

# Indonesia's Blossoming Food Processing Industry

By *Paulina Gandakusuma*

Indonesia's emerging market of 235 million consumers offers significant market potential for U.S. food and agricultural exporters.

Despite stalled economic reforms languishing in the wake of the 1997 Asian financial crisis, Indonesia's per capita income jumped 34 percent from 2001 to 2002, from \$609 up to \$818. At 3.5 percent, economic growth supported a 5-percent increase in sales for the food processing industry over the same time.

With continuing economic and political stability, growth in the food processing industry is expected to average 8 percent a year over the next five years. Along with the growth of modern retail outlets, demographic factors also will drive sales—increasing consumer sophistication, growing health consciousness and interest in new foods.

## United States an Important Supplier

Indonesia imported \$3.3 billion worth of foods in calendar 2002, up from \$2.9 billion worth in 2001. Almost 30 percent of sales were processed foods and beverages.

The United States supplied 25 percent of Indonesia's food and agricultural

imports in 2002, or \$809 million worth. Nearly two-thirds of these U.S. exports were bulk commodities, with soybeans and cotton leading the way. Intermediate products accounted for almost a quarter of sales, and the consumer-oriented category for 11 percent.

## Indonesia Profile 2003

- Archipelago of 18,110 islands
- 234 million population
- 65 percent rural; 35 percent urban
- 87 percent Muslim
- 55 percent less than 25 years of age
- 300 ethnic groups
- 58 percent on Java; 21 percent on Sumatra
- 30 types of cuisines
- Rice the staple for all





Though the United States remains principally a bulk exporter for this market, there are many opportunities in ingredients and high-value products as Indonesian consumers earn more and become more selective in their food choices.

**Food Processing Overview**

Despite an element of risk due largely to security issues, Indonesia is still considered an attractive location for multinational companies in the food processing sector. Unilever, Nestlé, Kraft, Danone, Cadbury, Heinz, Campbell's and Nabisco have ongoing operations.

**MODERN RETAIL OUTLETS, INCREASING CONSUMER SOPHISTICATION, HEALTH CONSCIOUSNESS AND INTEREST IN NEW FOODS ARE DRIVING SALES.**

Inputs for food processing in Indonesia can be categorized as either primary or essential complementary ingredients. Primary materials, such as frozen boned beef, wheat flour and skimmed milk powder, are commonly imported directly by the food processor. Complementary ingredients, such as flavorings and preservatives, tend to be bought from local agents who are sometimes as far away as Singapore.

**Fresh Is the Favorite**

A majority of consumers prefer locally produced fresh and affordable items. Overall consumption of processed food is still low, as 20 percent of the population lives below the poverty line, and most of the remainder is considered low income.

Food is a major expense in the Indonesian family's monthly budget, requiring on average 60 percent of total expenditures. Only a quarter of this food budget goes for processed items. Pricier processed foods often are served as toppings, side dishes (*lauk*) or snacks.

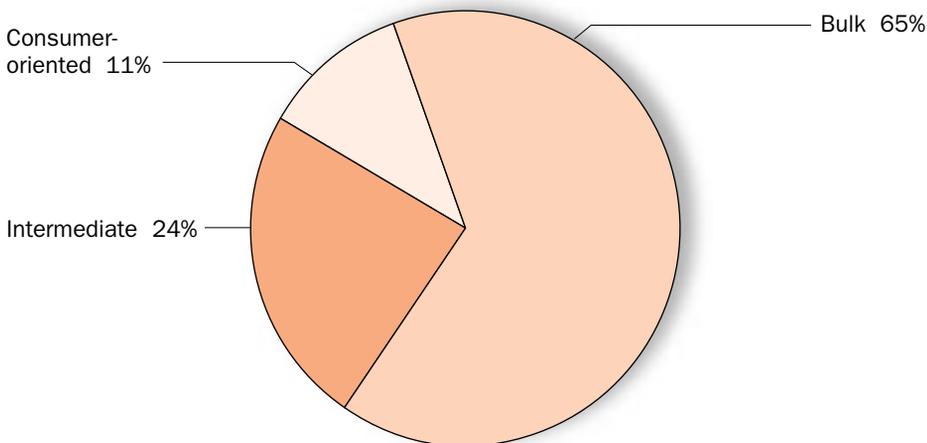
However, consumers are discovering the benefits of fortified foods. Relatively new categories, such as ready-to-eat meals, meal replacement drinks and snack bars, still have only limited potential. Price concerns are being addressed with smaller, no-frill packaging for some products.

**Wheat Flour Next Big Growth Product**

Rice continues to be the staple food of Indonesia. However, the wheat flour industry has huge growth potential as noodles and baked goods are also popular staples. There is room for growth as annual flour consumption is among the lowest in the world, at 14 kg (1 kilogram=2.2046 pounds) per capita. Since the Asian economic crisis, more consumers have turned to noodles, as they are affordable, versatile and convenient.



**Bulk Sales Lead U.S.**



U.S. sales totaled \$809 million in 2002.



50286

About half the flour produced and imported is used for noodle production. Noodle sales in 2002 grew about 10 percent and accounted for 13 percent of processed food's value.

Bakeries use 30 percent of the flour consumed in Indonesia. Though baked goods have emerged as another staple, consumption was only 3.1 kg per capita in 2002. Bakeries influenced by Taiwan and Japan (Eastern or Oriental) styles have led this growth. However, continental (Western or European) bakeries continue to dominate hotels and food service.

Acceptance of baked goods in lieu of rice and/or noodles has increased bread consumption in middle to lower income groups. This increase came after major layoffs during the economic crisis pushed former employees of the bakery industry to start bakeshops at home. Now, more than 30,000 bakeshops provide low-cost baked goods in both urban and rural areas. Convenience stores, too, often have their own in-house bakeries.

#### **Other Products Gain Popularity**

There is a trend toward increased

#### **Products With Potential**

- Wheat and wheat flour
- Beef
- Poultry
- Dairy products
- Fruits
- Flavorings and colorings
- Soybeans and soybean products
- Food additives
- Potatoes, chilled, frozen or processed
- Tomatoes
- Fruit concentrates
- Dried edible beans and nuts
- Bakery ingredients (dried fruits, nuts, yeast and chocolate)

snacking. However, the middle income customer that once purchased pricier extruded corn- or potato-based products has had to economize and look for cheaper traditional alternatives. These can include shrimp crackers, chips from cassava or taro roots and chips from bananas or jackfruits.

Chocolate confectionery sales, however, are still growing and expected to expand 20 percent over the next five years. Packaging innovations, such as “sachets” and “mini forms,” have allowed chocolate to penetrate the lower middle class segment and raised consumer awareness.

Milk consumption is relatively low at 6 to 7 liters (1 liter=1.0567 quarts) per capita annually. However, dairy consumption increased 10 percent in 2002.

The Indonesian government estimates that milk demand will increase up to 16 liters per capita by 2010, when the country's population should climb to 245 million. At that time, total dairy consumption demand is estimated to reach 4 million metric tons.

Protein sources include mainly fish, *tahu* (tofu or soybean cake) and *tempe* (a soybean-based product). Meat and poultry consumption is very low and limited to middle to upper income groups.

Poultry processing companies have established a cold chain infrastructure to



## Import Barriers Lessening

**D**eregulation of the market in recent years has helped ease the process of importing agricultural products:

- Most ingredients for food processing may be readily imported after Health Department regulations are satisfied.
- *Halal* certification acceptable to the Muslim Association of Indonesia is critical.
- Import documentation must be complete and follow regulations to avoid delays. Since these requirements can be unclear, an Indonesian importer or agent can be extremely helpful.
- Except for sugar and rice, import duties on most foods are 5 percent.
- Some ingredients, such as those derived through biotechnology, may require import registration.

store and market their processed poultry products. Chicken nuggets are popular, as are other frozen products such as meatballs and fish sticks. Cold chains are usually available for other products in the urban hyper-, super- and mini-market formats.

### Traditional Markets Strong

For now, the *warung* (kiosks) and *took kelontongan* (independent food stores or provision stores) remain the backbone of Indonesia's processed food distribution, servicing 65 percent of the population.

Hypermarkets, supermarkets and mini-markets, offering a range of products at competitive prices in urban areas, have gained popularity among middle to upper income groups, accounting for 29 percent of packaged food sales in 2002. This has inevitably hurt smaller businesses.

Although just gaining a foothold, convenience stores will likely slowly replace the traditional distribution channels in urban areas.

More than 900,000 home industries produce mostly unbranded and often unpackaged food products. Although these businesses are small in size, this segment is still key to the Indonesian food processing sector. For example, savory



snacks produced by small-scale home industries accounted for 80 percent of market share, while unbranded nuts accounted for 32 percent of entire nut sales in 2001. These unbranded items compete strongly against small registered businesses and large-scale manufacturers producing branded food items. ■

*The author is an agricultural marketing specialist with the Agricultural Trade Office at the U.S. Embassy in Jakarta, Indonesia. Tel.: (011-62-21) 526-2850; Fax: (011-62-21) 571-1251; E-mail: atojkt@cbn.net.id*

For details, see FAS Report ID3022. To find it on the Web, start at [www.fas.usda.gov](http://www.fas.usda.gov), select **Attaché Reports** and follow the prompts.

