134	154
Self-service cafeterias	18.0	600	700	800	900	1,100
Street stalls/kiosks	12.4	4,400	4,800	5,400	6,300	7,000
Total	17.0	48,300	59,100	73,700	88,100	103,100

Source: Euromonitor

*see the exchange rates table

Table 5. Sales in Consumer Foodservice by Sector: Unit

	2002-2003 (unit growth %)	Unit				
		1999	2000	2001	2002	2003
Cafes/bars	4.7	1,846	1,977	2,138	2,193	2,296
Full-service restaurant	3.5	13,429	14,000	14,430	14,763	15,276
Fast food	7.0	2,400	2,600	2,801	3,111	3,328
100% home delivery/takeaway	7.0	91	96	106	114	122
Self-service cafeterias	5.3	266	278	288	302	318
Street stalls/kiosks	4.3	26,209	28,817	29,918	30,985	32,304
Total	4.2	44,241	47,768	49,681	51,468	53,644

Source: Euromonitor

HRI Trends

While strong consumer demand has been one of the few bright spots in Indonesia's economy, consumers remain very price and value conscious in their food buying patterns. Increases in utility and gasoline prices have tended to reduce consumer purchasing power. In addition, given the decline in expatriates living in Indonesia, especially Western

expatriates, as well as the decline in visitors, the customer base for most of the HRI trade is shifting to an even higher percentage of Indonesian customers and Asian expatriates.

Other current trends and expected developments are the following:

- Expansion in international (fusion/Asian food) and family-style restaurants, as well as fast food outlets and bakeries will continue.
- Casual dining at cafes, food courts, restaurants will grow in popularity at the expense of fine dining.
- Western-style preparation and presentation for the food will become increasingly important.

Table 6. Major Hotel and Restaurants Companies consuming US imported food

Outlet Name & Type	Location	Purchasing Agent
Hyatt (hotel)	Jakarta, Bandung, Yogyakarta, Surabaya, Bali	Importer
J.W. Marriot (hotel)	Jakarta, Surabaya	Importer
Ritz Carlton (hotel)	Jakarta, Bali	Importer
Four Season (hotel)	Jakarta, Bali	Importer
Shangri-La (hotel)	Jakarta, Surabaya	Importer
Nikko (hotel)	Jakarta, Bali	Importer
Hilton (hotel)	Jakarta	Importer
Sabu-shabu house (restaurant)	Jakarta	Importer
Ponzu (restaurant)	Jakarta	Importer
Angus House (restaurant)	Jakarta, Surabaya	Importer
Huize Van Willey (restaurant)	Jakarta	Importer
The Grill (restaurant)	Jakarta	Importer
Gahyo (restaurant)	Jakarta	Importer
Shima (restaurant)	Jakarta	Importer
Kirishima (restaurant)	Jakarta	Importer
Sumibian (restaurant)	Jakarta	Importer
Pizza Café (restaurant)	Surabaya	Importer
Tony Romas (restaurant)	Jakarta	Direct Import
Matsuri (restaurant)	Bali	Importer
Kasunoya (restaurant)	Bali	Importer
Most of the Korean restaurant	Jakarta	Importer
Kentucky fried chicken	All over Indonesia	Importer
Mc Donald	All over Indonesia	Importer
A&W	All over Indonesia	Importer
Popeye	All over Indonesia	Importer
Bread Talk	Jakarta, Bandung, Surabaya, Bali	Importer

Institutional

Institutional food service providers (catering) serve the factories, mining and oil operations, offices, schools, hospitals, company events, private social functions and weddings. There are about 6,000 institutional food service enterprises, mainly small to medium sized private enterprises. The main imported food products of this sector are beef offal, fresh fruit, vegetables, dressing, and bakery ingredients. Caterers that supply crews in outer Island mining and oil operations or manufacturing provide primarily local food products. There are two main international companies that serve foreign mining/oil companies. These companies provide imported food products.

There are also two airline catering companies that serve almost all the main airports in Indonesia. The biggest one is ACS (PT Angkasa Citra Sarana/Aerowiasata Catering Service),

which is a Government owned company serving domestic and international carriers. Meals for domestic Indonesian flights consist largely of locally-produced items.

SECTOR III. COMPETITION

Locally Produced Products

As indicated earlier in this report, the HRI industry generally only buys imported foods if a significant number of their customers are foreign, and/or they offer an international menu.

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 relatively high percentage of local products, while Japanese, Korean, French, and Italian restaurants depend heavily on imported products, mostly for ingredients and certain food product items.

Fast food outlets source as much product as possible locally. More and more foreign franchise outlets have adjusted their menus to suit local tastes. Major imports for this sector are frozen potatoes, red meat, cheese, and mayonnaise. The types of local items that are usually purchase by the HRI industry consist of fresh fruits and vegetables, red meat, milk products (milk and cheese), chicken, sausages, fresh seafood, sauces, canned food, popcorn, bread, rice, flour, and sugar.

Foreign Competition

The major sources of foreign competition for the U.S. are Australia and New Zealand. Australian market share is especially strong. Good quality products, lower price, and a short shipping time are often cited as reasons for buying from these two countries. Main products from Australia include beef, seafood, fresh fruit and vegetables, wine, and some processed products. New Zealand exports dairy products, beef, and lamb.

Gourmet items/fine foods, such as cheese, dairy cream, chocolate, smoked and fresh salmon are moving into the HRI sector from European Union countries. Japanese food products go mostly to Japanese restaurants. Recently, products from South Africa have also been increasingly directly competing with American goods, particularly fresh fruit and juices. Fruit and vegetable products from China are also extremely competitive.

Changing in Competition

Prospects for advances in U.S. market share hinge on overall demand from hotels, restaurants and fast food outlets, which ultimately depends on economic stability and security in Indonesia. U.S. overall market share should remain strong with continue potential in meat (assuming GOI lifts the ban on beef imports), fresh fruit (primarily table grapes and apples), potato products, dairy products, and bakery ingredients sales. The HRI trade that uses primarily local items is unlikely to switch to imports. Imports from Australia and New Zealand will continue to dominate the market, and competition from China will continue to grow, particularly in fresh fruit.

SECTION IV. BEST PRODUCTS PRODUCTS

a. Products that are present in the market that have good sales potential

U.S. items with the best sales prospect include U.S. beef cuts and beef offal (liver and heart), fresh fruit, frozen vegetables, frozen potatoes/french fries, bakery ingredients: dry fruit and nuts, whey, chocolate canned vegetables and fruits, popcorn, sauces and seasoning, juices, and coffee mixtures. While U.S. beef has been banned since July 2005, chefs and food purchasing managers remain eager to purchase U.S. beef and it is expected that sales will rebound rapidly when/if the ban is lifted.

b. Products that are not present in substantial quantities but have good sales potential

U.S. items that are not present in significant quantities but have sales potential: salmon, and gourmet/specialty products: such as premixes cake products, various seafood products, cooking oil (olive oil, sunflower oil, etc).

Salmon is the second most popular imported item by chefs and buyers after U.S. beef, but is currently imported mostly from Norway.

c. Products not present because they face significant barriers

Caterers and Institutional suppliers would buy U.S. broiler leg quarters if not for the ban the Indonesian Government has placed on the imports of this product. This relatively low-cost protein source would be ideal for caterers preparing ready-to-serve meals.

d. Future trends in food consumption

- Demand for fresh seafood & vegetables will increase.
- Consumption of bakery ingredients products and Western pastries will increase.
- Consumption of meat and chicken will increase. Per capita meat consumption is still relatively low.
- 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/restaurants.
- The emphasis on halal is increasing, and less pork will be available in future in HRI outlets, including Chinese restaurants.
- Dining out becoming a need rather than leisure activity. Dining out to be seen as a fashionable trend.
- Fast food continues to grow as part of increased urbanization and expansion of more economically priced locally menus.

e. General recommendation

- 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 cost, 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, especially for gourmet products by airfreight.
- When possible, limit your sales efforts to products with a shelf life of nine months or greater with clearly market expiry dates.

- Study the culture and taste of your target market, and adapt your products, packaging, and promotions to suit these tastes.

SECTION V. POST CONTACT INFORMATION

The Foreign Agricultural Service (FAS) of US 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 Indonesia market. Questions or comments regarding this report should be directed to the FAS Jakarta at the following local or U.S. mailing address:

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: <http://www.usembassyjakarta.org/fas>

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

Please contact our home page for more information on exporting U.S. food products to Indonesia and to other countries, please visit the Foreign Agricultural Service's Home Page: <http://www.fas.usda.gov>

CALENDAR OF TRADE SHOWS IN INDONESIA

Name of Event	FOOD, HOTEL & TOURISM BALI 2006
Event Location	Bali International Convention Center, Nusa Dua - Bali, Indonesia
Industry them	The 5 th International Exhibition for Equipment, Food, Beverages and Services to Support Indonesia's Tourism and Hospitality Industries; The 4 th International Retail Technology, Equipment, Display, and Storage Exhibition
Date of Event	February 9-11, 2006
Type of Event	International Exhibition
Name of Organizer	PT Pamerindo Buana Abadi
Phone of Organizer	(62-21) 316-2001
Fax of Organizer	(62-21) 316-1983/4
E-mail of organizer	wiwiek@pamerindo.com
Web site	www.pamerindo.com

Name of Event	FOOD & HOTEL INDONESIA 2007
Event Location	Jakarta International Exhibition Center, Kemayoran, Indonesia
Industry theme	The 9 th International Hotel, Catering Equipment, Food and Drink Exhibition; The 5 th International Retail Technology, Equipment, Display, and Storage Exhibition
Dates of Event	28-31 March, 2007
Type of Event	International Exhibition
Name of Organizer	P.T. Pamerindo Buana Abadi
Phone of Organizer	(62-21) 316-2001
Fax of Organizer	(62-21) 316-1983/4
E-mail of Organizer	wiwiek@pamerindo.com
Web site	www.pamerindo.com

EXCHANGE RATE

Exchange Rate (Rp./1US\$) on Period Month Ending Basis												
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1999	9,419	8,992	8,778	8,632	8,179	6,750	6,989	7,736	8,571	6,949	7,439	7,161
2000	7,414	7,517	7,598	7,988	8,728	8,742	9,055	8,370	8,891	9,483	9,524	9,385
2001	9,488	9,914	10,460	11,675	11,375	11,440	9,525	8,670	9,675	10,435	10,430	10,200
2002	10,383	10,222	9,779	9,441	9,823	8,741	9,171	8,938	9,057	9,257	9,020	8,929
2003	8,877	8,917	8,957	8,711	8,274	8,259	8,643	8,488	8,468	8,627	8,537	8,528

Source: Central Statistic Agency (BPS-Badan Pusat Statistik) and Business Indonesia Daily Newspaper