3. RETAIL AND FOOD SERVICE

Overview

- The average Indonesian shops mostly at traditional outlets—large wet markets and smaller provision stores.
- Large local food producers—whether domestic or foreign-owned—rely on traditional channels to achieve mainstream market penetration.
- Modern retail continues to grow strongly, especially in Jakarta and other major cities. The top 5 chains account for 11% of retail sales so modern retailing is more concentrated in Indonesia than, say, China (though not Australia).
- Supermarkets were the pioneers but hypermarkets, mini marts and warehouse stores are now sharing the growth. Within the modern sector, supermarkets are under the most competitive pressure. Hero (Dairy Farm), Carrefour and Makro lead the supermarket, hypermarket and warehouse sectors respectively.
- Hotels and fast food chains dominate the modern food service sector and account for most food service imports. Other food service niches include airline catering and servicing of mining communities.

Traditional retail

The average Indonesian consumer shops mostly at traditional outlets such as wet markets and provision stores. In rural areas, many of these provision stores are run as cooperatives (Figure 3.1).

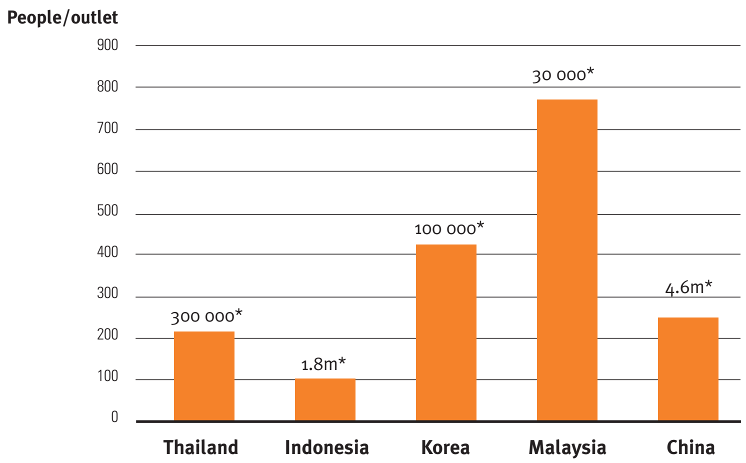
➤ *Chapter 2 introduces the demographic segmentation of the Indonesian food market.*

Figure 3.1 **Where Indonesians shop**
(% of the population that shopped at each type of outlet at least once in 2001)

Source: United States Department of Agriculture Foreign Agricultural Service, *Indonesia Retail Food Sector Report*, Global Agriculture Information Network Report #ID2035, Jakarta ATO, 2002, p. 1.

Indonesian shoppers are well serviced by a plethora of retail outlets. They are numerous by regional standards (Figure 3.2).

Figure 3.2 **Average number of people per retail outlet**



Source: AC Nielsen, *AC Nielsen Retail Census 1998–2001*, 2001.

* = total number of retail outlets

Image 3.1 Wet market, Malang, East Java

Traditional wet markets specialise in fresh fruit, vegetables and meat as well as other basic foodstuffs such as grain, oil and spices. Provision stores carry a variety of traditional food products, principally drygoods.

A limited amount of imported foodstuffs is sold through these traditional outlets, principally fresh fruit, some cooking oils and lower cost meat cuts.

Traditional supplier to traditional markets

The Queensland Butter Producers Co-operative Federation Ltd has supplied ghee into traditional markets in Asia and the Middle East for the last 50 years. Within Asia, its main markets are Singapore, Malaysia, Hong Kong, Thailand and Brunei.*

Product is not sold direct to Indonesia, but rather through a trading house in Singapore, which on-sells through a chain of distributors/agents to clients in Jakarta. The distribution chain is labyrinth and the company is never entirely sure just how their product gets to Indonesian consumers. Nevertheless, the company's General Manager, Mr Michael Wilson, estimates that annual sales are about 1 000 tonnes.

A few years ago, the company considered a more direct presence in the Indonesian market to target the higher income end of the market but these plans were scrapped due to the Bali bombings and general economic slowdown.

Mr Wilson says ghee is a traditional product traded in a traditional way through markets and corner stores and it is not generally profitable to sell in supermarkets. 'For example, in Singapore, if we sell it in upmarket Orchard Road, we might sell 2 cartons', says Mr Wilson. 'Round the corner on the street, we'll sell 200 cartons,' he adds.

Source: INSTATE interview, December 2003.

* Ghee is clarified butter, widely used as a cooking oil in South East Asia, South Asia and the Middle East.

Large multinationals with domestic operations in Indonesia rely heavily on traditional retail channels to achieve mainstream market penetration. For example, Unilever Indonesia still relies on traditional retail channels for over 70% of its total sales. *Business Week* (19 March 2003) estimated that in 2003, 72% of sales would be through traditional channels and 28% through modern channels. [12]

Modern retail

Overview

Despite the continuing strength of traditional outlets, the modern retail sector continues to grow strongly, especially in the major urban markets. In Jakarta, 25% of retail food sales are made in modern retail outlets. [13]

➤ *Chapter 4 also describes supply chain infrastructure such as supermarkets.*

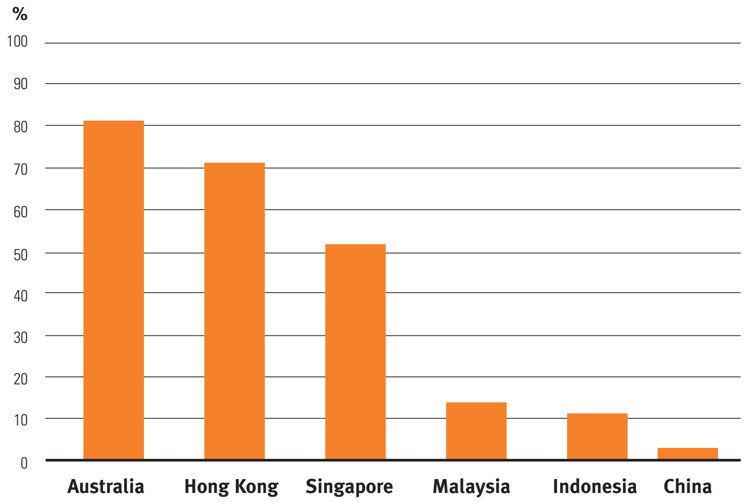
12 M Shari, 'Unilever Indonesia: Using all the levers', *Business Week*, 19 March, 2003.

13 United States Department of Agriculture Foreign Agricultural Service, *Indonesia HRI Food Service Sector Report 2003*, Global Agriculture Information Network Report #ID3001, Jakarta ATO, 2003, p. 2.

Image 3.2 Plaza Indonesia, Central Jakarta

The retailing sector in Indonesia is already more concentrated than in some other Asian markets such as China. The top five retail chains account for about 11% of retail sales compared to 13% in Malaysia and just 2% in China (although this is a low degree of concentration when compared to Australia).

Figure 3.3 **Top five grocery chains' market share: share of all category volume (%)**



Source: AC Nielsen, *AC Nielsen Retail Census*.

The rapid growth in the modern retail sector is shown in Table 3.1.

Table 3.1 **Indonesia: estimated growth in number of retail food outlets, 1997–2003**

Outlet	1997	2001	2003
Hypermarkets	0	8	17
Supermarkets	579	814	c1400
Mini-markets	1 535	3 051	NA
Large provision shops	58 791	59 055	NA
Small provision shops	362 001	599 489	NA
Warung provision shops	1 509 498	1 241 193	NA

Source: United States Department of Agriculture Foreign Agricultural Service, *Indonesia Retail Food Sector Report*; INSTATE research.

The number of *warung* shops—the provision stalls located around central marketplaces—has fallen markedly in the four years to 2001, representing the closure or conversion of more than 268 000 establishments.

Table 3.2 **Retail food sales by type of outlet Rp trillion (% share)**

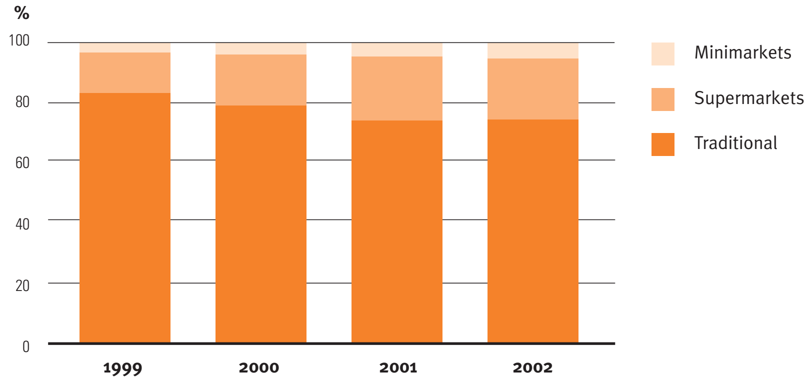
	1996	2001
Traditional retail	154 (95%)	280 (93%)
Supermarkets	8 (4.9%)	17 (5.6%)
Hypermarkets	0 (0%)	2 (0.6%)
Mini-marts	0.2 (0.1%)	0.6 (0.3%)

Source: Euromonitor, *Packaged Food in Indonesia*.

Data from AC Nielsen paints a broadly similar picture, demonstrating both the size of the traditional sector and the growth of the modern sector (Figure 3.4).

According to one industry insider, growth in the modern retail sector in Jakarta has been especially rapid. He estimated that Carrefour has been growing sales at 20–25% per annum, achieving strong growth in market share. Others were growing at 10–15%, still well above GDP growth. The interviewee expected sales growth to level off to about 3–4% pa in volume and slightly more in value terms. 14

Figure 3.4 **Indonesia: retail trade shares**



Source: AC Nielsen cited in United States Department of Agriculture Foreign Agricultural Service, *Indonesia Exporter Guide Annual 2002*.

Trends

Product range, service, quality, food safety and cleanliness and a general image of modernity attract shoppers to choose modern retail outlets, no matter what the format. However three clear trends are evident:

- Hypermarkets, mini marts and warehouse stores are taking some of the growth of the modern sector that used to be captured almost exclusively by supermarkets.
- All modern formats are taking market share from traditional wet markets and provision stores.
- Within the modern sector, supermarkets are under the most competitive pressure.

➤ *Chapter 2 explains the concept of demographic targets/consumer segmentation.*

Table 3.3 **Indonesia: an overview of the modern retail sector**

Format	Typical size (SKUs)	Demographic target	Comment
Supermarkets	20 000 to 30 000 SKUs	Demographics vary according to location but generally A/B or B/C	Range widely in size, product range and demographic target
Mini-marts	about 6 000	A, B and C	Small stores located strategically for local shoppers. Air-conditioned and organised around a central buying system with common branding
Hypermarkets	50 000–80 000	A, B and C	Very large stores carrying a wide range of products and offering competitive pricing usually below supermarkets and minimarkets
Wholesale (cash and carry)	10 000–15 000	Retail customers are mainly B/C	Generally large warehouse/ stores that do not necessarily carry a big range of items but focus on sales to resellers, institutions and other businesses, e.g. for food service

Source: INSTATE fieldwork and research.

A large number of Indonesian businesses operate modern sector retail outlets ranging from one or two outlets to over 100 in the case of the Hero Group.

Some of these grew as adjuncts to existing department stores—Matahari is a notable example. Some originated as distribution outlets for manufacturers, such as Indofood's Indomaret

14 INSTATE interview, October 2003.

minimarket chain and some as downstream diversifications by distributor groups such as Wicaksana's Club Stores.

Retail operator profile: Hero

Hero began as a family company and has operated retail stores in Indonesia since the 1970s. It was a pioneer of supermarkets in Indonesia, especially at the upper end of the market.

Hero became a publicly listed company after the economic crisis. Dairy Farm of Hong Kong has taken a 32% shareholding. Dairy Farm is understood to now be the driving force in the management of the group. The company employs many expatriate managers, including Australians.

It has been expanding aggressively and Hero now operates 107 stores including stores taken over from Royal Ahold under the Tops brand.

By mid 2003, Hero had 89 supermarkets, up from 70 in 1999. Of these, there are 36 outlets in Jakarta, of which 17 are in the wealthy south Jakarta area. Supermarkets are being 're-engineered' to remain competitive and Dairy Farm concepts have been used in newer supermarket designs. Some stores are focused on A and B customers, others on B and C (e.g. Tangerang). Supermarkets average about 6 000 m^2 of floor area.

Hero opened its first hypermarket under the Giant brand in September 2002 and now has three in Jakarta (in Bekasi, Cemanggis (Depok) and Tangerang) and one in Surabaya. It expects to have five operating by the end of 2004. These stores tend to be located close to competing Carrefour stores. They have developed a slightly different style from Carrefour—more like the wet markets and more informal in style. Spruikers are used as in wet markets. Hero targets the C and D demographic buyers. The stores are around 9 000 m^2 in area.

Hero is spending a lot of money going head-to-head with Carrefour and this has had a dramatic negative short-term effect upon financial results. The company believes, however, that its strategy will pay off in the longer term.

Hero does not normally buy direct from suppliers. The main reason for this is to avoid the problem of having to apply for an imported food licence number (ML or makanan luar) through the National Agency of Drug and Food Control (BPOM). Hero does, however, import directly to a facility at the major mining town of Freeport in Papua (bringing in 5 containers every 10 days).

Source: INSTATE field visit and interviews, September–October 2003.

➤ ***Chapter 5 explains procedures for selling food products in Indonesia.***

Crossover: what format is that?

The distinctions between different retail formats are not always absolute. For example, it is difficult to distinguish precisely between smaller supermarkets and convenience stores or mini markets, and wholesale stores and hypermarkets:

- Although Carrefour is primarily focused on individual customers, its broad product range and attractive pricing also attracts purchases for re-sale and food service.
- Similarly, although Makro is geared to serve resellers and institutions it also has a great number of retail customers who are attracted by the competitive pricing and pleasant shopping conditions.
- Alfa's larger outlets and Wicaksana's Club Stores are also hard to classify, some comparing the former to hybrid supermarket/wholesale stores and the latter to hybrid hypermarkets/wholesale stores.

Image 3.3 Alfa store, Surabaya

Medium-sized retail operator profile: Alfa Group

The Alfa group is Indonesian-owned. It is a subsidiary of PT Sampoerna, one of the leading manufacturers of cigarettes in Indonesia. The group does not have a foreign partner and relies on Indonesian expertise. Its financial returns are reported to have been good, with net profit rising even as the group has expanded rapidly in recent years.

Mini-marts under the Alfamart banner have increased in number from 16 in 1998 to 300 in 2002, with a target of 1 000 by 2004. The group is the second largest operator of mini-marts behind Indofood's Indomaret group that had 750 stores in 2002.

The group's larger stores have also expanded in number, from 7 in 1999 to 29 in 2003.[15] Some describe them as supermarkets (see Table 3.3) while they are also similar in some ways to warehouse stores. As in the case of Makro, these stores sell to the public as well as to resellers, food service and institutions.

An Alfa supermarket/wholesale store in Surabaya, 6 000 m^2 in area. While displays are of a good standard and competitive with other outlets the environment is fairly basic, with air conditioning turned down low to save cost. Offices tend to be spartan, indicating this is a company focused on tight cost management. The success of this group is a sign that modern retailing in Indonesia is maturing in terms of local management expertise.

Source: INSTATE field visit and interviews, September–October 2003.

15 Indocommercial, N.322, Jakarta, 4 June, 2003.

Winners and losers

Among the foreign companies, Carrefour's success no doubt owes something to its French technology and management systems but what stands out is how well it has adapted its style and offering to address local needs and customs. It has also benefited from its quick adaptation to the crisis situation of the late 1990s.

On the other hand, the local industry believes there are obvious reasons for the failure and subsequent withdrawal from the market in the late 1990s of Wal Mart and J C Penney. These included their attempts to transfer existing business models and product lines to Indonesia, including a high proportion of imported products, and store locations that were less than optimal.

Supermarkets

The number of supermarkets has grown rapidly in the past 3 to 4 years and now stands at around 1400 country wide. The biggest players in supermarkets are Hero, Matahari and Ramayana (Table 3.4).

Table 3.4 **Indonesia: major supermarket chains, 2001**

Retail Name	Ownership	Outlets	Locations
Hero	Indonesian Hong Kong	83*	Jakarta, Java, Bali, Sumatra, Kalimantan
Matahari	Indonesian	61	Jakarta, Java, Bali, Sumatra, Kalimantan, Sulawesi, Ambon
Ramayana	Indonesian	65	Jakarta, Java, Bali, Batam, Sumatra, Kalimantan
Super Indo	Indonesian Belgium	34	Jakarta, Bogor, Tangerang, Bekasi, Bandung, Surabaya, Palembang, Yogyakarta
Yogya	Indonesian	33	Jakarta, West Java
Alfa	Indonesian	29	Jakarta, Java, Bali, Medan, Makassar
Tops	Dutch	24	Jakarta, Java
Gelael	Indonesian	11	Jakarta, Jawa, Bali, Sumatra, Sulawesi, Batam
Nina Fair Price	Indonesian, Singapore	5	Surabaya
Pantry	Indonesian	5	Jakarta
Sinar	Indonesian	5	Surabaya
Sogo	Indonesian Japan	4	Jakarta, Surabaya
Tiara Dewata	Indonesian	3	Bali
Tragia	Indonesian	5	Bali

Source: United States Department of Agriculture Foreign Agricultural Service, *Indonesia Retail Food Sector Report*, p. 8.
* 89 stores by mid 2003.

Image 3.4 Fruit display, Hero supermarket, Kemang

Affluence and urbanisation are two key underlying factors driving the development of modern retail. Younger shoppers in particular prefer the modern retail experience, and a majority of supermarket shoppers are female.

Supermarkets are busy after work, from 5 pm through till about 9 pm and on weekends. Families often make a day of it on Saturdays or Sundays.

Before the crisis, up to half the product on supermarket shelves was imported. In today's bigger supermarket sector, imports typically account for 5–10% of SKUs.

Supermarkets that cater to higher income residential areas with wealthy local and expatriate customers tend to carry a higher percentage of imported products, stocking specialist brands at higher prices. Conversely, the proportion of imported product sold tends be less in outlets outside of the capital as well as in the less affluent areas of Jakarta where shoppers are more price sensitive.

Supermarket store profile: Diamon D'Best, South Jakarta, 2003

The store is in a modern Plaza (D'Best) on a major road, Jl Fatmawati, in South Jakarta, adjacent to a high-income area. It is one of three supermarkets operated by the Diamond Department Store group in Jakarta. It caters to demographics A, B and C. B and C buyers buy large packs of basic necessities like cooking oil but favour very small packs of other items such as lotions and cosmetics.

The store carries around 40 000 SKUs, around 15–20% of which are imported.

The store's point of difference is freshness of produce. Fruit and vegetables are imported directly, some from Australia. This chain buys Australian carrots, potatoes, apples and pears. However apples from China are now 20–30% cheaper than from Australia. United States and Chinese apples were in evidence as well as South African oranges. Local carrots are sold in all stores alongside imported ones. Fresh greens are mainly local. Sales growth in the last year was about 20%.

Source: INSTATE field visit and interviews, October 2003.

➤ *Table 2.1 explains the indices of demographic segmentation.*

Wholesale (cash and carry)

Wholesale or cash and carry outlets are a popular and fast growing type of outlet. Despite their name, they attract a considerable flow of retail customers as well as trade customers looking to stock small shops or buying for a food service outlet or street stall.

Table 3.5 **Indonesia: major warehouse / cash and carry operators, 2001**

Retail Name	Ownership	Outlets	Locations
Makro (wholesale)	Dutch	13*	Jakarta, Surabaya, Medan, Bandung, Bali, Semarang
Indo Grosir (wholesale)	Indonesian Belgian	6	Jakarta, Bandung, Yogyakarta, Surabaya
Goro (wholesale)	Indonesian	5	Jakarta, Solo, Makassar
Club Store	Indonesian	2	Jakarta, Medan
Club Grosir (wholesale)	Indonesian	2	Jakarta

Sources: United States Department of Agriculture Foreign Agricultural Service, *Indonesia Retail Food Sector Report*; INSTATE research.

* 2003 data

Image 3.5 Australian carrots, D'Best supermarket, Jakarta

These large warehouse/stores do not necessarily carry a big range of items. For example, Makro carries around 11 000 SKUs but intends to reduce its range further (see profile below).

Warehouse store operator profile: Makro

Makro is a cash and carry store group. Its stated focus is trade although many consumers shop there too. It operates on a membership basis. Makro was in the market from 1989, well before the economic crisis, so has had a lot of time and experience to refine its model for Indonesia.

Makro has 13 stores. Most were opened in the last 5 years. In 2003 it had 6 in Jakarta, 2 in Surabaya and one in each of Bandung, Bali, Semarang, Medan and Makassar. The company is adding 4 new stores each year.

The Kampung Rambutan store is 8 000 m^2 in area but future stores will be slightly smaller at 5 000 to 6 000 m^2, which will require 4–5 ha of land each.

As of late 2003, the company stocked an average of 11 000 SKUs in each store but this was being reduced to avoid the growing problems of dealing with Indonesia's complex regulatory regime. Stock turns are around 35 days for dry goods and 4–5 days for fresh produce. The store's main customer segments are:

- *re-sellers (50% of sales)*
- *food service (hotels, catering)*
- *institutions–offices, cooperatives, office supplies*
- *others, including individual consumers*

Makro aims at a middle demographic with its emphasis on price. Recently it has started to experiment with non-air-conditioned stores (but with circulating air). Consumers and trade customers are seen to be more concerned about price than they were before the crisis and are less concerned with quality. Smaller packages are offered now, for products ranging from dairy to shampoos. Indonesians have also taken to convenience items like disposable diapers and can buy a pack with a single diaper.

When imports of an item reach a significant volume, they are sometimes imported directly by Makro. Otherwise, imported goods are purchased from importers who deal with registration, compliance with regulations and other entry issues on Makro's behalf.

Fresh fruit and vegetables are an exception and most are imported directly. China is the cheapest supplier for pears, oranges, carrots and garlic.

Source: INSTATE field visit and interviews, September–October 2003.

Hypermarkets

Hypermarkets have altered the competitive landscape of food retail with their huge range and discount prices. In-season imported fruit and vegetables are priced to compete with wet markets. This positioning is forcing supermarkets to narrow their focus and lift the sophistication of their marketing efforts.

Giant (Hero), Carrefour and Club Store are the main operators of hypermarkets. Carrefour and, more recently, Giant (Hero) are expanding aggressively.

Image 3.6 Makro store, Jakarta

Table 3.6 **Indonesia: hypermarket chains, 2003**

Retail Name	Ownership	Stores	Locations
Carrefour	French	11	Jakarta
Giant	Indonesian / Malaysian (Hero Group)	4	3 Jakarta, 1 Surabaya
Club Store	Indonesian	2	Jakarta, Medan

Source: INSTATE research.

Hypermarket operator profile: Carrefour

Carrefour's first store was opened in Cilandak in 1998. It has substantial experience in the market and is now well established, with eleven stores operating and four more to open in 2004.

Carrefour initially concentrated on Jakarta but is now moving out to the provinces. The Swalayan store in South Jakarta carries 50 000 SKUs, of which 20 000 to 25 000 are most active. The store is very large and has 50 checkout stations. Its Cempaka Mas store is even larger, with 59 checkout stations.

Carrefour's stores target a wide range of urban consumers. The Cilandak store targets an A–C demographic while the Cempaka Mas store targets a B–C demographic.

Carrefour has an arrangement with GE Consumer Finance to provide finance to its customers. This availability of credit has been a significant factor in Carrefour's success and in the consumer boom in Indonesia generally. Lower interest rates have also stimulated consumer demand.

Source: INSTATE interviews, October 2003.

Hypermarket store profile: Carrefour, Harmonie, Central Jakarta

The Carrefour hypermarket in Harmonie, Central Jakarta, has large stacks of product in cartons in various parts of the store, giving a busy, cheap and cheerful look. The store is huge and covers two floors. Food and beverages are located on the ground floor, while the upper floor carries other products, including a large section of white goods and electronics including computers, mobile phones and faxes. It also carries cosmetics and personal products.

Traffic flow has been cleverly managed. Customers enter the store in the food area. But they then have to travel up the escalator into a spectacular display of tempting electronic goods and across the first floor, where a wide range of goods are displayed including cosmetics and other personal products, in order to reach the checkouts which are on that floor. Customers then go down another escalator to exit the store. Interestingly, both floors have exits for people who have not purchased anything. Thus, aspiring buyers are not deterred in any way from having a look at what is there.

The dry goods displayed on the food floor are very extensive as to brand and variety. There are a great number of local Indonesian brands, multinational brands made in Indonesia (such as Nestlè and Arnott's) and, less prominently, imported lines. It is a reminder that Indonesia has a large, innovative and vibrant food manufacturing sector led by world-class companies such as Indofood and Heinz ABC. Australian products carried by Carrefour, include large quantities of Berri products, imported Arnott's Tim Tams and Meadow Lea margarine.

There is a large fruit and vegetable section, but the source is not advertised. The display is impressive, with the products looking fresh. A large display of durian fruit, a famous Indonesian delicacy, is a strong signal that Carrefour is well adjusted to its Indonesian consumers. Another such sign is the display of spices, including quantities of large red chillies, a local favourite. There is an excellent fish section, with product attractively displayed on open stands on beds of ice. A large meat section identifies some cuts as Australian.

Another indication of the Indonesian character of the store is the inclusion of packaged products such as bakso (a small meatball with meat, four or corn starch and spices) and other traditional street stall dishes. Customers buy it at Carrefour with the knowledge that it has had to pass formal food safety and quality requirements.

Other items usually sold at street stalls can also be bought ready-cooked at Carrefour. These items are prepared in a large open area so customers can buy their favourite food, but made from the best ingredients, in hygienic conditions. This is a touch that exactly meets the concerns of many Indonesian consumers and draws them into stores like this.

Hypermarket store profile: Carrefour, Harmonie, Central Jakarta (cont)

Stock turn is 30 days for dry goods, with daily direct deliveries. Imported goods are normally purchased from specialist importers, though some items are imported direct, mainly from France.

Australian grapes, carrots and celery are imported. There was also Australian cheese in the store and some other dry goods, mentioned above. Imported goods are sold mainly for the benefit of expatriates and represent only around 10% of turnover.

Carrefour does not have a centralised distribution system but has a computer management system with automatic order generation.

The target market is A, B and C demographics. The store's unique selling proposition is: 'one-stop shopping, great service and price'. It is near a bus station and thus convenient for people without independent motor transport—car or motorbike. A demographic customers shop once a week. B demographic customers more commonly shop on Monday after they have been paid. They buy rice, noodles, cooking oil, an increasing amount of milk, some fish and chicken, especially chicken nuggets. The C demographic buys rice, noodles and bakso.

Stock is increased for the Lebaran period. People buy gift packs and items such as biscuits, Lebaran cakes and bakery products.

Carrefour stores have a different character from Hero, which is closer to the feel of Coles and Woolworths in Australia. Anecdotal evidence suggests that Carrefour prices are lower, which seems to relate to the difference in respective business models.

Source: INSTATE field visit and interviews, September–October 2003.

➤ Chapter 2 lists products with consumer growth potential.

➤ Appendix 5 lists contact details for companies assisting food trade.

Image 3.7 Carrefour checkouts, Jakarta

Image 3.8 Carrefour fruit section, Jakarta

Mini-marts

Several thousand mini-marts, also known as convenience stores, have sprung up around the country encroaching on the trade of the traditional *toko kelontong* (independent food stores), and the business of *warungs*. Mini-mart numbers have doubled in recent years. In many cases, this has occurred through the conversion of traditional stores. Mini-marts are often located below or next to new apartment complexes.

The largest mini-mart chain (with 750 stores in 2002) is Indomaret, which is part of Indofood, the country's largest processed food manufacturer. Others include Star Mart (Hero), Alfa Mart, AM/PM and Circle K.

Mini-marts represent a key distribution channel for processed food. They generally specialise in smaller pack sizes, offering a range of foodstuffs and non-food items. These include processed and prepared food items such as noodles and frozen foods. Items are competitively priced, catering to both high and lower income earners. Mini-mart growth is expected to remain particularly strong in residential areas and cities outside of Jakarta.

Mini-mart store profile: Alfa, Malang

An Alfa mini-mart in Malang is much like the 7 Eleven format (the 7 Eleven group entered the Indonesian market in 1988 but withdrew again in 1992.) The Malang store (Alfamart Pandaan) is 54 m^2 in area and carries 4 000 SKUs, according to the store manager.

Standard store sizes are 18 m^2, 24 m^2, 36 m^2, 45 m^2 and 54 m^2. The basic store (18 m^2) would have three shelf sets (double sided units) with each step up having an extra shelf.

Supply for the 80 stores in East Java is from a central Alfa distribution warehouse. Alfa sets both buying and selling prices centrally and promotions are arranged every two weeks.

Source: INSTATE field visit and interviews, September–October 2003.

Shopping malls

Jakarta and Indonesia's other major cities are experiencing a boom in the development of major new shopping malls. A number of malls are briefly profiled below to provide a sense of variation in market positioning and the momentum of new retail development.

Central and South Jakarta were the home to some of Indonesia's earliest malls and Plaza Indonesia, in central Jakarta, still sits squarely at the top end of the market. Plaza Indonesia is home to the Grand Hyatt and Jakarta's most fashionable boutiques. It is a magnet for the city's most affluent shoppers.

The Hero supermarket, which anchors a small but quite new shopping complex in Kemang, also in South Jakarta, is similar in character.

Image 3.9 Alfa minimart, Malang, East Java

Image 3.10 Alfa minimart, Malang, East Java

Supermarket store profile: Hero, Kemang, South Jakarta

The Hero supermarket in Kemang in wealthy South Jakarta is part of a small, fairly new, shopping complex. The complex contains a very contemporary furniture and homewares store, a bookshop and a small bakery, none of which would look out of place on the North Shore or in the Eastern Suburbs of Sydney.

The supermarket is on two floors, with fresh produce on the lower floor. Up an inclined moving footway to the upper floor, customers find more drygoods on display together with a Guardian pharmacy.

Display is excellent and includes fresh fruit and vegetables, a wide range of cheeses from many sources including Australia, meats and poultry and a separate section with displays of fish packed in ice. There is Australian cask wine (De Bortoli and Lindemans), Bulla yoghurt, Primo delicatessen meats, Meadow Lea margarine and Berri juices and fruit drinks. Delicatessen goods were displayed in an island surrounded by glass display cases with many types of cheese and other gourmet items.

Source: INSTATE field work, September–October 2003.

There is a very similar Hero store in the Senayan Plaza in South Jakarta, a large mall building adjacent to Jakarta's main sports and exhibition venue and international conference centre.

Malls are also opening in newer areas such as Kelapa Gading in East Jakarta. The Kelapa Gading mall opened in 2003.

Shopping mall profile: Kelapa Gading

The Kelapa Gading mall is very extensive and similar in style, layout and range of shops to a typical Australian mall. It has two large supermarkets—Sogo (which is Japanese owned) and Diamon (Indonesian owned). It also has many specialty stores selling fashion, sportswear and even gym equipment. The mall has many diverse eateries, from traditional food courts to more specialised cuisine.

Kelapa Gading already has a Makro hypermarket and two new shopping complexes were being built in late 2003—a Giant supermarket and shopping complex and a Club Store supermarket and stores complex.

Source: INSTATE field visit and interviews, September–October 2003.

Two other large shopping malls, Cempaka Mas in East Jakarta and Mangga Dua are in North Jakarta.

The Cempaka Mas World Trade Center has as its anchor store a huge Carrefour hypermarket with 59 checkout stations. It is a multi storey complex around a central atrium with escalators and lifts. It houses a great many small stores selling garments of every kind and a variety of other goods at relatively low prices. Although pleasantly air conditioned and modern, an observer would not call this complex stylish or elegant. Display of goods is similar to that in traditional stores.

There is a great deal of new construction in Mangga Dua. The Mangga Dua World Trade Centre (profiled below) opened in October 2003 and one other major shopping complex was under construction in the same area at that time.

Shopping centre profile: Mangga Dua, North Jakarta

The Mangga Dua World Trade Centre (WTC) is an immense complex with five floors of shopping and several floors of car parking above the retail space.

Most of the complex, which is built around an atrium, comprises small shop spaces, which are sold or leased to small shopkeepers on strata-type arrangement. One couple had a two metre by three-metre space for which they had paid Rp400 million. In October 2003, the large atrium space in the centre of the complex had lined up in it ten new BMW cars as prizes to shoppers who were successful in draws. To qualify for the draw with one point it was necessary to spend Rp100 000 or around A$20.

A large wholesale / hypermarket store under the Club Store brand is based in the centre. The presence of the Club Store is something of a surprise as the other Club Store in Jakarta caters to the 'golden triangle' in South Jakarta where many corporate headquarters buildings and embassies are located. Mangga Dua is less up-market although it has a mixed demographic.

It would probably be misleading to see the new shopping complexes such as the WTC as net growth because Mangga Dua has long had a great many small stores crowded into older buildings and no doubt the new complex will take a lot of market share (and actual shops) away from the latter.

Source: INSTATE field visit and interviews, September–October 2003.

Food Service

The food service sector in Indonesia includes hotels, restaurants, caterers, airlines, isolated mining and other resource-industry communities and other institutions. International tourism is a major driver of demand for food imports.

The tourism sector employs 2–3 million people directly but, by industry estimates, creates a total of 8 million jobs economy-wide. [16]

Table 3.7 **Indonesia: international tourism industry key projections**

	2002	2003	2004	2005	2006	2007
International tourism arrivals ('000)	4 304	3 356	3 667	4 238	4 615	5 015
International tourism expenditure (US$ m)	2 539	2 930	3 393	3 988	4 448	5 092
International tourism, receipts (US$ m)	5 061	3 332	3 700	4 772	5 168	5 708
Consumer expenditure: hotels and restaurants (US$ m)	5 415	7 193	8 658	10 833	13 121	15 527

Source: AIG Online, *Economist Intelligence Unit*, 2003, viewed 12 December 2003, <http://home.aigonline.com/>.

Of all arrivals, the proportion that fly directly to Bali is about 25–30% and it is estimated that an equal number of tourists visit Bali after entering Indonesia via a port on another island. [17]

Imports

Hotels, fast food restaurants and upscale western restaurants account for a small share of the food service business by turnover but account for 60% of imports destined for food service. Hotels use about twice as much imported food as restaurants. At the top end of the market (top class hotels and more expensive restaurants), about 15% of food used is imported. [18]

Other imported food used by the food service sector goes to institutions with an international element to their menus and caterers serving visiting foreigners or resident expatriates, such as foreign airlines with international flights or mining communities.

Given its high exposure to the tourism industry, the high-end food service sector was, of course, hit hard by the Bali and Marriott bombings.

Sourcing

Users of imported food in the food service sector source their product in a number of ways:

- From larger general importer/distributors who service all sectors of the Indonesia market
- From smaller importer/distributors who specialise in the food service sector
- From warehouse stores and hypermarkets or from more traditional wholesalers (for smaller users)
- Direct from suppliers (for the largest users), although they may use the services of a nominated importer to physically clear goods.

Hotels

The official government statistical agency, BPS, records that, in 2003, the country had 988 starred hotels with 102 000 rooms and 160 000 beds (Table 3.8). Of the starred hotels, an estimated 22% are 4 or 5 star. [19]

Image 3.11 Arnott's biscuits, Hero supermarket, Kemang

Image 3.12 Australian fruit display, Hero supermarket, Kemang

➤ ***Chapter 4 describes supply chain issues in further detail.***

Image 3.13 Giant hypermarket under construction, Kelapa Gading, Jakarta

16 World Travel and Tourism Council, *Indonesia: Travel & Tourism – A World of Opportunity, The 2003 Travel & Tourism Economic Research*, London, 2003.

17 United Nations Development Program, *Bali: Beyond the Tragedy – Impact and Challenges for Tourism–led Development in Indonesia*, UNDP, Indonesia, 2003.

18 United States Department of Agriculture Foreign Agricultural Service, *Indonesia HRI Food Service Sector Report*, 2003.

19 USDA Foreign Agricultural Service, *Indonesia HRI Food Service Sector Report*, 2003.

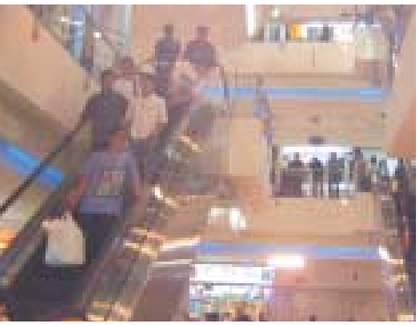


Image 3.14 Shoppers in World Trade Centre, Mangga Dua

➤ **Appendix 5 provides useful contacts and information sources.**

➤ **See Chapter 4 for further comment on the Bali market.**

Table 3.8 **Indonesia: hotels**

	Establishments	Starred rooms	Beds	Establishments	Non-starred rooms	Beds
Jakarta	121	24 366	35 133	185	7 395	11 334
Bali	130	19 800	31 088	1 213	17 698	28 344
Other	737	57 465	93 761	8 049	136 745	229 153
Total	988	101 631	159 982	9 447	161 838	268 831

Source: Biro Pusat Statistik, *Tourism Statistics*, Statistics Indonesia, Jakarta, 2003.

Of the imported food used by hotels, the 4 and 5 star sector would use a disproportionate amount. However, one industry insider interviewed for this guide suggested that there may be untapped opportunities in locally owned 3 star hotels and that one way to test that market would be to work through the local chefs' association.

Of the starred hotel rooms, Bali accounts for almost 20%. Its share of 4 and 5 star hotels would be even higher, underlining its importance to the overall tourism industry in Indonesia.

Hotel catering profile: The Shangri-La, Jakarta

The Shangri-La is a popular five star hotel in Jakarta. The bulk of its catering is not to business guests, but for social occasions, principally local weddings.

Wealthy Indonesian families may invite from 1 000 to 4 000 guests to a wedding and typically there is one 4 000 guest wedding each year. The important point is that these customers are very price conscious and expect their wedding to be catered at around Rp100 000 to Rp120 000 per head (about A$20 to A$24). This is about the same price as is charged for buffet meals in the hotel's large and popular coffee shop.

The hotel purchases a considerable amount of imported product. This includes:

- *Suntory and Harvey beef, processed locally from imported Australian cattle*
- *Whole lamb carcasses and lamb pieces, when available*
- *Live seafood including lobster and crabs—however survival rates are an issue, perhaps because of delays in Customs*
- *Fruit, which is very important in Indonesia. The hotel needs a wide range for buffets and weddings.*

Other areas of possible demand identified by the executive chef interviewed for this study included:

- *Cheaper or budget meat cuts including mutton backstrap and lamb forequarter chops*
- *Chinese dry goods*
- *Smallgoods.*

The chef is always looking for 'something different'. In the past, he has served a combination of kangaroo, emu and crocodile meat, but in small quantities. He remains interested in new ideas for dishes that can offer a different experience to the hotel's diners.

Source: INSTATE interviews, October 2003.

Restaurants

Indonesia has over 14 million small-scale businesses that are not incorporated. Of this number, about 8 million are in wholesale and retail trade, restaurants and accommodation services. [20] Of the 8 million, a large number are restaurants.

The local scene – with some foreign influence

'Bakmi Tiga Toko' is located in the Menteng area of Jakarta. As the name suggests – 'Three Bakmi Shops' – it is one of three or, as the manager said, it is one central shop with two branches.

The clientele is very mixed, Indonesian and expatriate, with maybe some Indians as well as Europeans. Prices are very reasonable: Rp30 000 (A$6) for Bakmi noodles with some meat and mushroom and a small bowl of soup, plus two glasses of orange drink.

The restaurant offers a range of food, basically Indonesian, but with some Chinese and Korean influence, and western dishes such as steak and chips. Imported steak is offered as an option.

Ingredients are purchased at the local hypermarket. In the same street there are a number of restaurants serving Indonesian, Italian, American and Japanese cuisine. It is normally a popular tourist area, especially for backpackers.

Source: INSTATE interview, October 2003.

20 Biro Pusat Statistik, *Tourism Statistics*.

However, as in the hotel sector, use of imports is concentrated at the top end of the restaurant market.

Table 3.9 **Indonesia: selected food outlet franchises, 2002**

Outlet	Company	No. of outlets
Dunkin Donuts	PT Dunkindo Lestari	300
Kentucky Fried Chicken	PT Fast Food Indonesia, Tbk	190
McDonald's	PT Ramaka Gerbang Mas	108
Pizza Hut	PT Sari Melati Kencana	73
A&W	PT Biru Fastfood Nusantara	52
Wendy's	PT Wendy Citarasa	28
Popeye Fried Chicken	PT Popindo Selera Prima	24
Hartz Chicken Buffet	PT Sierad Pangan	8
Sizzler	PT Bestfood Nusantara	6

Source: United States Department of Agriculture Foreign Agricultural Service, *Indonesia HRI Food Service Sector Report*, 2003.

Many of the fast food chains are American-owned. Many of the rest are American inspired. This means they have a natural bias to sourcing imported products from the United States. However, Australia does enjoy competitive strength in Indonesia including when compared with United States suppliers.

Tony Roma's – 'Famous for Ribs'

Tony Roma's has three outlets in Indonesia (two in Jakarta, one in Bandung). Another is due to open soon. The stores are sub-franchised from Singapore so direct oversight comes from there.

Tony Roma's in Menteng is located quite close to the houses of the super elite such as the Soeharto family and President Megawati Sukarnoputri. The clientele is wealthy Indonesians and expatriates, mainly with families or friends. The restaurant is fairly full by 8 pm most evenings and the manager says it gets busier as the nights wear on.

Meat and special food ingredients are imported direct from the parent company in the United States. The menu is fixed. Although times were tough in 1998 and 1999 the menu remained the same and the restaurants remained open though unprofitable. By 2000, the restaurants were profitable again and, by late 2003, business had almost returned to pre-crisis levels.

Source: INSTATE interview, October 2003.

Airline catering

Most domestic flights in Indonesia serve meals with few imported ingredients. Therefore, exports to the airline catering segment are very much tied to overall international tourist flows.

PT Aerowisata, a subsidiary of Garuda, the national airline, has long dominated the air catering business in Indonesia.

Airline catering profile: PT Aerowisata

PT Aerowisata is a part of the Garuda Airlines group. The company is the main provider of catering services to airlines touching down in Jakarta. Its biggest customer is Garuda itself, but it has many other foreign airline customers.

In recent times, Aerowisata has faced competition in Jakarta but, as of late 2003, the second supplier is said to be servicing only one airline.

Full food, liquor and duty free supplies are provided to airlines. A major part of the company's business is the servicing of the 210 000 Indonesian Muslims who go on the Haj to Mecca each year—providing in flight meals and a range of non-food items like head covers and souvenirs.

Meat purchased is mainly Suntory brand beef and Aerowisata also uses Berri juices. The company is always interested to hear of suppliers of beef, lamb and and fruit and vegetables. For example, Aerowisata uses imported cauliflower, lettuce and carrots. It finds it difficult to source good fish and prawns (both king and baby) of a consistently good quality. Cheeses are also required—Aerowisata currently uses Baby Bell portion cheese but Roquefort, blue, gruyere and Swiss cheeses are needed. Wine, portion jams and pastry mix (currently imported from Holland), would also be of interest.

Airline catering profile: PT Aerowisata

The company generally does not import directly at present because of the issues involved in entry and clearance. It finds it simpler to let importers deal with Customs and related matters. Ministerial approval for the company's operations to be included in a duty-free area is expected by early 2004. When this system is in place, Aerowisata will be interested in direct importing to meet its requirements.

Source: INSTATE research and interviews, September–October 2003.

The resources sector

Indonesia is richly endowed with mineral wealth, particularly coal, petroleum and gold, some on a very large scale. These resources are located across the country, from Papua at the eastern end of the archipelago, to Aceh at the western tip of Sumatra, where natural gas is harvested on a large scale.

Companies such as BHP Billiton, Rio Tinto, Newmont and Petrosea (Australia's Clough group), as well as Freeport, have been major players in this sector in Indonesia in recent decades. Oil and gas companies work in production sharing contracts with the national oil company, Pertamina. They include Caltex, YPF/Maxus, BP, Conoco, Vico, Exxon Mobil, Unocal, Total and Arco. There are also large Indonesian companies, such as PT Adaro in coal, and several significant state-owned enterprises. Although new foreign investment in mining has slowed, and some foreign companies (including Rio Tinto and BHP Billiton) have sold down some of their interests, foreign activity in these industries remains extensive.

Companies in the mining and oil/gas business typically operate messes that feed large numbers of miners and mine managers at sites throughout the country. A large food service supplier to these companies, which has close connections with Australia, is PT Pangansari (see profile below).

Mining industry supplier profile: PT Pangansari

PT Pangansari is a major supplier to the Freeport Mine in Papua, one of the biggest mines in the world.

Pangansari imports extensively from Australia, mainly through Cairns. The company sends a ship into Cairns and loads ten containers every ten days for Freeport. Frozen beef is imported from various Australian suppliers. All meat is purchased through brokers in Australia.

Pangansari serves 60 000 meals per day at Freeport. It has purchased Australian Hobart equipment for its kitchens. Big project catering by Pangansari also services the following sites:

- *Caltex Sumatra*
- *Conoco Phillips Sumatra*
- *McDermott – oil and gas offshore*
- *Arutmin (BHP Billiton)*
- *CDandE Centuri – an Australian company.*

Pangansari also supplies supermarkets, but says its biggest customers are the hotel and restaurant trade and itself. Pangansari claims the largest catering and food distribution business in Indonesia, with branches in Batam, Medan, Surabaya, Sorong, Makassar, Manado and Balikpapan. The company has its own trucks and cold storage facilities based in these areas.

The company owns and operates a cattle ranch and feedlot in Timika in Papua and a Class A abattoir with HACCP certification.

The company started operations in 1984 and began supplying Freeport in 1992. A lot of the managers are Australians and the company welcomes contacts from potential suppliers.

A representative said that the Asian economic crisis had no effect upon the company.

Source: INSTATE interview, October 2003.