



Agriculture and
Agri-Food Canada

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The Indonesian Consumer

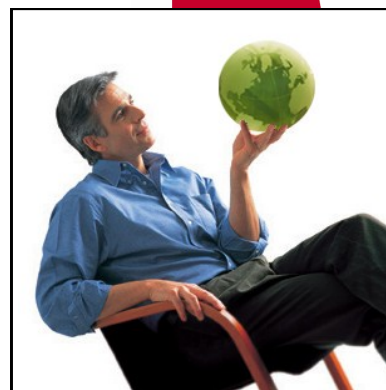
Behaviour, Attitudes and Perceptions Toward Food Products



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The Indonesian Consumer

Behaviour, Attitudes and Perceptions Towards Food Products



► EXECUTIVE SUMMARY

On a global scale, Indonesia is the fourth-most populated country, and is home to the largest Muslim population in the world. Indonesia is also the world's largest archipelago nation, spanning approximately 17,000 islands (about 6,000 of which are inhabited) and more than 5,000 km.

A kaleidoscope of cultures and lifestyles, Indonesians are among the most optimistic citizens in the world with regard to their country's future, and with good reason. Having overcome a tumultuous political history, economic downturns in 1997 and 2008, as well as environmental disasters, including the devastating 2004 tsunami, Indonesia is now emerging as Southeast Asia's largest economy, under a new and strengthening democratic regime.

In recent years, food consumption patterns in Indonesia have begun to change, as populations shift away from starchy staples such as rice, and toward greater consumption of fruits, vegetables, and prepared food products. Indonesians are also showing a new interest in fortified and functional food products. Socio-demographic shifts, such as increased urbanization, coupled with economic development, are largely responsible for these important changes to the Indonesian diet. The retail landscape is also changing: significant investment is being made by large international retail players as consumers, increasingly wary of hygiene levels at local markets, turn to modern retailers, particularly mini-markets, for their grocery needs.

By presenting an overview of the factors driving consumer trends in food and beverage purchasing, this report aims to provide insight into potential market opportunities for Canadian companies looking to Indonesia.

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► GLOBAL TRADE POSITION

Imports

- ▶ Indonesian imports of agri-food and seafood products are most prominently from Australia (19%), the United States (17.7%), China (10.4%), Thailand (7.3%), Argentina (6.4%) and Brazil (5.6%) (Global Trade Atlas, 2010).
- ▶ Indonesia is a major importer of agricultural commodities including wheat, soybeans, dairy products and corn.
- ▶ Soybeans are particularly important. Indonesia is the world's second-largest consumer of soybeans, with citizens consuming an average of 10 kilograms per capita per year, particularly in the form of tofu and tempe (AAFC, 2010). The United States (U.S.) is currently Indonesia's largest soybean supplier (2009: 40.1%), however, imports from Argentina have been growing at a rapid pace in the past few years, up from 30.7% in 2008, to 36.1% in 2009 (Global Trade Atlas, 2010).
- ▶ Wheat is also a major import, supplied primarily by Australia and Canada, and traditionally directed toward the Indonesian noodle industry. Growing demand for foreign wheat is now being driven by increased production of baked goods (AAFC, 2010; Global Trade Atlas, 2010).
- ▶ The fastest growing agri-food imports are processed products. In 2009, Indonesian processed food and beverage imports totalled over US\$5 million (Global Trade Atlas, 2010). These imports target both the consumer and foodservice markets.
- ▶ Between 2002 and 2006, processed food imports for household consumption increased by 70%, while those for the food industry increased by over 100% (AAFC, 2010).

Exports

- ▶ Indonesia is a strong international exporter of semi-processed and manufactured products; this has played an important role in driving Indonesia's economic growth (AAFC, 2010). Oil¹, natural gas, electrical appliances, plywood, textiles, and rubber form the major exports (Central Intelligence Agency [CIA], 2010).
- ▶ Indonesia is also a significant exporter of agricultural commodities. In particular, Indonesia is the world's largest producer of palm oil. In 2009, it surpassed Malaysia as the world's leading exporter, exporting 60% of its crude production, at a value of over US\$10 million (Global Trade Atlas, 2010; PalmOilHQ, 2010).
- ▶ In December 2009, growing concerns over the environmental damages of palm oil expansion in Indonesia caused major European purchasers, including Unilever, the world's top palm oil buyer, along with Nestlé, to halt their purchases of palm oil from PT Smart, part of Indonesian conglomerate Sinar Mas (Reuters, 2010; The Economist, 2010). Despite this controversy, the Indonesian industry forecasts palm oil exports to continue to grow, driven primarily by strong demand from China and India (Reuters, 2010).
- ▶ Exports of shrimp and prawns, cocoa beans, and coffee are also significant, with values of over US\$500,000 each (Global Trade Atlas, 2010).



Source: Shutterstock

¹ Indonesia has become a net importer of crude oil and suspended its membership in the Organisation of Petroleum Exporting Countries, effective January 2009 (www.opec.org); however, Indonesia continues to export significant quantities of oil, at a 2009 volume of 85,000 barrels per day (CIA, 2010).



- ▶ Indonesia's top export destinations for agri-food and seafood products are its geographical neighbours: India (18.4%), China (9.7%), and Malaysia (8.2%). The U.S. and the Netherlands are also top destinations, each accounting for 8.5% of total agri-food and seafood exports in 2009 (Global Trade Atlas, 2010).
- ▶ With an overwhelmingly Muslim population, Indonesia requires that all imports of meat products (except pork) acquire Halal certification by a certifying body, recognized and approved by the Indonesian Ulema Council (MUI). Currently, Indonesia imports beef and veal products from Australia, New Zealand, Canada, the U.S., Singapore, Malaysia and Brazil (Global Trade Atlas, 2010).

Trade Agreements

- ▶ Indonesia is a member of the Association of Southeast Asian Nations (ASEAN), which calls on members to significantly reduce trade barriers within the Association, and acts as a forum for the harmonization of national legislations. The Association also participates in trade negotiations with other countries in the region.
- ▶ As a member of ASEAN, Indonesia is party to free-trade agreements with Japan, South Korea, China, India, Australia and New Zealand.
- ▶ A more comprehensive bilateral free-trade agreement was signed between Japan and Indonesia in August 2007. Similar bilateral agreements are currently being discussed or negotiated with India, Australia, New Zealand, and Egypt.
- ▶ Indonesia is also a member of the Asia Pacific Economic Cooperation (APEC), a consortium of both Asia-Pacific countries and other major economies, such as the U.S. and Canada. Established in 1989, APEC's goals are to foster economic growth in the Asia-Pacific region, through enhanced free trade and investment (AAFC, 2010). Indonesia's major regional trading partners are outlined in Table 1.

Table 1: Regional Trade Partners			
Major export destinations (2008)	Share (%)	Major import sources (2008)	Share (%)
Asia-Pacific	56.8	Asia-Pacific	59.5
Europe	12.7	Europe	10.5
North America	10.0	Other countries	8.7
Other Countries	9.4	Africa and the Middle East	8.0
Africa and the Middle East	6.0	North America	7.6
Australasia	3.4	Australasia	3.7

Source: Euromonitor International, 2010c

▶ CANADA'S TRADE RELATIONSHIP WITH INDONESIA

Indonesia and Canada have maintained diplomatic relations for over 50 years. The economic relationship between the two countries is framed by their mutual participation in APEC (AAFC, 2010).

Canadian Exports

- ▶ Indonesia is Canada's 18th-most valuable destination for agri-food and seafood exports (Global Trade Atlas, 2010).
- ▶ Canada is Indonesia's ninth-most important supplier: Canadian products account for 3.5% of total Indonesian agri-food and seafood imports (Global Trade Atlas, 2010).



- ▶ Wheat accounts for nearly 90% of Canadian agri-food exports to Indonesia, though a significant decline occurred in 2009, as wheat exports dropped by over US\$240,000 (Table 2).
- ▶ Canada is Indonesia's leading supplier of frozen prepared potatoes, fresh/chilled green peas and frozen leguminous vegetables.
- ▶ Canada continues to be an important exporter of beef and veal products, ranking as Indonesia's third most important supplier, behind Australia and New Zealand. New Indonesian policy however, may pose a constraint to further growth in this category. The government of Indonesia has recently announced its intention to attain 90% self-sufficiency in beef production by 2014, reducing imports from 40% to 10% (Australian Trade Commission, 2010).
- ▶ Other important consumer-oriented agri-food exports have shown impressive growth in recent years. Exports of ice cream climbed most impressively by 67% between 2008 and 2009, making Canada Indonesia's largest supplier in 2009, ahead of France.
- ▶ Other consumer goods, including frozen bovine cuts, fresh fruit, prepared crab, and non-alcoholic beverages, have also shown positive growth and market opportunity (AAFC, 2010; Global Trade Atlas, 2010).

Table 2: Selected Canadian Exports to the Indonesian Market (US\$)			
Export Sub-Categories	2007	2008	2009
Wheat (other than durum) and Meslin (100190)	362,248,326	450,721,979	209,359,073
Animal Feed (except dog or cat food) (230990)	835,601	3,329,626	5,184,889
Prepared Potatoes, frozen (200410)	4,828,006	4,485,442	5,025,569
Flour/Meals/Pellets of Meat, not for human consumption (230110)	0	0	2,839,375
Malt Extract, and other food preparations from flour, starch, semolina, or malt (190190)	6,062,535	10,099,924	2,779,813
Ice Cream And Other Edible Ice, With Cocoa Or Not (250500)	954,779	1,550,922	2,593,750
Rape/Colza Seed Oilcake and Solid Res. Low Erucic Acid	395,889	0	1,946,608
Peas, Dried Shelled, Including Seed (071310)	3,912,062	2,471,152	1,884,673
Carcasses/Half-Carcasses Of Bovine Animals, Frozen	352,049	262,165	1,520,221

Source: Global Trade Atlas, 2010.

Canadian Imports

- ▶ Canadian agri-food and seafood imports from Indonesia have fluctuated significantly in the past decade. Overall, Canadian imports declined in 2009. Cocoa products, Canada's most important Indonesian agri-food import, dropped by over 55% (Global Trade Atlas, 2010).
- ▶ Coffee products are Canada's second-most important agri-food import from Indonesia, at a value of US\$8.1 million in 2009, followed by fish and seafood products, at a value of US\$6.9 million (Global Trade Atlas, 2010).
- ▶ Animal feed supplements, pineapple juice, pepper, and tea were also important agri-food imports in 2009 (Global Trade Atlas, 2010).



► ECONOMY

Overview

Extensive natural resources and a strategic geographical position on one of the world's major trading routes, have helped Indonesia stake its position as Southeast Asia's largest economy (AAFC-AAC, 2010; United States Commercial Service, 2010). Though hit particularly hard by the Asian Financial Crisis in 1998, the Indonesian economy has largely recovered and has fared well during the global economic downturn of 2008-09 (see Figure 1), outperformed only by China and India. Since the 2004 elections, Indonesia's economy strengthened considerably, overcoming many challenges including the devastating 2004 tsunami. Real Gross Domestic Product (GDP) has shown stable growth, and unemployment rates have dropped considerably. Disposable incomes are rising, as are standards of living. These improvements are reflected in the increased confidence of Indonesian consumers who are significantly less dissatisfied with the country's direction than in previous years (Datamonitor, 2009b). Despite greater morale, as of 2007, 29.4% of Indonesians still lived below the international poverty line of US\$1 per day, and rapid economic development is expected to further widen income disparities (Euromonitor International, 2007).

Key Economic Figures

GDP (09) US\$969.2 billion
GDP Growth (08/09) 4.5%

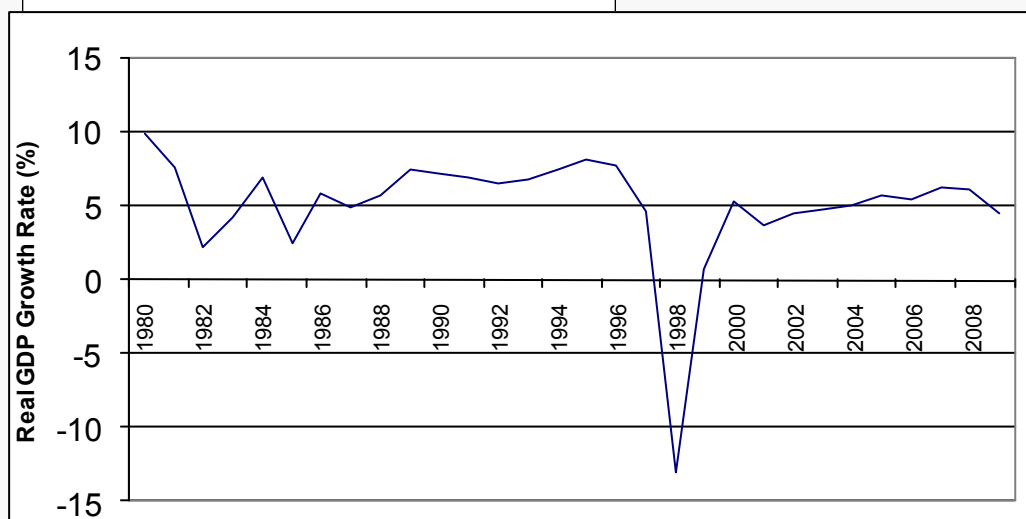
Revenues (08) US\$93.03 billion
Expenditures (08) US\$101.8 billion

Public Debt (09) 27.4% of GDP
Inflation rate (08/09) 4.8%

Exchange (09) 10,399.2 Indonesian rupiah (IDR) per US\$

Source: CIA, 2010

Figure 1: Real GDP Growth Rate Over Time



Source: Euromonitor International, 2010.

These economic shifts are increasingly influencing food habits and purchasing trends within the Indonesian consumer market. As incomes rise, demand for dairy and meat products is growing. Packaged foods are also increasing in popularity and, together with the expansion of the modern retail sector, are fuelling the rapid growth of a strong food processing sector (United States Department of Agriculture–Foreign Agricultural Service [USDA-FAS], 2009). Latest estimates place the value of this sector at over US\$20 billion, with over 700,000 agri-food producers nationwide (AAFC, 2010).

Overview (continued)



Agriculture

Historically, agriculture has been Indonesia's dominant economic sector and continues to play a key role, employing more than 40% of the labour force. While the Indonesian government is encouraging agricultural expansion in less developed areas of the country, the sector's contribution to GDP has fallen significantly over the past decades, from 49% of GDP in 1970, to only 14.8% in 2010. Indonesia is the world's leading producer of palm oil, and because of its value as an international commodity, many small-scale Indonesian farmers are being encouraged to convert their land to palm oil production as a cash crop (IRIN, 2010). Indonesia is also the world's third-largest producer of rice, the most important dietary staple for the majority of Indonesians. With a diverse landscape, however, not all islands in Indonesia are suitable for rice production. In areas such as the Moluccas and West Papua, agricultural production is instead centred around sago, corn, sweet potato and cassava. As a result, these products represent the dietary staples of their producing regions (Ministry of Culture and Tourism, 2010; Euromonitor International, 2010c).



Source: Shutterstock

Tourism

Indonesia's tourism sector contributes 7.7% of GDP and provides employment to approximately one in sixteen Indonesians (World Travel and Tourism Council, 2010). The volume of tourist inflows dropped in 2008, as global tourism was negatively affected by the economic downturn. Recovery is anticipated in the short term, and the sector holds significant potential for growth. The Indonesian government is dedicated to encouraging continued growth in the tourism sector, through special programs and promotions, such as the Visit Indonesia Year programs in 2008, 2009, and 2010. Most foreign tourists in Indonesia arrive from neighbouring countries, Malaysia and Singapore in particular, which together, accounted for 40% of arrivals in 2009. Among Western countries, the largest numbers of tourists arrived from Australia and the U.S.. The Island of Bali is the country's most important foreign tourist destination, with a reputation of its own as an exotic resort paradise offering dive sites, beautiful beaches, and numerous cultural attractions. Jakarta, the nation's capital, is the country's second-most important tourist destination (Euromonitor International, 2010I).



Source: Shutterstock

Domestic tourism also plays an important role in the Indonesian economy—expenditures from Indonesians visiting their own country are in fact higher than expenditures from incoming tourists. In recent years, 'culinary tourism' has emerged as a trend of interest for domestic travelers seeking cultural experiences in other regions of their own country. This trend contributes to increased levels of domestic tourism expenditure, and to the expansion of the foodservice industry in major cities, as more and more restaurants begin to offer specific regional cuisines (Euromonitor International, 2010).

Geography and Political Structure



After decades of colonial rule under the Dutch, and war-time occupation by the Japanese, Indonesia declared independence in August of 1945 as the Japanese surrendered at the end of World War II. After a brief attempt at democracy, Indonesia quickly reverted to authoritarian rule, or what was dubbed “guided democracy.” The economic downfall following the Asian financial crisis in 1997-98 helped fuel widespread demands for political change—in 1999, elections were finally held. Political instability and discontent continued, however, until 2004 when Indonesians held their first direct presidential election. Susilo Bambang Yudhoyono was elected and re-elected in 2009. Since 2004, significant inroads have been made in reducing corruption and divesting military power. Contrary to many ethnically diverse nations, neither ethnicity nor religion now seem to create significant political affiliations; stability and economic development are more important priorities at the ballot-box.

An understanding of Indonesia’s regional divisions and major islands lends a better understanding of how consumer behaviour and preferences vary across the archipelago’s 6,000 inhabited islands, and where the most important market opportunities are emerging. The five main islands are Java, Kalimantan, Sumatra, Sulawesi, and the Papuan peninsula of New Guinea. Smaller islands include the Moluccas in the Northeast, and Bali, the Sumbas, and West Timor in the South (Figure 2).

Contemporary Indonesia is divided in 33 provinces, which are then divided into regencies and cities; a local government exists at all three levels. While all provinces in Indonesia were extended significant political power in 1999, five provinces in particular, hold further administrative privileges as special status provinces. Aceh, in the Northeast, is home to the nation’s most conservative Muslims and was granted special status in 2005. Benefiting from administrative privileges, Aceh’s local government has implemented *sharia* law in the province. The provinces of Papua, West Papua, as well as the special regions of Yogyakarta and Jakarta, are also granted administrative privileges and enjoy stronger local government.



Sukarno, the new nation’s first president, remains a national hero.

Source: Shutterstock

Figure 2: Map of Indonesian Islands



Source: CIA, 2010.

Geography and Political Structure (continued)



The island of Java is Indonesia's fourth-largest island by area. It is the economic hub of the country and home to the nation's capital, Jakarta, as well as to the nation's second and third-largest cities, Surabaya and Bandung. Over half of Indonesia's population resides on Java, making it the world's most populous island. The vast majority of Indonesia's middle and upper class are found on Java and, thus, most foreign companies enter the Indonesian market here. Java's market and infrastructure create the most significant opportunities for foreign investment, and the introduction of imported food and beverage products (AAFC, 2010).

Directly to the north, lies Kalimantan, the Indonesian portion of the Island of Borneo, which it shares with Malaysia and the Islamic sultanate of Brunei. While historically sparsely populated, Kalimantan's population has doubled in the past two decades, subject to Indonesia's notorious transmigration programmes. Throughout Indonesia's history, transmigration programmes established by various governments aimed to sponsor the relocation of citizens from Java and other densely populated islands to other regions of the country. Indonesia's current government continues to support transmigration efforts, though levels of government-funded migration have slowed considerably in recent years due primarily to budgetary constraints (Ver Berkmoes, 2010; Fearnside, 1997).



Sumatra's famed orangutans are a big tourist draw.
Source: Shutterstock

To the west of Kalimantan, lies Sumatra, Indonesia's third-largest island and the nation's primary producer of palm oil. Along with Kalimantan, Sumatra is home to numerous endangered species, including most of the world's orangutans, as well as immense, environmentally valuable peat-land forests (Ver Berkmoes, 2010; Gelling, 2007). Eco-lodges and national parks in these areas are major draws for international tourists, and many small villages rely upon the tourism industry. Reduction of biodiversity and habitat loss through the expansion of palm oil production - Indonesia's most important agricultural export - is of major international concern in both Sumatra and Kalimantan (Creagh, 2010; Gelling, 2007; USDA-FAS, 2007).

Indonesia's remaining major islands, Sulawesi and West Papua, lie east of Java. Sulawesi is a mountainous island of six Indonesian provinces. For the most part it remains largely forested, though rice production takes place in large southern plains ("Indonesia", 2010). Finally, the provinces of Papua and West Papua make up the Indonesian region of the island of New Guinea. Accounting for 22% of Indonesian landmass but only 1% of its population, Papua and West Papua have been key destinations for national transmigration programmes; in fact, as a result of high migration, population growth rates in the region are disproportionately high, at an annual average of 3% over the past two decades. By 2011, it is projected that non-indigenous Papuans will outnumber the indigenous population (Ver Berkmoes, 2010). While non-indigenous Papuans now dominate the economy of the region, many indigenous Papuans are disenfranchised and remain poor. Indeed, despite the region's vast natural resources, Papua and West Papua have the highest provincial rates of poverty in the country (USAID, 2009).



A traditional mountain village in Papua.
Source: Shutterstock



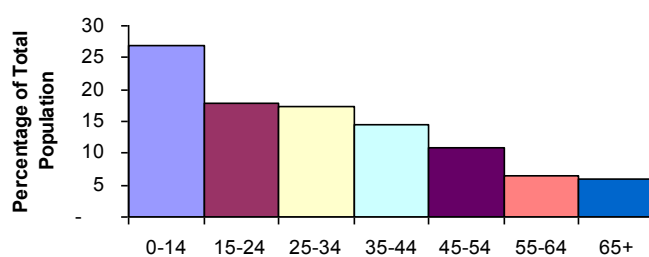
► DEMOGRAPHICS

Population

With over 240 million inhabitants, Indonesia is the fourth most populated country in the world (CIA, 2010). This population is growing at a modest rate of 1.1% per year (CIA, 2010). On the whole, Indonesia's population is immensely diverse, ranging from the cosmopolitan residents of greater Jakarta, to rural, small-holding farmers and small-scale fishermen on the outer islands. The result is a consumer base with nearly innumerable purchasing behaviours, priorities, taste preferences, eating habits and traditions. Despite this diversity, a sense of belonging and "fitting in" is one of the strongest cultural values across Indonesia. As a result, Indonesians not only tend to prefer doing activities in a group, but overall tend to coexist harmoniously (Synovate, 2009).

While Indonesia's population is relatively young, with over 60% under the age of 34 years old, the greater trend is toward an overall aging of the population (Figure 3). One contributing factor is the improvement of medical services which are leading to increased life expectancies. In addition, national family planning programs have been very successful, and more and more Indonesian youth are choosing to marry later and have fewer children (Euromonitor International, 2009c).

Figure 3: Population by Age Group



Source: Euromonitor International, 2010

While Indonesia still struggles with widespread poverty, it has also witnessed impressive growth of the middle class. The main consumer target for imported processed food and beverage products is Indonesia's upper-middle class, which is now estimated to be 30 million people, larger than the entire respective populations of neighbouring Australia and Malaysia (Australian Trade Commission, 2010).



Jakarta's skyline.

Source: Shutterstock

Major Urban Centres

Indonesia's capital, Jakarta, on the Island of Java, is also the country's most populous city, with a population of about 10 million people and an additional 4 million in its surrounding area (Euromonitor International, 2010). The greater Jakarta area is referred to as *Jabotabek*. The next three largest cities are: Surabaya (5 million people with an additional 2 million in surrounding areas), Bandung (4 million people) and Medan (2.5 million people) (Synovate, 2009). Over 80% of the total market for packaged consumer goods is concentrated in these large metropolises (Australian Trade Commission, 2010).

Ethnicity

More than three hundred distinct ethnic groups span the islands of Indonesia. The largest group is Javanese, representing 40.6% of the population, followed by Sundanese (15%), Madurese (3.3%), Minangkabau (2.7%), Betawi (2.4%), Bugis (2.4%), Banten (2%), and Banjar (1.7%). Other minority groups form the remaining third of the population, including the economically influential Chinese-Indonesian minority (1%) (CIA, 2010).

Ethnicity (continued)



These ethnic minorities maintain distinct traditions, including their own particular cuisines. The Sundanese minority, for example, incorporates large amounts of green leafy vegetables into its traditional dishes, a reflection of the highland area it inhabits in western Java, where many of the vegetables in Jakarta's markets are grown (Koene, 1996). While Indonesia remains relatively peaceful, violent clashes between ethnic groups have occurred in recent decades, partly instigated by population displacement brought about by the Government's transmigration programs (British Broadcasting Company, 2004a; Human Rights Watch, 1997).

Indonesians speak over 250 different languages—a reflection of rich cultural and ethnic diversity. Bahasa Indonesia, a modified form of Malay, is the official language, and serves as a unifying force across ethnic groups. For most Indonesians, Bahasa Indonesia is a second language after their local dialect, the most widely spoken of which is Javanese. In addition, many Indonesians understand English (CIA, 2010; “Indonesia”, 2010). Indeed, as English becomes more and more highly regarded, increasing numbers of Indonesian children no longer speak their country's official language. Brought up by English-speaking parents and attending private school, many children now rely solely on English (Onishi, 2010).

“ *UNITY IN DIVERSITY* ”

INDONESIA'S NATIONAL
MOTTO



Source: Shutterstock

Indonesia is also religiously diverse. Eighty-six percent of Indonesians are Muslim, making Indonesia the world's most populous Muslim nation. As Muslims, most Indonesians adhere to dietary restrictions that forbid pork and demand Halal preparation of other meat products. Advertising and marketing of new food products and services must be sensitive to religious propriety and remain culturally appropriate in media depictions. However, overall, Indonesian Muslims are generally moderate—most women do not wear headscarves and alcohol is readily available. The single exception is the special region of Aceh on the northern tip of Sumatra, where the Muslim majority is staunchly conservative. The remaining large religious minorities include the 20 million Christians that live in five main areas of the archipelago, and the 3.1 million Hindu inhabitants of Bali, just east of Java (Synovate, 2009). Despite a relatively stable history, violent confrontations between religious groups, especially between Christians and Muslims, have happened periodically in the past (Tobing, 2010). In the Moluccas, for example, an estimated 5,000 people were killed and 500,000 displaced in religious clashes during the three years prior to the signing of a peace accord in 2002 (British Broadcasting Company, 2004b). Since 2002, the region has stabilized overall, though sporadic violence has continued to occur (Reuters, 2008).

Education

Education in Indonesia is compulsory through six years of primary school and three years of junior high-school, though enrolment in junior high-school is still noticeably lower than that of primary school. This gap may narrow as dropping birth rates contribute to slowed growth in primary school enrolment levels, while secondary school enrolment climbs. Nevertheless, sending children to senior secondary school, whether public or private, is a financial challenge for many families (Euromonitor International, 2009c). The literacy rate in Indonesia stands at 90.4% (CIA, 2010).



Source: Shutterstock

Education (continued)



Higher Education

When the Indonesian government decentralized the national education system, many of the country's universities became private and the cost of attending such institutions, has since risen to levels that are not affordable for the vast majority of Indonesians. Moreover, in an effort to cover costs previously met through government funding, some universities now grant special entrance to those students who can pay higher entrance fees, regardless of their ability to pass entrance exams; such practices serve to further exacerbate educational disparities between income levels. Under new legislation passed in 2008, the government has mandated that 20% of all newly accepted university students come from lower-income families, though some analysts have criticized this policy as unrealistic, arguing that many lower-income Indonesians have yet to gain the academic credentials required to pass university entrance exams (Sustani, 2010).

Eighty-two public institutes of higher education exist in Indonesia, while there are over 2,500 private institutions; in the past decade, the number of public institutions has been declining while private institutions have increased. In 2007, 825,876 Indonesians attended public institutes, while 1,757,311 students attended private institutions; both these figures represent decreases in enrolment levels from previous years. Demand for public education is highest, as these institutions are typically regarded as being of better quality (Sustani, 2010).

Households

Family and social relationships are exceedingly important in Indonesian culture. As such, households in Indonesia are relatively large—40% percent have more than five occupants, and the absolute number of households of this size is continuing to rise. The overall trend, however, follows the global movement towards smaller household sizes. While most youth still remain in the family home before marriage, increasing numbers of young couples are moving out of the family home directly after they marry, and are waiting longer before having children (Euromonitor International, 2009c). A considerable drop in fertility rates has also encouraged the trend toward smaller household sizes. Partly as a result of the government's family planning program, Indonesia experienced a dramatic decline in fertility rates from 1967-70 to 1997-98, falling from 5.6 births per woman to 2.6 (WHO Regional Office for South-East Asia [WHO/SEARO], 2003). Fertility rates have continued to steadily decline and, in 2009, stood at 2.1 births per woman (Euromonitor International, 2010). Economic development and higher levels of education have played a role in reducing the the number of children per household. Single-person households are still very rare in Indonesia and they will likely continue to be; most Indonesians who live alone will remain elderly individuals with few or no family members (Euromonitor International, 2009c).

Rapid urbanization is also changing the profile of the average Indonesian household. In 2006, the number of urban households surpassed the number of rural households and this gap continues to widen. Population density now varies considerably across the islands: the island of Java has one of the world's highest population densities, while the large islands of Kalimantan, Sumatra and Papua are very sparsely populated. In densely populated urban areas, the Indonesian consumer is more aware of brands, pays increasing attention of the media, and places a greater value on convenience (Euromonitor International, 2009c).

Health and Lifestyle

Awareness of major health issues in Indonesia remains relatively low amongst the majority of the population. With more pressing financial concerns, the majority of Indonesians do not view health as a priority in their daily purchasing decisions. While Indonesia's public health system is relatively adequate, the country still faces some major health challenges (WHO, 2010a).

Health and Lifestyle (continued)



Malnutrition and nutritional deficiencies, for instance, remain key health concerns, particularly for children and infants; nearly one in four Indonesian children suffer from malnutrition (Mercy Corps, 2009). Insufficient iron intake during pregnancy and declining rates of breastfeeding are important contributing factors to a problem that Indonesia has been facing for decades (IRIN, 2008; Mercy Corps, 2009). Exclusive breastfeeding for the first six months of a child's life is widely recognized as one of the most effective strategies in fighting infant malnutrition; however, in Jakarta, only 35% of women breastfeed exclusively (Mercy Corps, 2009). In response, the government has actively encouraged breastfeeding and applied restrictions to the advertising of milk formula; however, aggressive marketing strategies continue and milk formula remains popular, especially as more women enter the workforce (Euromonitor International, 2009b; IRIN, 2008). As children grow up, poor feeding habits are also part of the problem – children often receive a diet lacking variety that is poor in micro-nutrients, based largely on plain white rice. Unhealthy snacking is also pervasive; many parents frequently purchase ready-to-eat snacks that are high in sugar and low in nutrients for their young children (IRIN, 2008; Mercy Corps, 2009). In many cases, varying food prices and unstable incomes mean that poorer Indonesians cannot afford more nutrient-dense foods (Mercy Corps, 2009).

Key Health Indicators

Male life expectancy at birth	68.53
Female life expectancy at birth	73.59
Infant mortality rate (deaths per 1,000 live births)	28.94
Average daily consumption of calories per capita (2007)	2,893
Total expenditure on health (as a % of GDP) (2005)	2.7
Human Development Index Rank (out of 182 countries)	111
Population with access to improved water source	47.63%
Population with access to improved sanitary facilities	36% (rural); 66% (urban)

Sources: CIA, 2010; UNDP, 2009; WHO, 2009; Euromonitor International, 2010c; Bond, Rodriguez, and Pemn, 2007.

Poor hygiene and lack of adequate sanitation facilities exacerbate the problem of malnutrition by encouraging the spread of infectious diseases. The overall health of Indonesian children is compromised by the high incidence of diarrhea, pneumonia and acute respiratory infections. Also, new annual cases of tuberculosis in Indonesia are among the highest in the world (Mercy Corps 2009; Kaiser Family Foundation, 2010). Poorer Indonesians in urban areas are often without adequate housing, forcing them to prepare meals in the street or narrow alleyways, where the presence of sewage and unsanitary conditions increase the likelihood of contamination (Mercy Corps, 2009). Popular street food sold in lower income areas is also a potential source of contamination that can cause outbreaks of infectious disease (Mercy Corps, 2009).

The prevalence of malnutrition across the country has been instrumental in shaping consumer views and perceptions of healthy food and beverage products. Throughout Indonesia, foods with additional nutrients are perceived as the most beneficial and the majority of Indonesians are unlikely to find low-fat or sugar-free foods appealing. Concerns regarding the health implications of fast food are not widespread and, while Indonesians are becoming more and more health conscious, this is not yet seen as an impediment to growth in the fast food sector (Euromonitor International, 2007).

HIV/AIDS is also becoming an urgent problem in Indonesia. The AIDS epidemic is growing faster in Indonesia than anywhere else in Asia, due largely to low levels of popular awareness and education. The government, along with international aid agencies and national Islamic organizations, are increasing their combined efforts to fight the spread of HIV/AIDS. However, despite such efforts, rates of infection in 2014 are forecast to be double those of 2008 (USAID, 2010). Widespread infection rates and tepid efforts at prevention mean malaria is also an important national health concern, though it has been practically eradicated on the islands of Java and Bali. Despite the implementation of several WHO recommended strategies, such as the free distribution of insecticide-treated mosquito nets, rates of malarial infection have continued to fluctuate in the past decade (WHO/SEARO, 2009). Finally, avian influenza, to which Indonesia has been especially vulnerable, has resulted in 137 fatal cases since its outbreak in December 2003 (WHO, 2010b).



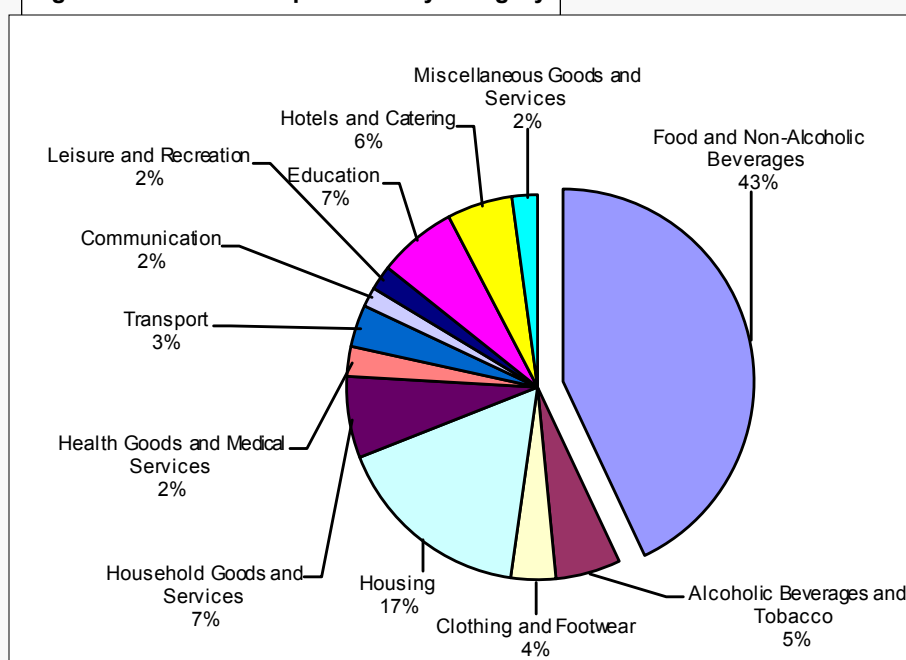
► CONSUMPTION AND EXPENDITURES

Expenditure Overview

Consumer expenditure is the primary driving force of the Indonesian economy, with private purchases contributing nearly 60% of GDP (Euromonitor International, 2010).

Because a significant portion of consumer expenditure is dedicated to food (between 40% and 60%, as shown in Figure 4) higher prices during the world food crisis in 2007-08 caused significant hardship for much of the population (Salim, 2010; Euromonitor International, 2009c). As the country recovers from the crisis and disposable incomes rise, these expenditure levels are gradually declining (Euromonitor International, 2009c).

Figure 4: Consumer Expenditure by Category



Source: Euromonitor International, 2010.

As a result of a diverse consumer base, significant disparities exist across the country in terms of the burden of food purchases. In lower-income and isolated communities, poor infrastructure and the inability to generate higher levels of income, mean that about 60% of household expenditure is put toward food alone. In higher income areas, and those closer to Indonesia's most agriculturally productive regions, the food proportion of household expenditure is far lower (see side box).

When shopping for food, purchasing locally-produced products is of great importance for most Indonesian consumers, as it is across the Asian-Pacific region (Datamonitor, 2009c). Indeed, 56% of Indonesian consumers would prefer the local brand of a product over an international brand, if both products were deemed equal in quality and price (Synovate, 2009). Responding to this trend, modern retailers, both foreign and domestic, tend to offer overwhelmingly local products; French retailer Carrefour, for example, stocks 98% locally sourced products in its Indonesian hypermarket outlets (Datamonitor, 2009c).

Regional Disparities in Consumer Expenditure on Food (2008)

Regions with highest expenditure on food as a percentage of total expenditure:

Aceh (Northern Sumatra): 60.24%
Central Kalimantan: 60.21%
East Nusa Tenggara: 59.66%

Regions with lowest expenditure on food as a percentage of total expenditure:

DIY (Yogyakarta): 42.86%
East Kalimantan: 43.38%
Bali: 45.60%



Table 3: Consumer Expenditure on Food					
US\$ Billions – Year-on-Year Exchange Rate	2007	2008	2009	2011	2014
Consumer Expenditure on Food	117.5	128.2	127.6	173	227.6
Bread and Cereals	29.8	32.2	31.8	43.4	60.8
Meat	4.9	5.4	5.4	6.9	7.7
Fish and Seafood	12.3	13.3	13.1	17.3	20.8
Milk, Cheese and Eggs	7.9	8.7	8.8	11.7	14.6
Oils and Fats	5.0	5.2	4.9	6.1	6.9
Fruit	5.6	6.2	6.2	8.2	9.5
Vegetables	16.9	17.7	16.9	21.2	24.4
Sugar and Confectionery	3.2	3.6	3.6	5.2	7.3
Other Food	31.8	35.7	36.7	52.9	75.5

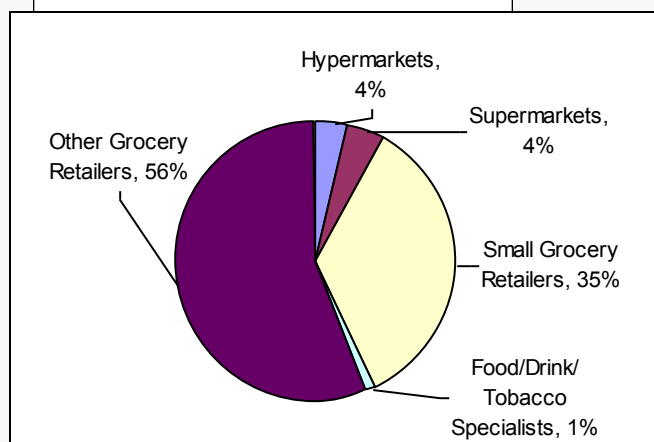
Source: Euromonitor International, 2010

Grocery Shopping

Indonesia's retail market is highly fragmented (Euromonitor International, 2010h). The segmentation of grocery retail is outlined in Figure 5. The visible shift away from traditional "wet markets" to supermarkets, hypermarkets and mini-markets is creating increasing opportunities for food and beverage imports from countries like Canada (Datamonitor, 2009a).

The location of modern retail in Indonesia is heavily correlated to areas with greater levels of economic development and higher population density. The vast majority of modern retail outlets are thus located on the Island of Java, where companies typically choose to begin their investment. Considering its small size, the island of Bali is also home to a high proportion of the modern retail market, catering primarily to the island's large tourist and expatriate populations, as well as the booming restaurant and hotel sector. Key areas of potential growth, outside of Java and Bali, include the cities of Medan and Palembang in Sumatra, and Makassar in Sulawesi (PT Pefindo, 2010). Modern retail outlets by location are outlined in Table 4 on the following page.

Figure 5: Grocery Sales by Retail Type



Source: Euromonitor International, 2010.

Expenditure Overview (continued)



The expansion of the modern retail sector has often been met with popular discontent. Many vendors from traditional markets or independent grocers have protested the expansion of convenience stores and supermarkets, and demanded that the government protect their businesses. In 2002, the regional administration of Jakarta issued regulations limiting the development of modern retail outlets in proximity to traditional markets: outlets with floor space between 100 and 200 square meters must be at least 0.5 kilometres away from any local market; those between 1,000 and 2,000 square meters must be 1.5 kilometres away; those between 2,000 and 4,000 square meters must be 2 kilometres away; and finally, those above 4,000 square meters must be 2.5 kilometres away (Indonesian Commercial Newsletter, 2008).

Table 4: Modern Retail Outlets by Location (2008 Units)			
Island, Province/Regency, <i>major city</i>	Mini-markets	Supermarkets	Hypermarkets
Java	8,775	940	107
DKI Jakarta, <i>Jakarta</i>	3,968	317	40
Java Barat, <i>Bandung</i>	1,300	194	29
Sumatra	954	195	11
Sumatra Utara, <i>Medan</i>	412	74	6
Bali	200	52	2
Sulawesi	104	48	7
Sulawesi Selatan, <i>Makassar</i>	56	37	6
Kalimantan	112	56	3
Papua	28	10	-

Source: Pandin, 2009

Hypermarkets and Supermarkets²

Supermarkets emerged on the Indonesian marketplace as early as 1971 with the opening of the first Hero outlet. In the following decades, several other companies followed suit, opening numerous outlets, mostly in Jakarta, but also in other major urban centres. Without the convenience of mini-marts and the one-stop advantage and lower prices of hypermarkets, growth in the supermarket sector is now expected to lag behind both mini-mart and hypermarket growth (Euromonitor International, 2010j).

Recognizing that affordability remains a key driver in purchasing decisions, supermarkets and hypermarkets offer competitive prices, and may even run losses on some merchandise to attract consumers (Suryadarma et al., 2007). Supermarkets and hypermarkets are also increasing shelf space for imported food items; in most stores, these products now account for between 5% and 30% of total food products. Modern retailers catering specifically to higher income and expatriate communities, carry as much as 60% imported food products (Australian Trade Commission, 2010).



Indonesian Carrefour.

Source: Planet Retail

²Hypermarkets refer to grocery retailers with a selling space of over 2,500 square metres, while supermarkets are retailers with a selling space of between 400 and 2,500 square metres.

Consumer Tastes and Preferences



Most consumers visit supermarkets and hypermarkets on weekends. As many modern retailers are located in shopping centres that offer other services, grocery shopping for many consumers is a family outing (The Nielsen Company, 2010b). Shopping is increasingly viewed as a recreational activity: 93% of Datamonitor survey respondents mix shopping with family recreation and entertainment (Datamonitor, 2009a).

One emerging trend among modern retailers is a move toward more eco-friendly practices, as consumers become increasingly aware of global environmental issues. For instance, supermarkets like Giant and Hero are encouraging consumers to use cartons and biodegradable plastic bags. The consumer trend toward eco-shopping is expected to continue, as consumers, especially those in the middle and upper classes, increasingly look for environmentally-friendly options.



Hero Supermarket, Indonesia.
Source: Planet Retail

Mini-markets/Convenience Stores

Mini-markets and convenience stores are the most rapidly growing modern retail formats in Indonesia, with over 900 convenience store outlets opening across the country in 2009 alone (Euromonitor International, 2010b). Indomaret and Alfamart are the leading brands in this expansion, together accounting for over 6,500 retail outlets, and approximately 75% of market share value in 2009 (Euromonitor International, 2010b). These retailers are increasingly important destinations for processed and packaged food and beverage products. Most outlets carry staple goods at affordable prices, often in smaller package sizes. Mini-markets and convenience stores are also often located near residential complexes, making them significantly more convenient than supermarkets and hypermarkets for much of the population (USDA-FAS, 2010b).

Traditional Markets: *pasars*

Small, traditional retailers and markets, or *pasars*, remain the primary destination for Indonesian grocery shoppers. Contrary to most supermarkets and hypermarkets, these retailers are usually within walking distance for most Indonesians, and are thus very practical locations for purchasing basic commodities such as cooking oil and noodles (The Nielsen Company, 2010b). At 25 times per month, consumers visit traditional grocery stores very frequently. An average of nineteen visits per month are made to market vegetable vendors, and 12 visits per month are made to the “wet market,” or *pasar* (The Nielsen Company, 2010b).

Pasars play an important social role in Indonesian society, as grocery shopping here is also a chance to interact and exchange news with one's neighbours and friends. Moreover, many market vendors, or *langganan*, cement consumer loyalty by establishing social relationships with their regular customers, many of whom are vendors themselves, buying supplies for their own small stores rather than a household (Suryadarma et al., 2007).



A floating market in Kalimantan. Source: Shutterstock

As families return to the same vendors, usually several times a week, they are likely to obtain better prices in exchange for their loyalty (Expat Web Site Association, 2010). While prices are not fixed at traditional markets, and vary with the season and harvest size, in most cases, they are still lower than those offered by supermarkets and hypermarkets (Expat Web Site Association, 2010). Despite these lower prices, a reputation for low levels of hygiene, combined with notoriously poor management, is driving many Indonesian consumers away from traditional markets, and towards more modern retail stores (Suryadarma et al., 2007).



Food Habits and Cuisine

As people from various corners of the world travelled Indonesia's major trading routes, food traditions evolved from a rich cultural mixture. Many of the deeply entrenched cooking traditions in Indonesia today, such as stir-frying and the use of a wok, are gifts from traders, colonists, and neighbours. Peanuts from the Americas, chilli peppers from Mexico, cassava from the Caribbean, and sweet potato from South America are now all part of traditional Indonesian cuisine—they have been integrated into dishes, and adapted and indigenized by the Indonesians themselves. Contemporary traditions reflect the diversity of the nation's inhabitants, and food generalizations at the national level are impossible to make (Owen, 1999).

Perhaps the most famous of Indonesia's regional cuisines is from western Sumatra, known as *masakan Padang*, after the provincial capital. Padang cuisine is renowned for its heat and spiciness. Its popularity and reputation has spread rapidly such that there are now many Padang-style restaurants located throughout the country (Koene, 1996). Jakarta is the country's melting pot of cuisines, with increasing numbers of Western-style supermarkets and fast food restaurants mixing with traditional markets, and inexpensive street stalls selling local staples (Koene, 1996).

When preparing food in the home, 80% of Indonesians use kerosene stoves or firewood to cook their meals (AAFC, 2010). The standard meal for the vast majority of lower income Indonesians is *nasi putih*, plain steamed rice, often served with dried fish and a few chilli peppers. Rice is also served wrapped in coconut leaves, as *katupat*, or stir-fried, as *nasi goreng* (see page 19). In much of eastern Indonesia, however, rice plays a minor role, replaced by corn, sago, cassava and sweet potatoes (Embassy of Indonesia). Although Indonesia is a major producer of cloves and nutmeg, these are rarely used in local cooking. Instead, the seasoning of choice is Indonesia's renowned *sambal*, a chilli paste with hundreds of variations that makes use of various favourite ingredients including shrimp paste, tamarind concentrate, crushed peanuts or shredded mango.

As the country is home to miles and miles of coastline, as well as many lakes, both fresh and dried fish and crustaceans are a major source of protein in the Indonesian diet. Soy is also a primary source of protein for many Indonesians. Tofu and tempe are found in numerous popular dishes; tempe, in particular, provides many nutrients, including protein, fibre, and vitamins (see side box) (Embassy of Indonesia). Poultry is the most widely consumed meat product, followed by beef (Bond, Rodriguez, Pemn, 2007). Indonesians consume about twice as much poultry as they do beef, although overall, consumption of beef increases during Ramadan (Australian Trade Commission, 2010). As a country of Muslim majority, pork is not widely available except within the Chinese community, and on the Hindu island of Bali. In addition, Muslim religious rules demand that food products, especially meat products, conform to Halal criteria. While all meat products sold in Indonesia (with the exception of pork) must be certified Halal, other food products may benefit from Halal certification by further appealing to Muslim consumers (Foreign Affairs and International Trade Canada, 2009). Finally, snacking is a strong cultural habit in Indonesia; *krupuk*, a type of tapioca cracker made in various flavours but most popularly shrimp or prawn, is perhaps Indonesia's favourite snack. However, tastes are evolving quickly, and Western confectionery products are becoming increasingly popular, most notably among younger demographics between the ages of 10 and 24 years old (Australian Trade Commission, 2010).

Tempe – An Indonesian Specialty



Tempe (also spelled *tempeh*), is now a popular health food around the world, but it originates in Indonesia on the island of Java, where it remains a popular menu item. In most cases, tempe is made from fermented soybeans, however, variations may be made with other legumes or seeds. Tempe's widespread popularity across Indonesia as an inexpensive source of nutrients and protein, help place Indonesians among the world's largest consumers of soy in the world. Generally, tempe is fried, roasted, steamed or boiled, and served as a side dish. The fermentation process in tempe production affects the nutritional content of the soy of which it is composed: the proteins are more soluble and of higher quality, the fat content is reduced, and the solubility of important minerals, such as calcium and iron, increases, among other nutritional benefits (Astuti and Dalais, 2000). These days, production of tempe in Indonesia relies heavily on imported soybeans because of their higher quality and consistency, relative to domestically produced soybeans (USDA-FAS, 2010a).

Consumer Tastes and Preferences (continued)



Source: Mintel

Beverages

Water, tea, and coffee are Indonesia's staple beverages. Tea-drinking is an everyday habit for most Indonesians, and strong black tea is the drink of choice. Ready-to-drink tea is also popular, consumed by all population segments (Euromonitor International, 2010i). *Teh Botol Sosro*, introduced on the Indonesian market in 1969, is the brand of choice; in its individual glass bottles reminiscent of Coca-Cola's, it has become a somewhat iconic drink throughout Indonesia and may be the nation's most popular beverage (Soebroto, 2004). Carbonated beverages and fruit-based beverages have not traditionally been very popular with Indonesians; however, fruit juices are becoming more and more popular, as increasingly health-conscious consumers choose juice blends over fruit drinks and syrups (Guharoy, 2010). Soy-milk has long been perceived as a healthy beverage, and is sold in numerous formats at all retail levels; most packaged soy milk remains unbranded, and is sold in plastic bags at traditional markets (Euromonitor International, 2009d)

With such a large Muslim population, tourists and expatriates are the main consumers of alcoholic beverages; non-Muslim and some Muslim Indonesians do consume alcohol, however, the global economic downturn has dampened domestic consumption. As in other Muslim countries, the sale and distribution of alcoholic beverages are subject to a range of restrictions. Some areas, for example, prohibit the distribution of beverages that contain more than 5% alcohol. Beer is thus the most popular beverage, as it is the most widely distributed (available in supermarkets, hypermarkets, and convenience stores), and least expensive. Food safety concerns, due to numerous counterfeit and homemade products, known as *mira oplosan*, are becoming major inhibitors to the more widespread consumption of spirits. Several deaths related to the consumption of these products were recorded in 2009, however, they continue to remain popular among lower-income consumers and youth. Rising prices in the formal alcohol market may encourage further consumption of these illegal products, despite more stringent regulation. However, middle and upper-class Indonesians are not likely to begin purchasing such products, as awareness of their health dangers increases (Euromonitor International, 2009a).

Popular and Well-Known Dishes



Source: Shutterstock

Nasi goreng

When one thinks of Indonesian cuisine, often the first thing to come to mind is *nasi goreng*: a popular and simple dish of steamed rice stir-fried with eggs, assorted vegetables and sometimes chicken, beef or seafood, seasoned with a sweet soy sauce. While *nasi goreng* originated from China, it was adopted by Indonesians and is now widely known throughout the world as an Indonesian dish.

Satay

Comprised of marinated cubes of beef, lamb, or chicken, threaded onto skewers and cooked over a wood or charcoal fire, *satay* is undoubtedly one of Indonesia's national dishes. It is found everywhere from street stalls to fine dining restaurants. As with many Indonesian dishes, *satay* has many regional variations, however, in most cases it is served with a spicy peanut or soy sauce.



Source: Shutterstock



Source: Shutterstock

Gado-gado

Gado-gado is a main-dish salad, composed of various vegetables, such as bean sprouts, corn, sliced cucumber and lettuce, served with fried tofu or tempe, boiled potatoes and hard-boiled eggs, and drenched in a peanut-based sauce. *Gado-gado* is now immensely popular across Indonesia and is often prepared in bulk in the foodservice industry. As an unfortunate result, many restaurants now serve a low quality product with pre-packaged sauce packets.

Eating Out*

Despite unfavourable economic conditions after the global economic downturn, high-income Indonesians still maintain relatively high levels of purchasing power and are thus the main consumer targets for foreign companies entering the Indonesian foodservice industry. Tourists are also a lucrative market, as their levels of spending on food are second only to accommodation expenditures (Euromonitor International, 2010k). For the vast majority of Indonesians, restaurant-going is a rare outing. Instead, local foodservice is dominated by ubiquitous, tiny, open-air eateries, widely known as *warungs*, and vendors with roadside carts, called *kaki limas* (Soebroto, 2004). These retailers typically offer quick and convenient meals that are familiar to the Indonesian palate, such as curries or soups, as well as take-away food, such as *nasi bogana*, (white rice with various accompaniments, tightly wrapped in a banana leaf). Tables and benches are often available at *warungs*, set up under awnings or tarps and set with staple condiments: salt, kecap, chilis, and sambal (Forshee, 2007). Roadside kiosks are the most popular stops for a quick snack, such as roasted corn, peanuts, or packaged confectionery and soft drinks (Forshee, 2007).

In large metropolises, regional cuisine from all around Indonesia may be found in restaurants and street stalls; however, for the most part, rural areas still offer their own local dishes.

Trends in Fast Food

As with other food services, growth in the fast food sector has slowed due to the effects of the economic downturn on consumers' ability to eat out. New entry in the fast food market has thus been targeting solely upper-income consumers who are less price sensitive. Indonesians tend to prefer familiar tastes in fast food, explaining the relative success of Asian-style and chicken fast food, relative to other options. While only just emerging on the Indonesian market, ice cream and bakery fast foods, particularly sweet bakery goods, are rapidly gaining popularity among middle and upper income consumers; these sectors now show promising potential for expansion and growth (Euromonitor International, 2010d).



Source: Planet Retail

Given the large youthful consumer base of the fast food sector, operators are increasingly turning to social media as a marketing vehicle. Indonesia is witnessing the largest absolute annual gains in the number of active Facebook users among Asian countries; thus, by creating a Facebook account, fast food companies can reach a wide audience with their advertising and promotional material. This trend is also occurring in the full service restaurant sector, but to a greater degree in fast food—Kentucky Fried Chicken (KFC), Es Teler 77, Burger King and Krispy Kreme are among those with established Facebook pages in Indonesia (Euromonitor International, 2010a).

***Note:** More detailed information on the foodservice sector is available in the Market Analysis report, "Indonesia: The Foodservice Industry" from AAFC.



KFC and McDonald's are currently the leading foreign brands, having benefited from early entry into the Indonesian market, coupled with heavy promotion and advertising campaigns. Lower levels of disposable income lingering from the economic crisis, and growing health concerns, will require important shifts from the fast food industry in order to meet growing consumer demand for both cheaper and healthier options (Euromonitor International, 2010d).

Trends in Full Service Restaurants

Full-service restaurants are more familiar to most Indonesians, having entered the local market long before fast food restaurants and cafés/bars. Despite the effects of the economic downturn, the full-service restaurant sector has maintained reasonable growth through the extensive use of marketing strategies, such as price promotions, loyalty schemes or membership plans, and new innovative menu items. At 95% of the market value share, Asian-style restaurants are again the most popular; however, unlike the fast food sector, independent restaurants are far more numerous than chained outlets (Euromonitor International, 2010e).

As the Indonesian consumer foodservice market nears saturation, operators are increasingly seeking out ways to differentiate themselves and attract a solid consumer base. Extras, such as Wi-Fi access, for example, are successful in drawing consumers to some restaurants over others. Similarly, unique atmospheres, inspired by everything from the future (Iniko Toys Café) to the inside of a train (Locomotive Resto), enhance the customer dining experience, drawing patrons for both the food and also the ambience (Euromonitor International, 2010a).

► EMERGING TRENDS

Market Opportunities

Health and Wellness

Indonesian consumers, especially in the middle and upper classes, are increasingly influenced by health concerns in their daily food and beverage purchases. While the demographic with sufficient purchasing power to buy premium health food products is a minority, it still encompasses tens of millions of people, and thus constitutes a significant consumer base (Euromonitor International, 2007). Indeed, health and wellness products are expected to be a key area of economic growth in the short term (AAFC, 2010). Especially of note is an increasing interest in fortified and functional food products, which appeal to the general Indonesian preference for foods that offer additional benefits.

Fortified/functional

A key perception among Indonesians is that food products with added nutrients are healthiest. This is partly due to cultural preferences, and is strongly fostered by the country's ongoing struggle with widespread malnutrition. Indonesians are rarely attracted to "better-for-you" products such as sugar-free and low-fat packaged goods, or products that are marketed on enhanced quality alone. Being highly price-sensitive, most consumers are unwilling to pay more for products that have no added beneficial ingredients, and instead, are seeking out extras such as larger volume, or increased nutrients. This perception frames consumer demand for health and wellness foods, and creates important market opportunities for fortified and functional products (Euromonitor International, 2007).

Currently, the most popular fortified/functional products are noodle and dairy products, with most making use of trendy functional ingredients, namely, vitamins and calcium. Also popular is the use of traditional herbal ingredients, such as ginseng, which is already widely used in traditional Indonesian medicine and is thus well known by most consumers. The wide success of CNI's Ginseng Coffee, for example, has led to several other companies launching similar products in recent years (Euromonitor International, 2009e; 2009f). Finally, as malnutrition remains an important health concern for Indonesian parents, many fortified products are aimed at children and marketed as facilitating mental and physical development, through added vitamins and minerals (Euromonitor International, 2007).



Organics

At present, organic foods in Indonesia are largely limited to fresh fruits and vegetables; 96% of organic packaged food, by retail value, is accounted for solely by packaged rice. In line with the perception that the healthiest foods are those fortified with added nutrients, Indonesians are wary of the health claims of organic food. Moreover, the price premiums associated with these products are too high for most Indonesian consumers. Furthermore, those who do have higher levels of disposable income are generally unwilling to pay more for organic foods, sceptical as to whether they offer true health benefits. The market for organic food and beverage products is thus anticipated to remain weak, especially relative to the growing market for fortified and functional products. (Euromonitor International, 2007; 2009h).

Convenience

Rapid urbanization in Indonesia has heightened consumer demand for convenient food and beverage products, as well as quick and convenient foodservice. Urban Indonesians lead busier lifestyles with more time spent at work, or on the required commute, and thus have less time for the preparation of meals at home. Moreover, during the economic downturn, many consumers worked longer hours, further limiting their leisure time. This increased demand for quick meals and snacks outside the home has been met by traditional street carts and *warungs*, but also by expansion in the fast food restaurant sector (Euromonitor International, 2009c).

Urban Indonesians eating at home are increasingly purchasing products that are conveniently packaged and easy to prepare. Volume sales of processed frozen foods grew by 9.7% in 2009, and volume sales of canned/preserved food grew by 10.2% (Euromonitor International, 2010). In 2009, several companies launched food and beverage products with more convenient packaging, designed to meet busier lifestyles; some examples include: Procter and Gamble's *Pringles On The Go* snacks, and Kraft Ultrajaya Indonesia PT's *Kraft Quick Melt*, an unspreadable processed cheese (Euromonitor International, 2010g).

With urbanization is expected to continue to shift Indonesian demographics. Urban residents will increase in number in the short term, while the number of rural households is expected to noticeably decline (Euromonitor International, 2009c).

Key Sectors of Growth

Dairy

As of 2009, Indonesia imported 70% of the milk required to meet its needs, due to insufficient local supply (New Zealand Trade and Enterprise, 2009). Affordability and long shelf-life make condensed milk the most popular dairy product in Indonesia. Condensed milk and cream are also Canadian exports to Indonesia, with a combined 2009 retail value of over US\$4 million (though this is lower than it has been in the past few years) (Global Trade Atlas, 2010). Conversely, ice cream has shown rapid growth potential; Canadian exports of ice cream to Indonesia increased 56% from 2008 to 2009, reaching over US\$2.6 million in value (Global Trade Atlas, 2010). Distribution has largely been limited to the island of Java, due to Indonesia's poor transportation infrastructure; however, there is incentive to improve distribution networks throughout the archipelago, as consumer interest in ice cream increases. Take-home ice cream will likely be prioritized in the improvement of distribution channels, as it is more affordable for a wide consumer base (Euromonitor International, 2009g).



Source: Shutterstock.



Beef

Canadian exports of beef and veal products to Indonesia had been increasing, but dipped in 2009. While Canada's exports of frozen bovine offal to Indonesia have varied from year to year, it is a significant export destination for Canada and in 2009, ranked as the seventh-largest market for Canadian exports of this product.

The Government of Indonesia has recently announced its intention to attain 90% self-sufficiency in beef production by 2014, reducing imports from 40% to 10% (Australian Trade Commission, 2010). In this regard, the government has indicated that it will provide 5% loan subsidies for purchases of breeding cattle; at the current time, live cattle imports to Indonesia are supplied almost exclusively by Australia, the latter benefiting from geographical proximity and favourable trade conditions under the ASEAN-Australia and New Zealand Free Trade Agreement (Vanzetti et al., 2010; Ekawati, 2009; Global Trade Atlas, 2010; USDA-FAS, 2009b). For the time being, domestic production of beef is not meeting demand and Indonesia will continue to rely on imports; imports of beef and veal products increased over 40% between 2008 and 2009 (Global Trade Atlas, 2010).

Persistent Challenges

Recessionary Spending

As a result of the recession, Indonesians across the country cut back their spending on non-essentials. With diminished purchasing power, Indonesian consumers also shifted their shopping behaviour, purchasing smaller volumes of groceries at one time, and relying more frequently on smaller retailers for their daily needs. Even middle and upper-income Indonesians visited supermarkets and hypermarkets less frequently in 2009, in an effort to reduce traveling costs (Euromonitor International, 2010h). Despite recessionary spending trends, consumer confidence in Indonesia is very high. In fact, Indonesia is among the top three most optimistic countries surveyed by Nielsen in their quarterly review on Global Consumer Confidence, Concerns and Spending, which ranks a total of 48 countries (The Nielsen Company, 2010a).

Market Access

Despite promising economic growth and a populous consumer market, persistent corruption and complex regulatory bureaucracy have rendered the business environment in Indonesia somewhat challenging. Moreover, as of 2008, new regulations apply to all imported food items—all products must bear Indonesian language labelling and note genetically modified ingredients, as well as be registered with the Indonesian Department of Health. Because such procedures may be lengthy, products with extended life-shelf may carry an advantage (AAFC, 2010; USDA-FAS, 2010b).

Consumer Accessibility and Distribution

Shelf-stable foods are also advantageous in responding to infrastructure challenges, with regard to accessing both refrigeration and distribution networks. Indeed, the lack of widespread access to refrigeration will be a key challenge in the expansion of the chilled and frozen processed food sector, as only 30% of urban Indonesian residents own a refrigerator (AAFC, 2010).

Finally, because of the numerous islands, distribution of consumer goods within the Indonesian archipelago is notoriously difficult and can take weeks or months, where elsewhere, it may only take a few days. The rudimentary state of national transportation infrastructure only increases this challenge—40% of the nation's roads remain un-surfaced and port facilities are often inadequate. Building a distribution network is thus a lengthy and tedious process; however, since small stalls and local markets remain the dominant grocery retail outlets, distribution is imperative to the widespread adoption of new products (Synovate, 2009; USDA-FAS, 2010b).



► CONCLUSION

As Southeast Asia's largest economy, Indonesia holds much potential for Canadian investment in the food and beverage industry. Its large population, with a middle class of 30 million people, is evolving its tastes and preferences and creating emerging opportunities for Western food and beverage products. Processed foods in particular are gaining popularity, and now represent Indonesia's fastest-growing agri-food import. Beef and dairy products are also playing a greater role in the Indonesian diet than ever before.

While price and affordability will remain the key purchasing motivators over the short term, Indonesian consumers also have new priorities. More and more urbanized, they are busier than ever, and are becoming increasingly concerned with their health and safety of their food. Consumer preferences are shifting to reflect these new priorities, increasing the demand for fortified and functional foods, as well as shifting consumers away from traditional markets and toward modern retailers. Convenience foods are also gaining a foothold, as disposable incomes rise, and increasing numbers of Indonesians move to the city. Environmental issues have yet to be a widespread concern when purchasing consumer goods; however, the growing international attention paid to the environmental issues related to palm oil expansion and rapid deforestation, may contribute to heightening consumer awareness at the national level.

The evolution of the Indonesian consumer will continue to provide new opportunities for Canadian businesses, in a market that has emerged in the global marketplace with political stability and economic resilience.

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