Food and beverage in indonesia

Business, Industries

FOOD AND BEVERAGE IN INDONESIA

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MARKET STRUCTURE

Indonesia is the world’s fourth most populous country with a population of 232. million in 2010, and the largest economy in Southeast Asia. In 2011, New Zealand’sfoodand beverage exports totalled US$468. 3 million, making Indonesia New Zealand’s 11th largest export destination. i In November 2011, Indonesia provided formal notification of the completion of its internal ratification procedures to enable the ASEAN – Australia – New Zealand Free Trade Agreement (AANZFTA). From 10 January 2012, AANZFTA will open up considerable opportunities for New Zealand businesses. The agreement will allow duty / tariff free access to over 90 percent of New Zealand goods and services by 2015. i 1. 1 Market Overview In 2010 and 2011, dairy and meat products comprised over 76 percent of New Zealand’s food and beverage exports to Indonesia (2010: US$363 million; 2011: US$381 million). In 2010, Indonesia’s dairy and meat market was worth an estimated US$2 billion. The majority of the population in Indonesia, approximately 85 percent, are

Muslim and all slaughtered food and meat (excluding pork) must have halal certification.

Market by product category Packaged food In 2010, Indonesia's packaged food market was valued at US$19. 1 billion. The sale of impulse and indulgence products (i. e. chocolates) grew due to increasing affluence. Nutrition and staples (i. e. rice) grew by 31 percent in 2010. Canned / preserved food had a high growth rate of 20 percent in 2010. Indonesia: Sales of Packaged Food by Category: Value 2005-2010 in million USD 2007 Packaged Food - Total Nutrition/staples (i. e. rice) Dried Processed Food (i. e. dessert mixes, instant soup) Impulse and Indulgence Products (i. e. hocolate coated biscuits) Bakery Dairy Noodles Baby Food Confectionery Meal Solutions (i. e. tomato pastes) Sweet and Savoury Snacks Oils and Fats Sauces, Dressings and Condiments Frozen Processed Food Ice Cream Canned/Preserved Food Chilled Processed Food Spreads Meal Replacement (i. e. breakfast bars) Pasta Ready Meals (i. e. instant pasta)

Source: Euromonitor International (NB: 2011 forecasts) Wineiv In 2011, the Indonesian wine market was worth approximately US$32 million (RP 275. 4 billion) and retail sales totalled 3. million litres. Wine accounted for only 3 percent of total alcohol sales. Beer is considerably more popular as an alcoholic beverage. During the period 2008-2010, wine volume sales declined by 6 percent. While prices increased, the demand from Indonesian consumers with high disposable incomes and expatriates remained and the number of wine enthusiasts in Indonesia grew. The growth was influenced by westerncultureand wine events such as wine tasting, wine dinners and classes. The wine market showed an increase in sales by value of 61 percent during the period 2008-2010. Indonesia: Wine Sales Off-trade Value in million USD Off-trade.

Source: Euromonitor International (NB: IDR/USD currency; [2006] 9159. 3, [2007] 9141, [2008] 9699, [2009] 10389. 9, [2010] 9090. 4, [2011] 8696. 1)

Market by distribution channel

Mass grocery retail In 2011, traditional retailers, comprising small independent stores and open air markets, accounted for an estimated 77 percent of the total retail sales.

In the organised retail sector, Hypermarkets had the largest market share in 2010, with US$13. 6 billion in sales, followed by supermarkets (US$11 billion) and convenience stores / mini-markets (US$5 billion). During the period 2005-2010, supermarket sales increased by 112 percent, followed by hypermarkets (109 percent) and convenience stores / mini-markets (105 percent). Mass Grocery Retail Sector – Estimated Number of Outlets 2005 Total Convenience Stores / Mini-Markets

Supermarkets Hypermarkets Source: Business Monitor International

Market Drivers The following are viewed as key drivers for the food and beverage market in Indonesia: ? The food and beverage market in Indonesia grew in 2010, recovering from the worldwide recession. Purchasing power of middle and upper income consumers revived with an increase of disposable income. Political and economic conditions stabilised and the number of modern retail outlets and food service retailers grew. vi Consumers are embracing thehealthconscious trend seen throughout the world, as a result of exposure to healtheducationthrough the media. i To meet the increasing demand of educated and health conscious consumers, the Indonesian government has taken on initiatives such as the Merauke Integrated Food and Energy Estate project. Through this US$5 billion project, the government expects to produce almost 2 million tonnes of rice, 2 million tonnes of corn, 2. 5 million tonnes of sugar, 937, 000 tonnes of palm oil, 167, 000 tonnes of soy beans and grazing land for 64, 000 cattle. vii In April 2010, taxation on wine increased significantly resulting in an increase in wine prices.

Approximately 45 percent of the cost paid by consumers is tax, including sales tax (VAT), excise and import tax. v While traditional markets still account for the majority of retail sales, they face greater pressure on market share as modern retail becomes more popular. While the government tried to discourage the rapid spread of modern retail, it wasn’t successful in enforcing its legislative regulations and modern retailers increased in numbers by using fake permits in some cases.

The overall food consumption is forecast to grow by a compound annual growth rate (CAGR) of 9. 1 percent to 2015. vii Modern retail, such as hypermarkets are projected to increase in numbers as urban centres expand and demand increases for convenience and added-value products (i. e. rice and noodle ready-meals). However, most consumers in Indonesia remain price sensitive and private label will be a popular alternative as it is perceived as good value rather than cheap.

The sale of alcoholic beverages is expected to decline with a CAGR of 2. 3 percent during 2010-2015. However, wine is forecast to grow with a CAGR of

1. percent during 20102015 as wine is perceived to be a healthier option than other alcoholic beverages such as beer. v Indonesia has a massive youth population of around 40. 9 million, aged between 15 and 24. This age group tends to be more westernised compared to the older population and is projected to drive demand for mass market products such as confectionary goods. vii There are opportunities for products targeted to improve the condition of specific health problems. These products include calcium fortified milk to prevent osteoporosis, dairy milk fornursingmothers, baby food and products for weight and cholesterol reduction. i 1. 4 Import Trendsvii In 2010, Indonesia imported an estimated US$8. 1 billion, a growth of 25 percent from 2009. Indonesia is relatively resilient to global trade volatility but reliant on dairy and poultry imports to meet demand.

Indonesia: Food and Beverage

Source: Business Monitor International (NB: 2010 estimate; 2011-2015 forecasts) / Exporter Guide | Indonesia | Food and Beverage | February 2012 1. 5 Key Players in the Marketvii Food and beverages Nestle Indonesia had the highest market share with sales of US$23. 2 billion in Indonesia and Papua New Guinea. Nestle has a market leading position in the dairy sector and in its instant noodle category, operates a 50-50 joint venture with Indofood Sukses Makmur. One of Indonesia’s key players in alcoholic beverages is Multi Bintang with 414 employees and US$209. 5 million in sales in 2010.

Indonesia: Key Players in the food and beverage market Company Nestle Indonesia Indofood Sukses akmur Terbuka Unilever Indonesia PT Charoen Pokphand Indonesia Mayora Indah Tbk Sari Husada PT Malindo Feedmill Tbk

PT Siantar Top Tiga Pilar Sejahtera Food Sub-sector confectionery and dairy miscellaneous food dairy and tea meat and Fish confectionery formula and baby food miscellaneous food Snack food Snack food and instant noodles Sales (US$mn) 23, 238** 4, 493 2, 303 1, 764 845 317e 238 89 83 Yearending Dec-10 Dec-10 Dec-10 Dec-10 Dec-10 2010 Dec-10 Dec-10 Dec-09 No. f employees 1, 232 64, 200 3, 308 7, 095 4, 407 902 2, 144 4, 292 1, 925 Year Established na 1970 na Source: Company Investor Relations, BMI (NB: e = estimate, na = not available, **Includes Papua New Guinea) Mass Grocery Retail Hero Supermarket Tbk had the largest sales within the mass grocery retail sector with US$8. 97 billion in 2010. Hero has a broad range of store formats and offers lower value products while Carrefour, the biggest foreign retailer in Indonesia, dominates the upper end of the market. 8/

Exporter Guide | Indonesia | Food and Beverage | February 2012 Key Players in Indonesia’s Mass Grocery Retail Sector, 2011 Parent Company PT Hero Supermark et Tbk PT Sumber Alfaria Trijaya Tbk PT Matahari Putra Prima Tbk Country of Origin Indonesia / Hong Kong Sales, US$ mn 8, 971 Financial year 2010 Brand Hero Giant StarMart Indonesia 1, 645 2010 Alfamart Alfa Minimart Foodmart Hypermart Cut Price PT Carrefour Indonesia PT Makro Indonesia ** PT Ramayana Lestari Sentosa Tbk PT Indomaret Prismatama PT Lion Superindo PT Alfa Retailindo Tbk France / Indonesia Netherlands Indonesia

Source: Company Investor Relations, BMI (NB: e = estimate,*Based on Delhaize Group Rest of World Sales,** South Korea’s Lotte acquired Makro in October 2008,***Based on Carrefour’sIndonesia sales. ? Includes franchised, independent stores) 1. 6 Regulatory Information provided in this section is for reference only. When negotiating supply contracts and before beginning actual export, companies are advised to consult closely with their importer or distributor. Duties and tariffs Under AANZFTA there will be tariff free access to more than 90 percent of New Zealand goods by 2015, and the majority of these are food and beverage products. / Exporter Guide | Indonesia | Food and Beverage | February 2012 Alcoholic beverages in Indonesia including wine are strictly regulated due to the Muslim Law. Wines are subject to 10 percent value added tax (VAT), import tax of 150 percent and income tax of 25 percent. Category A B C Classification Alcoholic beverage with 1-5 percent ethanol content Alcoholic beverage with 5-20 percent ethanol content Alcoholic beverage with 20-55 percent ethanol content Import duty USD 1. 57 / litre IDR 14, 000 / litre USD 6. 18 / litre IDR 55, 000 / litre USD 14. 0 / litre IDR 125, 000 / litre Excise Tax USD 1. 25 / litre IDR 11, 000 / litre USD 4. 5 / litre IDR 40, 000 / litre USD 14. 61 / litre IDR130, 000 / litre For more information, visit the Directorate General of Customs & Excise at www. beacukai. go. id or the AANZFTA at www. asean. fta. govt. nz. Licensing and registration requirements Prior to importation of food, companies must follow a registration process which involves a fee of Rp 150, 000-3, 000, 000 (approximately NZ$17-345). The documents needed to register include: letter that guarantees safety, quality, nutrition and labelling an authorisation letter from the manufacturer health certificate or certificate of free sale issued by authorised deputy from country of origin an audit report of distribution facilities from NADFC (National Agency of Drugs and Food Control) provincial office. copy of registration approval letter from the NZ company’s importer For more information on licensing and registration, visit National Agency of Drug and Food Control at www. pom. go. id Labelling requirements All imported food and beverages need to be labelled in Indonesian language and must contain: ? ? ? brand name name of product (type of food) list of ingredients net weight or net content or drained weight (if applicable) 10/ Exporter Guide | Indonesia | Food and Beverage | February 2012 name and address of parties that produce or import the products into Indonesia registration number date, month and year of minimum durability For more information on labelling, visit the National Agency of Drug and Food Control at www. pom. go. id. Quotas New Zealand wine exports are subject to Indonesia's import quotas. The Indonesian government increased the import quota for wine to 225, 000 cases in 2009, from 80, 000 cases in 2008.

The number of cases of wine imported in 2008 and 2009 were 77, 485 and 191, 953 cases respectively. Error! Bookmark not defined. Indonesia has also recently imposed beef quotas which are being reviewed regularly. Halal Halal certification in Indonesia is required for all food derived from animal products, and recommended for companies whose products are targeting the mass retail market. Exporters are advised to check this closely with their importers or distributors in Indonesia. The Federation of Islamic Associations of New Zealand (FIANZ) is recognised by the Indonesian Ulama Council (MUI) for certifying products in New Zealand.

They can be contacted atco. nz. For more information on the overseas market access requirements (including halal requirements), visit the New ZealandFood Safety Authorityat www. foodsafety. govt. nz For more information on halal, visit the MUI at www. halalmui. org 1. 7 Sustainabilityviii The Indonesian Government encourages companies to use sustainable packaging and recyclable materials through tax incentives and an awards system. The government plans to boost the environmentally friendly packaging through Industrial Regulations in Indonesia (RUU Perindustrian).

Alternatives to plastic packaging such as vegetable material or bio-plastic packaging have been welcomed by the market. Bio-plastic is made from biotic materials (i. e. corn, cassava or micro-biota) and the material is easier to decompose. A national water company, PT Aqua Golden Mississippi, is currently developing a water bottle from vegetable material. The Indonesian Nanotechnology Society is researching a thinner plastic bottle which can be decomposed in 4 to 8 weeks.

MARKET ENTRY AND DEVELOPMENT

Market Entry Strategies Indonesia is a price sensitive market, but with the growth of the new generation of middle and high income consumers, the quality of products is of greater importance. Branded and high quality food and beverage products are in demand. The middle high income segment is paying more attention to healthy products as the new generation becomes more health conscious. Indonesian consumers prefer internationally well-known brands and imported products, particularly for their children. In 2010, the government approved a number of import licences for alcoholic beverages.

There were previously only 2 companies with import licences but now more than 20 companies have secured a licence. To acquire an import licence, a company needs to have at least 20 brands in its portfolio. It is recommended that New Zealand food and beverage products focus on Jakarta (with a population of 9. 6 million), Surabaya (4 million) and Bali (4 million). Jakarta and Surabaya are big markets in their own right but are also distribution hubs to the east and western parts of Indonesia. Bali is a popular tourism destination and there is a demand for quality products from hotels and restaurants. Points of Differentiation New Zealand is known in Indonesia as a producer of fresh, clean, high quality and healthy products. However, the market holds little knowledge about the range of products New Zealand sells. New Zealand companies need to continuously promote the overall New Zealand image for the benefit of their products. Long Term Strategic Issues for Exporters to Consider Recently a number of new regulations were introduced, which are aimed at protecting local producers of horticultural, agricultural and dairy products.

Political issues and corruption are still a major issue in doing business in Indonesia. All imported food and beverage products must be registered by Indonesia's National Agency for Food and Drugs Control (BPOM). New Zealand food and beverage exporters are advised to check with their Indonesian customers or partners what the exact process is. The specified time limit for BPOM to issue registration is 45 working days, but in the past it has taken 6-12 months.

The best market penetration strategy is to appoint a local importer who has an established network across Indonesia. This will enable New Zealand businesses to access the retail market and also the HORECA (hotel, restaurant and catering) markets. Importers will undertake the product registration on behalf of New Zealand companies. New Zealand companies must provide the necessary documentation including a letter of appointment for the Indonesian importer. Pricing New Zealand products face stiff competition from other imported products, particularly products from Asian countries.

With the right pricing and product positioning strategies, Indonesian consumers are willing to pay for premium products. Mark-ups for imported products will include: ? ? ? import agent fees custom duties value added tax (VAT) of 5-10 percent.

MARKET RESOURCES AND CONTACTS ASSOCIATIONS /ORGANISATION ASEAN

New Zealand Combined Business Council Halal Indonesia The Federation of Islamic Associations of New Zealand (FIANZ) WEBLINK www. asean. org. nz www. halalindonesia. org/ www. fianz. co. nz/index. php Indonesia National Agency of Drug and Food Control www. om. go. id ASEAN Australia New Zealand Free Trade Agreement Guide Ministry of Health Republic of Indonesia Directorate General of Customs & Excise TRADE EVENTS InterFood Indonesia Fish and Seafood Indonesia Agri Indo Jakarta Fashion & Food Festival

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