4. SUPPLY CHAINS

Overview

- The issue of food self-sufficiency in basic commodities is sensitive politically. Indonesia has always been highly self sufficient in food but relies on imports for wheat, soybeans, beef and dairy, which play a growing role in the national diet.
- Indonesia has a large number of small-scale food processors but is also home to large food processors, both foreign and local. The biggest, Indofood, has a larger turnover than Burns Philp (post the Goodman Fielder merger).
- Australia is the top supplier to Indonesia of wheat, dairy products, vegetables and live cattle but its ranking as a supplier of consumer-oriented products has slipped during the past five years. New Zealand and China have increased their market share and China is becoming increasingly significant as a supplier of fresh fruit and vegetables and certain processed food items.
- Wholesale distribution is complex and is changing less rapidly than the retail sector. There are relatively few distributors with national reach. Direct importing has not taken off as rapidly as some analysts have predicted. Some large users of imported products outsource both the import function and logistics.
- Supply chain logistics in Indonesia range from sailing ships and cargo carried by stevedores on their shoulders to contemporary best practice. There are significant constraints in physical infrastructure across the country, but two islands, Java and Sumatra, account for 80% of the market for packaged consumer goods.

Domestic supply

Indonesia's agriculture sector

Agriculture makes an important but diminishing contribution to the Indonesian economy, generating 17% of GDP (and over 40% of employment). By comparison, agriculture contributes just 3% of Australia's GDP (Figure 4.1).

Indonesia's farm sector has a dual structure. Large corporations operate plantations and other rural enterprises with access to the best available technology and management. High-value estate crops such as palm oil are managed by large corporations like Indofood and Sinar Mas. Similarly, feedlots are usually owned and operated by large companies.

However the majority of the farm sector is smallholder based, using methods steeped in tradition. Animals are fed by hand and tended individually often by children of farming families. There is little specialisation with family farms. Where opportunity permits, they spread risk by operating in multiple sectors that might include crops, livestock and perhaps fishing, to earn a modest family income.

An Indonesian icon – Supplied from Thailand

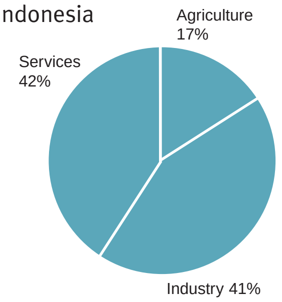
The fragmented structure of Indonesian agriculture limits its capacity to mesh with supply chains in the modern retailing sector. Durian fruit—an iconic Indonesian delicacy—is available in supermarkets but is often sourced from Thailand because of supply chain problems.

Government agencies, cooperatives and some of the larger retailers are working to educate farmer groups in supply chain principles and promote a better understanding of consumer and retailer requirements.

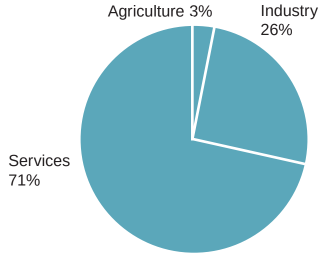
Source: INSTATE fieldwork, September–October 2003.

Figure 4.1
INDONESIA AND AUSTRALIA: GDP COMPOSITION

Indonesia



Australia



Source: CIA World Factbook, 2003.

Indonesia's major farm products are rice, cassava (tapioca), peanuts, rubber, cocoa, coffee, palm oil, coconut products, poultry, beef, pork, eggs and seafood.

Structural weaknesses in Indonesia's traditional agriculture sector include:

- High transport costs – production areas are often distant from markets and transportation is inefficient. Transport costs can often exceed crop value.
- Lack of working capital – farmers seldom have storage capacity so must sell crops immediately.
- Lack of bargaining power – there are farmers' organisations but they are not always very effective.

For all of the above reasons, traders play an important role in traditional agriculture and farmers are relatively isolated from their end markets.

Indonesia has always had a relatively high degree of self sufficiency in food but it relies on imports for certain foodstuffs like wheat, soybeans, beef and dairy which are of increasing significance in the national diet. The whole issue of food self sufficiency in basic commodities is sensitive politically.

Indonesia's food processing sector

Image 4.1 Japfa products, Jakarta hypermarket

Total processed food sales grew approximately 5% in 2002 to over Rp61 000 billion (A$9.5 billion) in constant value terms (adjusted for inflation). [21] Most of the processed food consumed in Indonesia is produced domestically.

Indonesia has over 900 000 traditional home industry units producing mostly unbranded and often unpackaged food products. Although small individually, these enterprises are, collectively, extremely significant. For example, 80% of unbranded savoury snacks—a very big segment—are produced by small-scale home industries. [22]

At the next level, there are 4 000–5 000 food-processing companies in the formal sector. Most are small to medium-sized in scale and many are family owned.

Medium-sized processor profile: the Japfa Group*

The Japfa Group, a diversified meat and dairy business, is an example of a medium-sized food company in Indonesia. It is the second biggest chicken-processing operator after the giant Thai company, Charoen Pokphand. It also manufactures two ranges of biscuits. It has a prawn business with value added product—prawn fingers—now being sold packaged in supermarkets. It has a large cattle and dairy business and packaged dairy products are produced and sold in supermarkets. The company has manufacturing operations in Vietnam, Myanmar and India and also has cattle interests in Queensland.

PT Sumber Cipta, the distribution arm of the Japfa group, maintains modern warehouses in Jakarta, Surabaya, Medan and Makassar with imported enterprise software systems. The company also owns its transport and handling gear. The distribution operation handles some other products not produced by the group, but only a limited range.

Source: INSTATE research.

Medium sized companies dominate sectors like baking. In the major cities, there are a few industrial sized bakeries, however across the country there are at least 400 commercial bakeries, most of which are small businesses. Many supermarkets and hypermarkets have in-house bakeries.

Medium-sized processor profile: PT Aneka Food Tataresa

PT Aneka Food Tataresa is a diversified food processor based in Probolingo near Surabaya. The company, which was established in 1888, is a good example of a medium-sized company in the food processing industry with diverse interests.

The company makes and sells soy sauce and fruit chips into the modern market in Java and Bali and is the dominant player in soy sauce in East Java. The fruit chips, a confectionery product, are more recent.

* Profiles in this chapter are based on INSTATE interviews conducted in September – October 2003 and supplementary INSTATE research.

21 United States Department of Agriculture Foreign Agricultural Service, Indonesia HRI Food Service Sector Report, p. 4.

22 United States Department of Agriculture Foreign Agricultural Service, Indonesia HRI Food Service Sector Report, p. 2.

Medium-sized processor profile: PT Aneka Food Tataresa (cont)

Sales growth in the current financial year is expected to be 15%. Generally the company regards 20% annual growth as a normal sales performance. The main business is food service to hotels, restaurants and cafes but it also sells retail packs of soy sauce and fruit chips through supermarkets and mini markets. The chips and soy sauce are branded 'Niki' and 'Orang Jual Sate' respectively. Some product is exported to the United States and some is sold in Australia, but not directly. At the 2003 Anuga show in Germany there was strong European interest in the company's soy sauce.

Source: INSTATE research.

Major players in food processing

While household and small to medium businesses dominate the sector in numerical terms, there are a number of very large processors. These are typically vertically integrated, owning primary production, processing and distribution facilities.

➤ Appendix 5 provides contact details for companies involved in the Indonesian food sector.

Table 4.1 **Indonesia: ten largest packaged food companies by market share (%)**

Company	2000	2001	Product range	Ownership
PT Indofood Sukses Makmur Tbk	15.6	15.4	noodles, flour, cooking oil, margarine, snack food, baby food, food seasonings	Singaporean/ Indonesian
Nestlè SA	4.1	4.2	dairy, coffee, tea, beverages, sauces, chocolate, candies, baby food, cereals	Switzerland
Unilever Group	3.0	3.2	oils and fats (margarine), ice cream, sauces, dressings and condiments	Anglo Dutch
Friesland Coberco Dairy Foods Holding NV	2.7	3.0	dairy products	Netherlands
PT Indomilk	3.0	2.8	sweet condensed milk, milk powder, liquid milk, butter, yoghurt	Indonesian
PT Heinz ABC Indonesia	2.3	2.3	chilli sauce, fruit drink concentrates, ketchup, soy sauces	USA/ Indonesian
Garudafood Group	1.4	1.5	peanuts, biscuits, jelly food	Indonesian
PepsiCo Inc	1.1	1.5	soft drinks, snack food	USA
Royal Numico NV	1.3	1.4	baby food	Netherlands
PT SMART Corp PT (Sinar Mas)	1.4	1.2	crude palm oil and palm kernel, cooking oil, margarine and shortening	Indonesian

Source: United States Department of Agriculture Foreign Agricultural Service, *Indonesia Food Processing Ingredients Sector Report 2003*, Global Agriculture Information Network Report #ID3022, Jakarta ATO, 2003.

The top ten companies command over one third of the market for processed foods (Table 4.1). PT Indofood stands out as by far the largest processor. Nestlè, Unilever, Heinz, PepsiCo and Friesland all have significant operations in Indonesia. See below for profiles of Indofood, Nestlè and Sinar Mas.

Large processor profile: Indofood

Indonesia's largest food processing company, Indofood, is market leader in Indonesia in noodles, flour, cooking oil, margarine, snack food and baby food, and second in food seasonings. It also has interests in flour milling, packaging, distribution plantations, trading, flour products (including pasta), dairy products and various non-branded products. Sales growth in volume terms was maintained at around 10% across the business in 2001–02 with similar expectations for 2002–03.

In 2002, Indofood, through its subsidiary PT Bogasari, controlled around 70% of the flour market with competing local sources supplying a little under 20% and imports (principally from Australia) around 8–10%. Bogasari is the major importer of Australian wheat but competes with Australian companies in the flour market. Indofood is the world market leader in instant noodles. It holds almost 90% of the Indonesian domestic market in this range, which is produced in 143 lines in seventeen factories.

Indofood is committed to export growth. Exports represented 12% of total sales in 2001 (US$172 million), 15% in 2002 (US$258 million) and 20% is projected for 2003 (US$442 million). The main export earners are crude palm oil, cooking oil, flour and pasta, margarine, noodles, food ingredients and packaging.

Large processor profile: Indofood (cont)

Indofood, like many other large Indonesian companies, went through a period of adjustment following the Asian economic crisis. The company was built and dominated by the Salim family who were close to the Soeharto regime. During the crisis, the company came under the custodianship of the state (via IBRA) for a period, but the government shareholding was subsequently sold to a Singapore company. Although details of the ultimate ownership of Indofood are unclear, most analysts consider that the Salim family has resumed effective control of the company.

In December 2003, San Miguel Corporation, the Philippines based conglomerate was reportedly considering an offer by the Salim family to sell its interest in Indofood. [23]

Sources: INSTATE interviews, October 2003, research, company reports.

Large processor profile: Nestlè

PT Nestlè Indonesia is one of the leading international food companies in Indonesia. Its products include dairy (Dancow, Lactogen, Milkmaid, Carnation, and Bear brand), coffee (Nescafe), tea (Nestea), other beverages (Milo Nesquik), sauces (Maggi), chocolate and candies (Kit Kat and Polo), baby food and cereals.

Nestlè commenced business in Indonesia in 1971 with the construction of a milk processing plant in East Java. Currently, Nestlè has three milk processing plants in Java and employs about 2 000 workers.

Nestlè has the capacity to produce 200 000 metric tonnes of sweetened condensed milk and 100 000 metric tonnes milk powder annually. 70% of production is sold locally and 30% is exported to the region and to Middle Eastern markets.

Nestlè dominates the milk market, with over 25% of sales by value in 2001 including sweetened condensed milk, milk powder, baby formula, and liquid milk. Nestlè is also the second largest producer of baby food behind Indofood. Nestlè is expecting about 15% sales growth in 2003.

Source: INSTATE research.

Image 4.2 Nestlè cereal, Makro store, Jakarta

Large processor profile: Smart (Sinar Mas)

PT Smart is a subsidiary company of the Sinar Mas Group. Sinar Mas is a major producer and refiner of crude palm oil (CPO), which it sells in bulk and packaged for retail sale. The trademark is 'Filma'. Sinar Mas also makes margarine through its subsidiary, Sinar Meadow, using the 'Meadow Lea' brand. This is a 50/50 joint venture with the former Goodman Fielder group (now part of Burns Philp).

In its heyday, Sinar Mas was one of the biggest Indonesian business conglomerates, with extensive interests in paper, property and plantations alongside its food processing operations. It was also in a joint venture with Carrefour but this has been discontinued.

PT Smart distributes through two separate chains—to major outlets such as Carrefour through PT Smart Distribution, which is geared to large-scale supplies—and to smaller outlets through PT Intermas.

Figure 4.3 depicts the distribution channels for traditional products such as cooking oil that are now marketed though multiple channels for sale in both traditional and modern retail outlets.

Large processor profile: Charoen Pokphand

Although the Thai multinational, Charoen Pokphand (CP), is not listed in Table 4.1, it is a major player in Asian agribusiness and has substantial operations in Indonesia. CP is the largest player in chicken production and distribution in Indonesia, including downstream products like chicken nuggets, chicken balls and chicken and prawn sausages under the 'Prima' trade name. Displays of 'Prima' branded products are prominent in all supermarkets. It is also a major player in shrimp farming, with ponds in Lampung, South Sumatra equal in size to one third of the area of Singapore.

CP raises broilers on its own farms and also buys from local farmers. The farmers are supplied with day old chicks which they then raise and sell back to CP. Whereas the basic chicken meat market is growing at around 5% pa, some downstream products, including chicken nuggets, are growing at 20% pa. Instant noodles are growing at a little under 10% pa.

CP is investing in an additional chicken processing and cooking line to keep up with the rapidly growing demand for downstream products, especially chicken nuggets, which it sells to KFC, the biggest chicken fast food chain.

CP is currently importing and selling french fries with its chicken products. The requirement of the market is 400 tonnes per month presently supplied mainly by Simplot mainly from the United States of America but also partly from Australia. Market growth for French fries is above 10% pa.

Source: INSTATE research.

23 J Villanueva, *SMC mounting another bid for Salims' Indofood*, ABS-CBN News.com, 2003, viewed 14 December 2003, <http://www.abs-cbnnews.com/>.

Foreign investment policies and investment environment

In the early to mid–1990s, high food tariff barriers provided a strong impetus for foreign food companies determined to play a significant long-term role in the market to invest in Indonesia. Tariff barriers have now fallen dramatically, but for certain bulky or labour intensive processed food products, domestic packing or processing can still be a logical challenge.

Indonesian Government policy is basically very supportive of investment in the food sector. An official investment promotion statement says:

> Investment policy in Indonesia is very open to foreign investment access. This, among others, is indicated by only a small number of sectors are restricted (sic), the availability of fiscal incentives to attract foreign investors, no limitation on the value of investment, the possibility for foreign investors to wholly own their investment in almost all sectors and simplified investment approval process. The Indonesian Government realises that investment is one of the most important factors in driving economic growth and, thus, tries hard to improve investment procedures in the future in order to stimulate a more favourable investment climate. [24]

However the practicalities of the investment environment can difficulties (Table 4.2).

Table 4.2 **Investment environment issues**

Issue	Cost
Costs	Officially sanctioned wage increases in the manufacturing sector have increased competitive pressure on the sector, especially in comparison with China, which has relatively high labour productivity compared to Indonesia.
Regional levies	Some local (district level) governments have introduced significant levies on mining and other companies with foreign investment.
Weak legal protections	The Canadian insurance company, Manulife was sued by its former Indonesian partners and declared bankrupt when it was evidently solvent. Although the case was eventually resolved in Manulife's favour, the international investment community will not quickly forget it.
Political stability	As the new constitutional arrangements settle down some investors are less concerned about this issue, however, others are waiting for the outcome of the 2004 elections (parliamentary and Presidential) before committing to new projects.
Terrorism	Terrorism risk will be a consideration for foreign investors although domestic investment has been less hard-hit by the two recent attacks than might be expected.

Source: INSTATE research.

Approvals for foreign investment in 2003 were at about one third to one half the level of the boom years of 1994–97. Although there are still substantial capital outflows, many Indonesian officials are anxious to create opportunities to add value to domestic and imported commodities rather than import excessive amounts of finished products. In some cases, Australian and Indonesian companies are already doing this successfully.

Foreign investment in retailing was not permitted until relatively recently. Cooperative projects in the early to mid 1990s were structured as non-equity deals, but direct equity is now possible.* The relationship between Dairy Farm (Wellcome supermarkets) of Hong Kong and the Hero Group evolved this way and Dairy Farm now has a significant minority interest in Hero.

Foreigners can also now distribute goods produced locally, and apply to import and distribute foreign goods. [25] Agribusiness is also generally open to foreign investment.

A new investment law was expected in 2004 and this may map new directions in foreign investment policy. Attracting foreign investment in food processing is likely to remain a priority but the outlook for further liberalisation of big retailing and distribution is a little less certain. There is official concern about the modern retailing sector displacing traditional outlets and some pressure to restrict modern retail sector growth by regulation; for example, by zoning.

* Partial deregulation of the retail and wholesale sectors was required by the IMF in 1998.

24 Badan Koordinasi Penanaman Modal, 2003, viewed 10 September 2003, <http://www.bkpm.go.id/>.

25 East Asia Analytical Unit, *Indonesia – Facing the Challenge*, Department of Foreign Affairs and Trade, Canberra, 2000, p. 17.

Imports

Indonesia's food trade – An overview

Indonesia's achievement of self-sufficiency in rice production in 1984 was a source of great pride for the country. From that time, emphasis was placed on diversification. This involved the expansion of estate crops (such as palm oil and cocoa), fisheries (for both export and domestic consumption) and chicken (to lift domestic meat consumption).

Most politicians, including the President, have re-dedicated themselves to a policy of self-sufficiency in the last year or so following Indonesia's resumption of imports of rice, which was seen by many as a failure of the policy.

Despite that concern, Indonesia retains a high level of self-sufficiency in primary foodstuffs and processed foods overall.

Table 4.3 **Indonesia: self sufficiency in key agricultural commodities, 2001**

item	self-sufficiency (%)
grain	95
sugar	66
pulses	93
oil crops	95
vegetables	97
meat	99
offal	91
animal fats	85
milk products (excl butter)	49

Sources: FAOSTAT Statistical Databases, *Food and Agriculture Organisation of the United Nations*; INSTATE analysis.

Indonesia is also a net exporter of seafood, spices, fruit, vegetable oils, tree nuts and cassava.

Indonesia's overall food imports fell significantly during the years immediately following the Asian economic crisis but have recovered somewhat in the past few years.

Table 4.4 **Indonesia: total agricultural imports**

year	US$ billion
1996	5.7
1997	4.5
1998	3.8
1999	4.5
2000	4.2
2001	4.2
2002	NA

Sources: United States Department of Agriculture Foreign Agricultural Service, *Indonesian Exporter Guide 2003*, Global Agriculture Information Network Report #ID3024, Jakarta ATO, 2003; United States Department of Agriculture Foreign Agricultural Service, *Indonesian Exporter Guide 1999*, Global Agriculture Information Network Report ID#9087, Jakarta ATO, 1999.

Imports of processed food (Table 4.5) have followed a similar pattern, although there is a widespread view that the official figures understate actual imports.

Table 4.5 **Indonesia: imports and exports of processed food and beverages (US$m)**

	1994	1995	1996	1997	1998	1999	2000	2001	2002
Export	813.1	818.6	961.9	834.2	755.7	958.3	955.5	1 042.4	1 184.2
Import	375.7	879.8	1 328.2	546.4	1 023.1	1 397.5	680.0	502.3	719.4

Source: GAPMMI based on BPS data.

Food imports by port

Indonesia is an archipelago with thousands of islands. However it has a relatively small number of major trade ports. Australia's food and related exports to Indonesia flow as follows:

- 60% (by value) are landed at Tanjung Priok (Jakarta's port)
- 13% are landed at Panjang on Sumatra
- 9% are landed at Surabaya on the east coast of Java at the Bali Sea.

The table below provides further details.

Table 4.6 **Australia: exports by port of discharge (FOB value)**

Port of Discharge	1992 A$m	1997 A$m	2002 A$m
Jakarta/Tanjung Priok (Java)	36	261	286
Panjang (Sumatra)	NA	NA	64
Surabaya (Java)	5	27	43
Denpasar (Bali)	1	2	5
Belawan (Sumatra)	0	1	4
Semarang (central Java)	1	3	2
Timika (Papua)	0	2	2
Cilacap (southern central Java)	NA	NA	2
Unspecified ports	11	169	71
Total – Indonesia	50	466	478

Sources: Australian Bureau of Statistics, *International Trade Statistics – Exports AHECC 2 digit level – Indonesia 1992, 1997, 2002*, ABS, Canberra, 2003; INSTATE analysis.

➤ ***A map of Indonesia is on page iv.***

There is anecdotal evidence that some packaged goods are being landed illegally at ports outside Java, as an alternative to distribution through the more traditional channel of being landed in Tanjung Priok, warehoused and then shipped to outer regions / islands. The import statistics in Table 4.5 suggest there maybe significant avoidance of proper channels in the food import trade.

Major suppliers of food to Indonesia

The United States of America, Canada, Australia and New Zealand are the major suppliers of Indonesia's 'big ticket' food commodity imports (Table 4.7) but China is becoming increasingly significant as a supplier of fresh fruit and vegetables and other food products. For example, China now dominates the large market for garlic in Indonesia.

Thailand and other South East Asian countries, as well as India and Pakistan, are also significant fresh produce suppliers. The Netherlands and Denmark are significant suppliers of milk products.

Table 4.7 **Indonesia: major food import items, 2002**

Item	Total imports (US$m)	Major suppliers
Wheat	611	Australia, Canada, India, United States of America, China
Maize	138	India, Thailand, Philippines
Sugar	155	Thailand, Brazil, Australia, India
Soybeans	299	USA, Argentina, Malaysia, Canada
Vegetables	95	Australia, USA, New Zealand, China
Fruit	215	China, USA, New Zealand, Australia, Thailand
Dairy produce	246	Australia, New Zealand, Netherlands, USA
Live cattle	48	Australia

Sources: Directorate General of Customs and Excise, Indonesia, 2003, viewed 10 September 2003, <http://www.beacukai.go.id/english/>; INSTATE analysis.

The analysis of Indonesia's imports of consumer-oriented food products in Table 4.8 shows strong recovery between 1999 and 2001. This growth has continued since, with food market growth running ahead of GDP growth, especially in urban areas.

However, from late 2003, industry observers expect some slowing for most products, probably to around 4–5% per annum. Changing tastes, however, will see certain product categories growing faster than the overall rate.

Table 4.8 **Indonesia: imports of consumer-oriented food products, 1999–2001**

Product	1999 (US$m.)	2000 (US$m.)	2001 (US$m.)	Change in Value 1999–2001 (%)
Snack foods (exc. nuts)	9	19	20	122
Breakfast cereals and pancake mix	3	6	5	67
Red meats, fresh/chilled/frozen	22	63	41	86
Red meats, prepared/preserved	1	2	2	100
Poultry meat	3	10	1	–67
Dairy products (excl. cheese)	126	253	317	152
Cheese	8	12	14	75
Eggs and products	8	5	2	–75
Fresh fruit	56	135	140	150
Fresh vegetables	59	64	73	24
Processed fruit and vegetables	17	30	29	71
Fruit and vegetable juices	3	4	5	67
Tree nuts	1	2	1	0
Wine and beer	2	1	2	0
Other consumer-oriented products	165	211	196	19
TOTAL	**483**	**818**	**849**	

Source: United States Department of Agriculture Foreign Agricultural Service, *Indonesia Exporter Guide Annual 2002*, Global Agriculture Information Network Report #ID2027, Jakarta ATO, 2002 (based on United Nations Statistical Office data).

For the categories of consumer-oriented food products imports listed in Table 4.8, New Zealand is the largest supplier (Table 4.9). China has already emerged as a major supplier to the Indonesian market for processed foods. Australia and the United States round out the top bracket of suppliers.

Table 4.9 **Indonesia: major suppliers of food imports**

Country	1996 (US$m)	1999 (US$m)	2000 (US$m)	2001 (US$m)	Growth 1999–2001 (%)
New Zealand	91	44	121	130	195
China (P. Rep. of)	88	54	103	116	115
Australia	119	76	104	110	45
United States	95	51	86	100	96
Netherlands	33	40	58	62	55
Thailand	58	40	60	61	53
Philippines	10	5	23	32	540
Malaysia	17	28	17	25	–11
Singapore	14	18	23	24	33
Germany	17	9	21	20	122
Denmark	NA	5	11	17	240
France	19	7	14	15	114
Pakistan	NA	3	8	15	400
Ireland	11	6	30	15	150
Madagascar	NA	11	45	10	–9
Total*	**694**	**483**	**818**	**849**	

Source: United States Department of Agriculture Foreign Agricultural Service, Indonesia Exporter Guide Annual 2002, Global Agriculture Information Network Report #ID2027, Jakarta ATO, 2002 (based on United Nations Statistical Office data).

* 'country' data excluded so totals are greater than for listed countries

A 2001 United States survey of product origin in a range of Jakarta stores provides a useful picture of the presence of imported product from the US, Australia and other suppliers (Table 4.10). Broad market assessments put imported products in modern sector stores at around 10%, although some specialist up-market stores have higher proportions of foreign products, as indicated below.

Overall, imported food accounts for only around 5% of the market nationally.

Table 4.10 **Origin of food products in various outlets, 2001**

Store Name	Indonesian products (%)	US products (%)	Australian products (%)	Other countries' products (%)
The Club Store	75	24 (snack food, cereal, beverage)	1	—
D Best	60	12 (fresh food)	12 (fresh food)	12 (China) 4 (Europe)
99 Ranch Market	30	56 (groceries, snack food, sauces,dressing)	7 (meat and fruit)	7 (Europe) (cheese)
Super Indo	95	1.25 (fresh fruit)	1.25 (fresh fruit)	1.25 (China), 1.25 (Malaysia)
Tops supermarket	70	9 (fresh fruit)	6 (fresh fruit)	15 (China, Malaysia)

Source: United States Department of Agriculture Foreign Agricultural Service, *Indonesia Retail Food Sector Report*, p. 12.

Distribution players

Major food distributors

Many elements of the food distribution system in Indonesia have not changed during the last decade. There are still relatively few distributors with national reach, but numerous agents/distributors with a more local focus and hundreds of wholesalers.

> The supply chain is an archaic tangle of restrictive arrangements employing sub-wholesalers, wholesalers and distributors in between the manufacturer and importer and retail outlet and restaurant. The chain is difficult to understand and expensive to use: large distributors not only transport goods, but assume risk, get involved in promotions and negotiate retail margins, charging up to 30% of the retail price. [26]

➤ Chapter 2 notes products with strong growth potential according to analysts.

Generally, agents and/or distributors handle imports, selling into the modern retail and food service sectors. Goods are shipped to warehousing facilities or delivered direct to store.

In an attempt to keep up with modern retailers, distributors are in the process of implementing updated practices, instigating more direct delivery by manufacturer to retailer and moving to disengage sales and delivery functions. The traditional sector has a more extensive distribution process, but this is expected to shorten. More and more national distributors will service traditional channels through centralised distribution.

By 2003, the modern retailing sector in the main cities of Indonesia was growing rapidly and becoming ever more competitive as large and well-funded corporations fought for market share. In this environment the more attenuated traditional supply chains will, increasingly, fail to compete and be displaced by more efficient modern chains. This is especially true of the main centres, which comprise over 80% of the total market for packaged consumer goods.

➤ Appendix 5 provides details of companies involved in the Indonesian food sector.

Major distributor profile: PT Wicaksana

PT Wicaksana is one of Indonesia's biggest distribution companies. It operates nationwide, has 3 200 employees and a sales turnover of around US$150 million. The company's core business is distribution, but it is also a food manufacturer of canned products and instant noodles, and a retailer. The latter activity is relatively new, through its chain of Club Store supermarkets. It also has a wholesale business under the name Club Grosir. It has a sales team of 1 250 and around 1 000 vehicles.

Before the Asian economic crisis, the company operated as a buyer and distributor of products. Now it has a policy of 'zero working capital', which means that it provides a sales force and distribution network but does not take ownership of the goods. It books orders, checks credit-worthiness and undertakes deliveries. Although Wicaksana bears the risk of non-payment, ownership passes directly from the manufacturer to the buyer (who buys from Wicaksana's salesmen).

Its distribution system comprises five major distribution centres or 'hubs', feeding out through 44 front distribution points, serving 112 000 outlets. This compares with Indofood, which has around 60 000 outlets. Over the past year, the company has been installing a human resources enterprise management system. The system is only partly operating (late 2003), with a parallel manual system until the IT system is fully bedded down. This will facilitate much better inventory control and management and will generate reports against key performance indicators across the business. Key indicators include service (delivery) time and staff (e.g. driver) productivity.

Wicaksana delivers direct to major supermarket customers from its five hub centres on a 'just-in-time' basis. Deliveries to Carrefour stores, in some instances, are twice daily. Customers include many of the big name multinationals, including Proctor and Gamble, and a number of national Indonesian companies.

The Club Store model came out of a joint venture with the United States chain, Price Mart, under which stores had been established in Jakarta. When the economic crisis occurred, the United States company pulled out and Wicaksana continued the stores and re-named them. These are wholesaler/hypermarkets. Wicaksana says that it is selling as well on a per square metre basis as Carrefour, probably the most successful hypermarket group in Indonesia.

A Wicksana subsidiary, Wira Logistics, operates a modern warehouse complex at Cibitung near Jakarta. This is a large complex with both cold storage and dry storage. It has seven high stacks of pallets and uses modern handling equipment.

Source: INSTATE field visit and interviews

Image 4.3 Wira Logistics, Jakarta

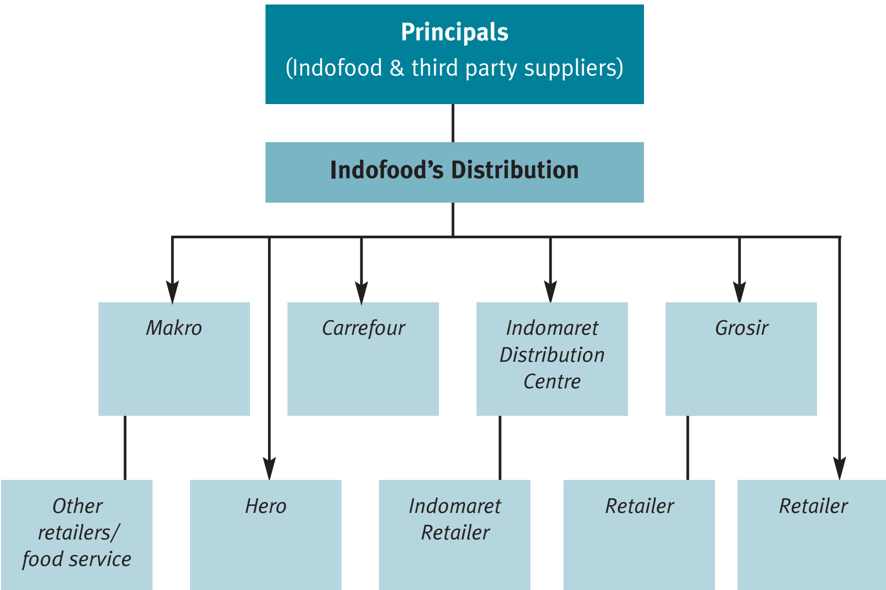
26 INSTATE Pty Ltd, *Supermarket and Retailing Infrastructure Development in Indonesia: Implications for Australian Agri-food Exports*, RIRDC Research Paper No 95/9, Sydney, 1995, p. 64.

Some of the largest processors, such as Indofood, keep distribution in-house. Figure 4.2 maps the distribution chain for Indofood's distribution subsidiary. Another example is Sinar Mas, which has an affiliated distribution company PT Intermas Tata Trading. There are also a number of major specialist distributors with national reach.

PT Diamond Cold Storage is a medium-sized company that operates cold storage facilities in main centres in Indonesia. The company manufactures and distributes ice cream under its own brand. It specialises in meat, milk and dairy products and has 14 branches in Jakarta, Surabaya, Bali, Makassar, Menado, Medan, Padang, Palembang and Yogyakarta. The company has strong and long-standing links with Australia. It currently imports meat, pasta, yoghurt and other dairy products from Australia. It also handles some other products including frozen foods and dry goods.

Image 4.4 Wira Logistics, Jakarta warehouse

Figure 4.2 **Indofood's distribution subsidiary**



Source: INSTATE research

Another important player in the distribution and logistics business is PT Tigaraksa Satria, which is Carrefour's Indonesian partner. It handles logistics for Carrefour stores. One of the largest logistics specialists, PT Davids, was established by the David family from Australia (see profile below).

Logistics specialist profile: PT Davids

P T Davids Distribusi Indonesia is a wholly owned private Australian company, which is part of Davids Asia Private Limited. It states its vision as follows: 'Davids strives to be the premier logistics service provider in the South East Asian region'.

The David family company (not David's Holdings) has invested A$20 million in Indonesia to develop extensive distribution capabilities and it has long-term contracts of ten years to support its operation. The company offers:

- *advisory services*
- *integrated logistics*
- *transport management*
- *storage and handling*

Davids has followed a policy of building for the long term. For example, it has ensured that its physical facilities are built to last for a long time, whereas some competitors have minimised construction costs with the consequence that deterioration has set in relatively early. Another feature is wide aisles to facilitate quick movement of stock, in preference to maximum space utilisation at the expense of movement flexibility.

The company states its core purpose as 'to contribute to our customers' success by making their logistics and supply chain processes more effective'. This aim is realised through a cooperative program of continuous improvement whereby the financial benefits are shared between Davids and their clients. Continuous improvement is bolstered through a staff incentive scheme that celebrates, and rewards financially, superior team performance. Statistics, such as 3 cartons damaged out of 1.5 million handled and 99.8% inventory accuracy throughout the operation, suggests that the facility is operating at a 'best practice' level.

Source: INSTATE field visit and interviews.

Image 4.5 Davids Logistics Services, Jakarta

Where the food goes – by channel and by region

Davids provide a very instructive analysis of the distribution market for fast moving consumer goods (FMCG). Table 4.11 maps the breakdown of FMCG distribution by retail / trade channel.

Table 4.11 **Indonesia: food distribution by retail / trade channel**

	Number	% Business contribution
Total Outlets	2 000 000	100
Outlet/per capita	107	
Modern Trade		
• Hyper/supermarkets	500	25
• Mini markets	2 500	
Traditional Trade		
• Wholesalers + national distributors	2 000	15–40*
• Others (sub dist., sub wholesalers, P&D, wet market)	1 995 000	60–35*

Source: PT Davids Distribusi Indonesia, Improving Supply Chains, PowerPoint Presentation, Jakarta, 2003.

* depending on product type

Image 4.6 Davids 25 000 m² dry warehouse, Jakarta [27]

Similarly, Table 4.12 sets out the markets for FMCG by geographic region:

- Jakarta alone represents over one third of the national market for FMCG products
- Jakarta, Surabaya and Medan represent over 50% of the national market.

While Indonesia's physical infrastructure is a real constraint on food distribution, this analysis should help keep its current impact in perspective.

Table 4.12 **Indonesia: food distribution by geographic region**

Java			**60%**
of which	Jakarta	60%	
	Surabaya	20%	
	Bandung	10%	
	Semarang	10%	
Sumatra			**20%**
of which	Medan	50%	
	Padang	25%	
	Lampung, Jambi, Palembang	15%	
	Banda Aceh	10%	
Eastern Indonesia			**15%**
of which	Papua	30%	
	Bali	25%	
	Makassar (Ujung Padang)	25%	
	Lombok	10%	
	Maluku (Ambon)	10%	
Kalimantan			**5%**
of which	Balikpapan, Samarinda	50%	
	Palankaraya	30%	
	Pontianak	20%	
			100%

Source: PT Davids Distribusi Indonesia, *Improving Supply Chains*.

* depending upon product type

Niche distributors

For smaller Australian companies targeting a niche market, smaller specialist distributors will provide an alternative to the very large distributors.

27 PT Davids Distribusi Indonesia, *Improving Supply Chains*.

A good example is PT Indoguna, which supplies Australian meats and cheeses to the food service industry. Indoguna is an importer and supplier to hotels and restaurants. It also operates a small retail outlet in South Jakarta co-located with its offices. Indoguna imports meats, fish, oysters and offal. It imports regularly from Australian sources and is well regarded in the market.

At the smaller end of the spectrum, companies tend to move in and out of food distribution more rapidly. Some work across a range of product categories while others tend to specialise. Potential Australian exporters should carefully investigate the background, skills and focus of smaller distributors to ensure a good match with their business and expectations.

➤ Appendix 5 provides contact details for companies involved in the Indonesian food sector.

Bali: a special case?

Bali is a major international tourist destination well known to many Australians.

Prior to the Bali bombings, direct arrivals of foreign visitors in Bali averaged 1.2 to 1.4 million per annum and it is estimated that a similar number travel to Bali from other parts of Indonesia. Australia has traditionally been the largest source of foreign tourists but, in recent years, Japan has outstripped Australia and Taiwan also rivals Australia in visitor numbers. Other major sources of visitors are the United Kingdom, France, Italy, Germany, the Netherlands and Russia. Domestic tourists account for about 20% of total visitors.

Bali caters both for budget package tourists and those looking for a luxury tourist experience. It has both western-style hotels as well as traditional Bali accommodation, including home stay. In total, Bali has around 35 000 tourist rooms, half of which are in 'starred' hotels.

Tourist flows to Bali have always fluctuated. Recent shocks have included September 11, SARS and the Bali bombings. As of late 2003, occupancy levels remained relatively low. However as one interviewee remarked: 'Bali always bounces back'.

The major users of imported products in Bali are hotels, restaurants, the local food processing sector and the Aerowisata Flight Catering Service.

According to a local player in food distribution, fresh food consumed in Bali hotels comes largely from Indonesian sources, including Bali itself. This is supplemented by imports of, for example, temperate fruits, meats (beef, lamb, pork and smallgoods) and dairy products. Australia and New Zealand are the dominant suppliers. Others include the United States of America, New Zealand and Europe.

Higher-value and perishable products—such as meat and fresh produce—arrive in Bali direct by airfreight. The balance travels to the island via Java, typically arriving at Surabaya and being routed overland by ferry to Bali or by feeder shipping service from Surabaya to Bali's Benoa harbour.

Some importers supplying the Bali market are based locally, but many are national operators located in Jakarta or, sometimes, Surabaya. Bali also serves as a hub for distribution to expatriate communities on more easterly islands such as Lombok and Sumbawa.

In summary, Bali has some unique characteristics as a market for imported food but retains strong linkages to national distribution networks.

Sources: INSTATE interviews, October 2003; The World Bank Group, *World Development Indicators 2002*, The World Bank Group, Washington, 2002.

Direct importing by retail chains and food service

A decade ago, it seemed possible that direct importing by big retailers and food service companies would sweep across markets like Indonesia, continuing the trend that had begun in Japan. However this has not actually been the case.

Certainly, larger retailers and food service operators want to 'own' and directly manage relationships with their major suppliers. But, for practical reasons, many will still outsource to importers the task of dealing with Indonesia's complex entry requirements and manage physical clearance of product. In addition, the Hero/Davids relationship described above is a good example of the way that even the largest players also contract out logistics.

In the short to medium term, it is difficult to see direct importing becoming widespread in the Indonesian market.

The role of Singapore trading companies

Singapore has long been the major trade hub in South East Asia. It is the major trans-shipment point for goods destined for Indonesian markets and Singapore also has a host of trading companies that specialise in distribution of products into and throughout Indonesia. Singapore has also been the major foreign investor in Indonesia since the crisis.

➤ Chapter 5 describes the business environment in Indonesia for food exporters.

In turn, many Indonesian business people have traditionally located their holding companies in Singapore and used it as a bridge to international financial and merchandise markets.

These business ties are often built on family relationships that straddle both countries, especially with the ethnic Chinese community that plays an important role in the Indonesian economy.

This means that, for some Australian exporters, the road to Indonesian markets will journey via Singapore. However the depth of economic and personal ties between the two countries does not, of course, mean that any Singapore company can guarantee success in Indonesia to Australian exporters. The same common sense tests outlined in the 'Finding the Right Partner' section in Chapter 5 should be applied, no matter where the potential partner is located.

Australian accumulators

> Accumulators–the one vital element of every business community whose specific commercial rationale it is to actually create mass. These are the enterprises whose business it is to understand buyers' requirements, assess supply possibilities and organise supply sources to match. However, the role of these accumulators and their capacity to contribute to the overall performance of the food sector is often unrecognised, under-weighted, or even misunderstood–simply because they do not actually make things. [28]

Accumulators, or consolidators, can play an important role in servicing markets in which export volumes are small and have skills not necessarily possessed by new or niche exporters.

Austrade can provide contact details for some of the major consolidators servicing the Indonesian market.

Accumulator at work

One Australian accumulator sells into the market through PT Diamond, a major distributor that supplies all formats in retail—to NTUC and Australian Pavilion Stores (in Singapore) for instance—and food service, including bulk to fast food chains. PT Diamond lands and clears imports to a central distribution facility in Jakarta. From there, distribution is largely by road. The firm has 14 branch offices through the archipelago, some of which hold stock. PT Diamond invested significantly in new warehousing and a fleet of refrigerated trucks pre-crisis.

This accumulator admits it would prefer to be selling direct to retailers, as this results in a better margin for the retailer, better prices to consumers—and so higher volumes—and improved information back from the market. Distributors have little interest in reporting back how a product is performing. [29] However, retailers generally prefer to purchase through importers to avoid having to deal with the complexities of customs clearance.

Source: INSTATE interview, October 2003.

Supply chain and infrastructure issues

> Beyond a few major Indonesian cities, distribution is a nightmare. [30]

Supply chain logistics in Indonesia range from pre-modern era practices—sailing ships and cargo carried by stevedores on their shoulders—to contemporary best practice, as in the Davids operation.

When considering infrastructure constraints, however, it should be kept in mind that Java and Sumatra account for around 80% of the market for fast moving consumer goods other than fresh and frozen food.

Java has reasonably effective distribution infrastructure and urban areas in Sumatra, Bali and Sulawesi are also developing rapidly. Infrastructure and cold storage facilities outside these centres are generally poorly developed, making the distribution of products to outlets in remote areas problematic.

Imports to Indonesia generally need a shelf life of at least 6 months, and products requiring refrigerated transport and storage incur high transport costs.

28 INSTATE Pty Ltd, An *Examination of the Accumulator Approach: An Export Marketing Solution for Small Business*, INSTATE Pty Ltd, Sydney, 1998.

29 INSTATE interview, September 2003.

30 INSTATE interview with a senior manager at a major retail chain, Jakarta, September 2003.

Table 4.13 summarises the key challenges and constraints on supply chain operations in Indonesia.

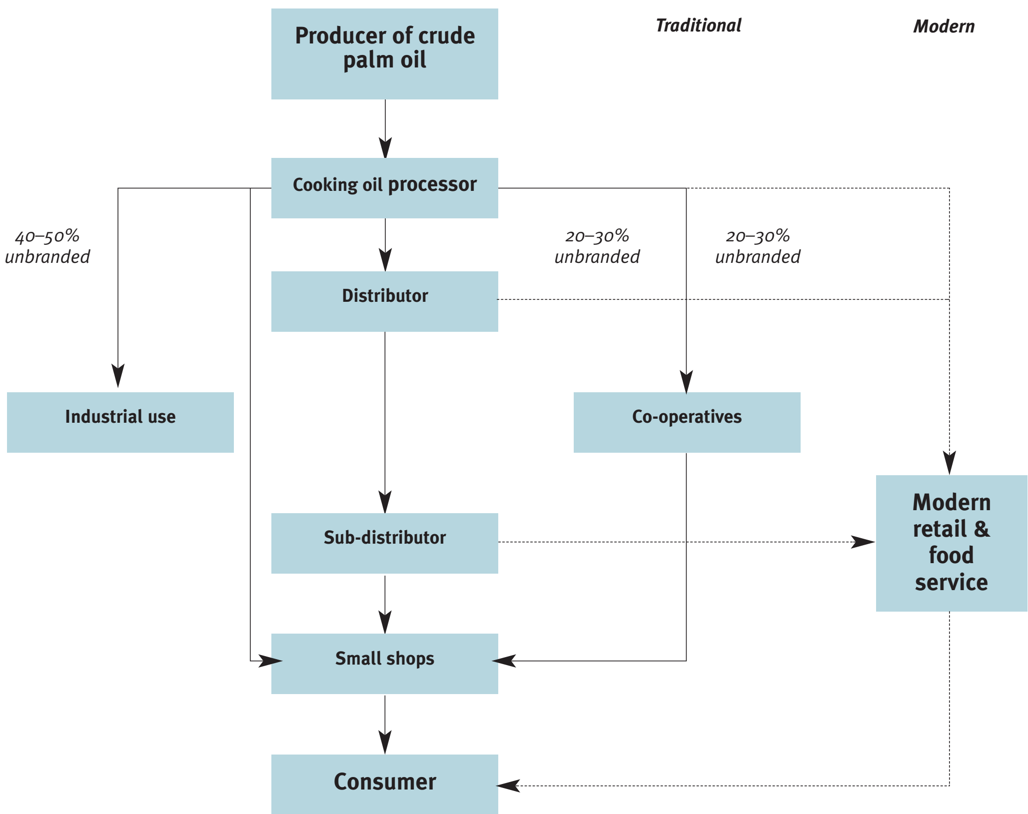
Table 4.13 **Supply chain development: challenges and constraints**

Element	Comment
Governance	Clarity / complexity of laws and regulations, enforcement of laws and regulations and related issues. Lack of transparency and inconsistency are common problems in this area
Relationship development	Links to consumers through agents, distributors, retailers, building cooperation—role of 'middlemen' often unavoidable and adds links to chain
Building the communication feedback loop	Additional links in the chain make communication more difficult—good representation and regular market visits can help
Physical infrastructure	Ports, shipping schedules, roads, cool chain—background realities especially in relation to Eastern Indonesia
Soft infrastructure	Planning and management skills are relatively new in the Indonesian modern sector

Diversity

Modern computerised tracking and inventory management is very much an element of the modern logistics practiced by leaders in distribution and large manufacturing companies such as Indofood and Sinar Mas, as well as the leading logistics companies in Indonesia. Davids has an integrated Warehouse Management System (WMS) and Enterprise Management System (EMS). At the lower end of the scale such facilities and management systems are non-existent.

Figure 4.3 **Typical distribution network for cooking oil**



Sources: GAPMMI; INSTATE research.

Use of specialist importers

Companies and institutions with a need for imported goods usually import through specialist importers rather than directly, although good supply chain management principles would suggest that costs and margins could be eliminated by direct importing. Many industry insiders express the view that if the 'red tape' issues could be resolved or simplified then they would exercise their preference for direct importing. On the other hand, there is a significant group of specialist importers who have a vested interest in the situation continuing as at present.

Decentralisation

Further along the chain, distribution is affected by the new complexities arising from decentralisation of government functions to the district/city level. Many local administrations have levied various charges on business and it is not unusual for charges to be levied on transportation of goods through regional administrative areas, thus adding to costs in the chain.

These are gradually being dealt with as the Indonesian Government refines its decentralisation model but will not quickly be eliminated. Large national distributors have a greater capacity to negotiate these hurdles and their specialist knowledge can facilitate the operation of the supply chain.

➤ ***Chapter 7 outlines the political and economic environment in Indonesia.***

Physical infrastructure

The state of Indonesia's physical infrastructure is, of course, a constraint on nationwide distribution. Indonesia is an archipelago and this alone complicates transportation. Much of it must be by sea or air. Indonesia has some well-developed container ports which can handle cargo efficiently. Examples are Jakarta (Tanjung Priok), Surabaya, Makassar and Medan.

Many other ports however, are shallow and lack container-handling facilities. These are served by a multiplicity of small vessels, ranging from small coastal cargo ships of relatively modern design, to various, more traditional types of vessel, including the celebrated *perincis* that proceed under sail or motor to serve smaller ports. These beautiful wooden sailing ships can carry up to 1 500 tonnes, but loading and unloading is entirely manual—typically by stevedores and crew balancing on a long plank from shore to ship as they carry items of cargo on their shoulders for storage in the deep hold or on deck.

Shipping schedules are also unreliable, and an inadequate number of ships serve Eastern Indonesia. Firms are forced to hold higher inventories and this imposes higher costs, especially when the weather is bad. Theft and losses due to security problems are also an issue on outer islands. Indonesia is developing main road networks, including dual carriageway toll roads in Jakarta, linking major centres. However, these networks are still quite limited in coverage, even in Java and more so in other islands. A major consequence is that large trucks can only be used on a very limited range of routes. For the remainder, only small trucks can be used. This causes lower productivity.

Shipping services to Indonesia

The majority of Indonesian trade is served by transhipment via Singapore on the various Southeast Asian services. Some cargoes are also transhipped via services to other regional ports.

➤ ***Appendix 7 provides contact details for shipping and freight forwarding services.***

Details of services are available from all reliable freight forwarders.

At the time of writing, the only dedicated container services out of Australia serving Indonesia direct were two Western Australian shuttle services:

- MSC-Capricorn
- Maersk/K-Line Western Australia Service. [31]

In addition, there a few smaller operators that have Indonesian calls (such as Chief Container Services and Perkins).

31 Meyrick & Associates, *Liner Shipping Services to Indonesia*, Wollongong, 2003.