Asia Consumer Insights Center

The evolving Indonesian consumer

November 2013

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The Asia Consumer Insights Center develops new market insights for companies working to satisfy Asia's rapidly evolving consumer needs. It aims to drive an understanding of the beliefs, attitudes, and motivations that underpin customer behavior through their purchase decision journey. By combining McKinsey experience and proprietary data sets with that of our clients, we can determine what information is needed and what actions should be taken. When gaps are identified, we can bring to bear a broad portfolio of tools and techniques, such as needs-based segmentation, ethnography, and semiotics. The Asia Consumer Insights Center can help corporations generate a 360 degree view of their customers—one that sparks innovation, uncovers the most promising sources of growth, and helps develop successful products and brands.

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Indonesia today is a dynamic nation marked by great opportunity. The country has had one of the most consistent growth rates among global economies over the past ten years, with annual GDP growth averaging almost 6 percent. It is also the world's 16th largest economy, with GDP at USD 878 billion. While inflation has risen and there has been some volatility in the Indonesian stock market and currency, the country's long-term fundamentals—favorable demographics, high private consumption, and rapid urbanization—remain positive.

Indonesia is expected to account for nearly 40 percent of ASEAN growth by 2030. Key factors driving growth include a young population—nearly 60 percent is below 30 years of age—and a population that is expanding at a rate of 2.9 million a year. The country is rapidly urbanizing, fueling a rise in incomes and the ability for consumers to increasingly spend on discretionary items. Furthermore, it is an economy that relies heavily on domestic consumption—already, Indonesia's consumer spending, at 57 percent of GDP, is significantly higher than the corresponding figures for neighboring, largely export-driven nations such as China, Malaysia and Thailand.

On the current expected trajectory, an estimated 90 million Indonesians will join the ranks of the consuming class by 2030.[1] Only China and India are likely to surpass this increase in the numbers of consumers in absolute terms. In parallel, the number of Indonesians shifting to urban areas is expected to reach 71 percent of the total population, or 209 million people, by 2030.

All of these factors underscore the potential of Indonesia's consumer market. However Indonesia presents some significant challenges for companies seeking to capture the consumer opportunity, including its fragmented geography (spread across some 6,000 inhabited islands), size and diversity. Where do the opportunities exist? How do you navigate a vastly distributed population of almost 250 million people? What consumption trends should companies track as consumers' attitudes continue to evolve? What products and marketing strategies will resonate with Indonesians' tastes

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1   Arief Budiman, Richard Dobbs, Raoul Oberman, Morten Rosse, and Fraser Thompson, *The Archipelago Economy: Unleashing Indonesia's Potential*, McKinsey Global Institute, September 2012.

and preferences? With private consumption remaining a primary driver of the country's growth, understanding the profiles, mindsets and behaviors of the country's consumers is critical.

In 2013, McKinsey and Company undertook its second—and most comprehensive—consumer research study of more than 5,500 consumers across 44 cities and rural centers in Indonesia. This effort followed an initial study in 2011 that helped to identify consumer types, and their preferences for specific products, brands and retail channels. Given the country's complexity, we wanted to use longitudinal data to understand consumption behaviors at a granular level and assess how trends are evolving. We examined a wide range of variables including demographics, household expenditure, brand preferences and retail channels, and also studied rural populations for the first time. We conducted face-to-face interviews with some 5,500 people across all socioeconomic groups and focused on five sectors—food and beverage, home and personal needs, financial services, consumer electronics and over-the-counter (OTC) pharmaceuticals.

The following report explores Indonesia's consumption potential and discusses how businesses today can capture this opportunity. It offers insights on Indonesia's consumers, identifies key market segments that are commercially attractive, adopts a cities lens to understand changing consumption patterns, and suggests relevant product and marketing strategies. It also examines evolving trends related to consumer channel preference, including the potential for growth in e-commerce and in product categories, and looks at how companies should be thinking ahead to benefit from underlying shifts in the market.

About the research

We interviewed 5,500 respondents in 44 cities covering 24 provinces. Our questionnaire covered five sectors—food and beverage, household and personal needs, financial services, consumer electronics and over-the-counter pharmaceuticals; more than 200 brands in 24 product categories were also assessed. Our respondents were selected from urban populations and rural clusters using a set of broad criteria to fit our research objectives—a 50:50 mix of males and females aged between 15 and 65 years, belonging to different socioeconomic groups who have resided in the particular town or city for at least one year. We defined our socioeconomic strata not through income but through other holistic criteria such as housing conditions, monthly expenditure and ownership of durable goods. This approach provides a more realistic picture of status and consumption patterns of respondents, and evades some of the ambiguity with income levels. We queried respondents on their shopping attitudes, expenditure on various activities, retail channel preferences, brand preferences and experience with using brands; and dug deeper into understanding their purchase decision-making motivations. ⚬

Indonesia today...

16th largest
economy in the world

33%
of ASEAN GDP

53% of the
population in cities
producing 74% of GDP

Top ten cities
are contributing
55% of GDP

29 million
Twitter accounts—Jakarta is the
most active Twitter city in the world

... trends in consumption

5 million
—a population the size of Singapore—entering the urban consuming class each year

70 million
members in the urban consuming class— 55 million in urban Indonesia

Less than 10%
of digitally connected consumers are shopping online

With consumer spending expected to increase by 7.7% a year—that presents

$1 trillion
opportunity by 2030.

1. The consuming class—55 million urban and 15 million rural Indonesians—are the most commercially attractive segment

The consuming class is growing by 5 million every year—a market the size of Singapore's population

Indonesia's population is young, growing and rapidly urbanizing, making it one of the fastest-growing consumer markets in the world. Our research of urban and rural populations found groups of consumers, totaling about 70 million, who are optimistic about their future and becoming increasingly sophisticated in their spending habits and product choices. Understanding the needs and emerging attitudes of this fast-growing consuming class will be critical as companies think about expanding their footprint in Indonesia.

In our study, we separately analyzed urban and rural populations. For each set, we examined a series of variables related to the physical condition of homes, ownership of durable goods (e.g., televisions, microwaves, cars), and monthly household expenditure.

Within Indonesia's urban population of 138 million, our research found four categories of urban consumers—a very Wealthy upper echelon of about two million, an engaged and promising Consuming class of 55 million, an Aspiring class of 69 million, and lastly a Struggling class of 14 million.[2] Only the Consuming class is expected to grow significantly between now and 2020; the Aspiring and Struggling populations are expected to remain the same or decline slightly (Exhibit 1).

It is interesting to note that urban Indonesians—regardless of category—share certain defining

characteristics. They are strongly family-oriented and consider their children's opinions when it comes to making purchasing decisions. They are also risk-averse; they tend to live within their means and avoid borrowing. This makes them late adopters of new products and technology. Differences between segments such as the Consuming class and the Aspiring class largely arise when you consider their levels of engagement while shopping and their familiarity with digital platforms (Exhibit 2).

The Urban Consuming class of 55 million is growing by the population size of Singapore every year

Indonesia's Urban Consuming class today represents a population of 55 million, and is expected to number 86 million in 2020. That's five million consumers joining the ranks of this segment each year—a market the size of

2   We focused our research on three of the consumer segments: 55 million consuming class, 69 million aspiring class, and 14 million struggling class.
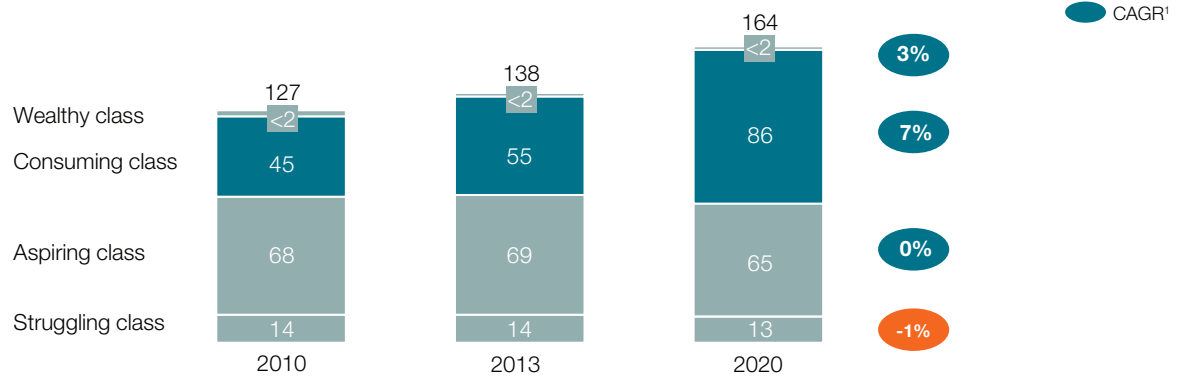
Exhibit 1

The Urban Consuming Class presents a sizeable and growing market to target in Indonesia with 5M consumers entering this class each year

Indonesian urban population

Millions

			CAGR[1]

Wealthy class	2010	2013	2020	CAGR
	127	138	164	
	<2	<2	<2	3%
Consuming class	45	55	86	7%
Aspiring class	68	69	65	0%
Struggling class	14	14	13	-1%

1 Compound annual growth rate for 2010–2020

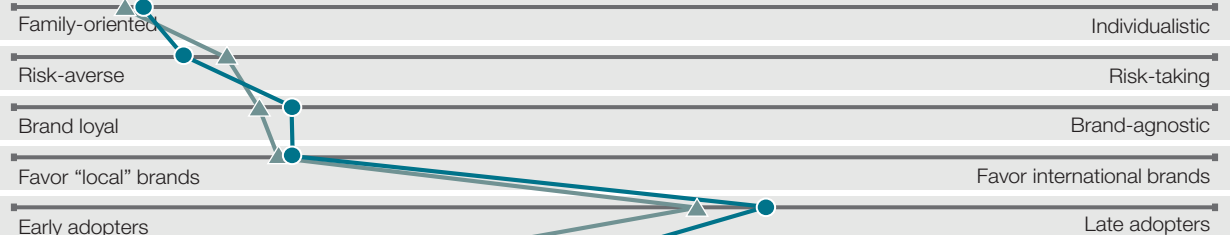SOURCE: McKinsey Consumer Insights Indonesia 2013

Exhibit 2

Independent of one's social class, Urban Indonesians share defining characteristics —with the Consuming class showing some distinctions
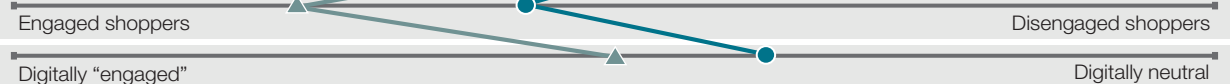
Prevailing Indonesian attitudes

Attitudinal scale

▲ = Consuming class
● = Aspiring class

Similarities

Family-oriented	Individualistic
Risk-averse	Risk-taking
Brand loyal	Brand-agnostic
Favor "local" brands	Favor international brands
Early adopters	Late adopters

Differences

Engaged shoppers	Disengaged shoppers
Digitally "engaged"	Digitally neutral

SOURCE: McKinsey Consumer Insights Indonesia 2013

Singapore's population. As more engaged shoppers, our research showed they spend 1.8 times as much per capita as the Aspiring class.

Within the Urban Consuming class, a subset of 20 million Affluent Consumers is breaking away from the rest

A segment of Indonesia's Urban Consuming class—accounting for about 20 million Indonesians—is an Affluent Consuming class that is breaking away from the typical Indonesian profile. It is an attractive consumer group, characterized by their drive to try new products, to self-indulge, and to pay more for premium and better quality products and services. They are purchasing new categories of products that were barely noticeable in Indonesia until recently—microwaves, home theater systems, yogurt, oatmeal, energy drinks, mouth wash, hair vitamin oil, auto insurance and more.

They are less value conscious than the rest of the Urban Consuming class, and, at the same time, more financially savvy. Affluent Consumers have started using financial products such as mortgages and mutual funds, and have a 30 percent higher penetration rate in financial products compared with the urban average. Credit card penetration also is twice as high as the urban average. Their willingness to spend makes them early adopters of new products, and they are much more digitally connected than their urban peers (Exhibit 3).

The Struggling class remains commercially unviable

The lowest socioeconomic group in urban Indonesia is made up of about 13 million residents, and carries only slight significance for consumption potential. In 2010, they contributed three percent of the country's total expenditure levels. This group will continue to be small in size through 2030—between 12 and 13 million people—and will remain a commercially

less attractive group than other consumers given their small numbers and even smaller expenditure levels. Our research found they were pessimistic about the future; they were also less willing to spend money, and showed little interest in shopping or managing their finances.

Rural city clusters are emerging around urban centers, and include an attractive segment of 15 million Consuming class

While urbanization in Indonesia is expected to accelerate, there exists today a significant rural population of 110 million. Even at declining levels, it will include more than 80 million Indonesians in 2030 (roughly the size of Vietnam today), and contribute 14 percent to GDP. In our research, we studied cluster rural populations—rural populations situated close to large urban centers—and found a consuming segment of 15 million that largely showed comparable attitudes as their Urban Consuming counterparts.[3] This is likely due to the strong influence of urban areas and proximity to modern retail stores as well as exposure to similar media channels. Like their urban peers, they have strong family orientation and tend to be risk averse; they are also highly loyal to brands, and show a strong preference for local brands.
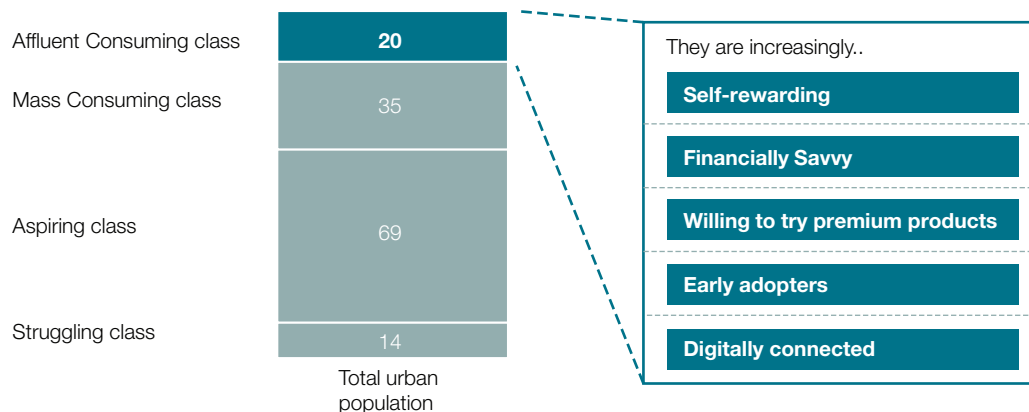
However some distinctions emerged that suggest different marketing strategies are necessary to target the Cluster Rural Consuming class. For instance, they are highly aspirational and pragmatic in their shopping attitudes. They are not particularly concerned with environment-friendly propositions or health and wellness-related benefits. Therefore marketing strategies that focus on product features—essentially no frills benefits—over less tangible product qualities such as environmental friendliness and sustainability will resonate with this group (Exhibit 4). ○

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3   A Cluster Rural population is defined as the population living in rural areas within 50 kilometers of any urban center that has a population greater than 250,000.

Exhibit 3

The upper echelon of the Urban Consuming class—the Affluent Consuming – is starting to break away in their attitudes towards consumption
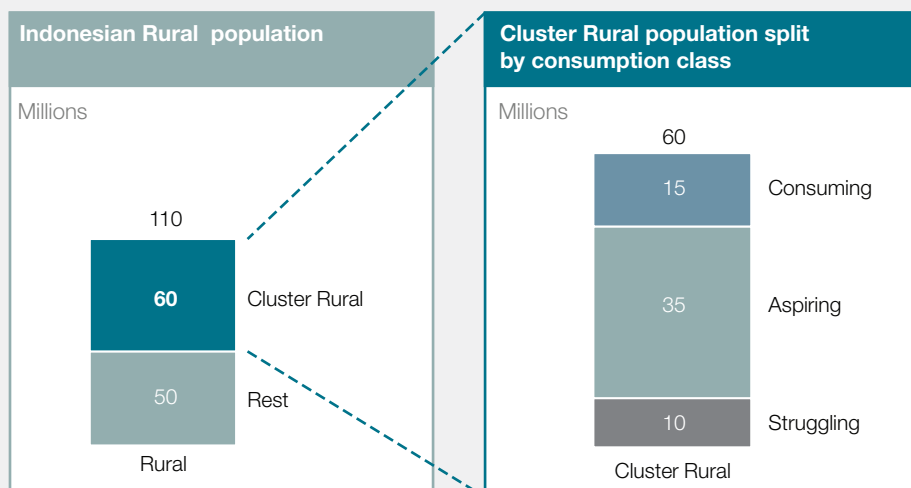
Urban population, in million people, 2013

Affluent Consuming class	**20**
Mass Consuming class	35
Aspiring class	69
Struggling class	14

Total urban population

They are increasingly..

- Self-rewarding
- Financially Savvy
- Willing to try premium products
- Early adopters
- Digitally connected

SOURCE: McKinsey Consumer Insights Indonesia 2013

Exhibit 4

Cluster Rural presents a commercially attractive segment of the population with 15 million individuals in the Consuming class

Indonesian Rural population

Millions

110

60	Cluster Rural
50	Rest

Rural

Cluster Rural population split by consumption class

Millions

60

15	Consuming
35	Aspiring
10	Struggling

Cluster Rural

Cluster Rural is defined as the population **living in a rural area within 50km of a city center** that has an urban population >250,000

SOURCE: McKinsey Consumer Insights Indonesia 2013

2. Indonesian cites are at different levels of consumerism driven by the ability and propensity to consume

Even some smaller Indonesian cities show strong consumption potential

Between 2000 and 2013, Indonesia's urban population increased from 42 percent to 55 percent or 138 million residents. By 2030, that share is expected to reach 71 percent or 209 million people. In turn, the contribution from urban Indonesia to GDP is also expected to grow from 74 percent in 2010 to 86 percent in 2030. In real terms, that's an increase from USD 524 million to USD 1.7 billion. Indonesia's urban centers will play a crucial role in driving its economy forward.

We adopted a comprehensive approach to assess both the ability and propensity of consumers to spend in each of the cities we researched. We asked respondents about their spending habits on discretionary items, consumption attitudes and ownership of durable goods such as washing machines, computers, telephones and cars. We also considered the number of female college graduates in each city based on the expectation of greater household income and spending power, as well as the positive correlations we typically find between consumerism and education levels.

Using this approach, we were able to segment 36 Indonesian cities into four tiers based on a consumption index that ranked cities on their population size, ability to spend and propensity to consume. The eight cities in the top Tier 1—Jakarta, Surabaya, Bandung, Makassar, Kudus, Denpasar, Gresik and Semarang—have both the greatest ability to consume and the most willingness to do so. Residents spend five times as much on discretionary goods and services such as accessories, apparel,

dining out and leisure travel, and more than twice as much on durable goods when compared with their peers in the less consumerist bottom Tier 4 cities. Tier 1 populations own almost three times as many durable goods; they are also home to a much higher population of female graduates. In contrast, Tier 4 residents in cities such as Gorontalo, Cilegon and Pekalongan indicated the least capacity and propensity to spend (Exhibit 5).

These results clearly show that GDP per capita, population size and income levels are not the only indicators of consumption potential. Smaller cities such as Gresik, located in Eastern Java, with a GDP of IDR 18,353 billion and a population of 1.2 million, present an interesting opportunity. Close to Surabaya, Gresik is home to a number of large industrial companies such as Gresik Portland Cement that has a bearing on household incomes. We found that consumers in Gresik spend 35 percent more on durable goods when compared with the urban Indonesian average (Exhibit 6).
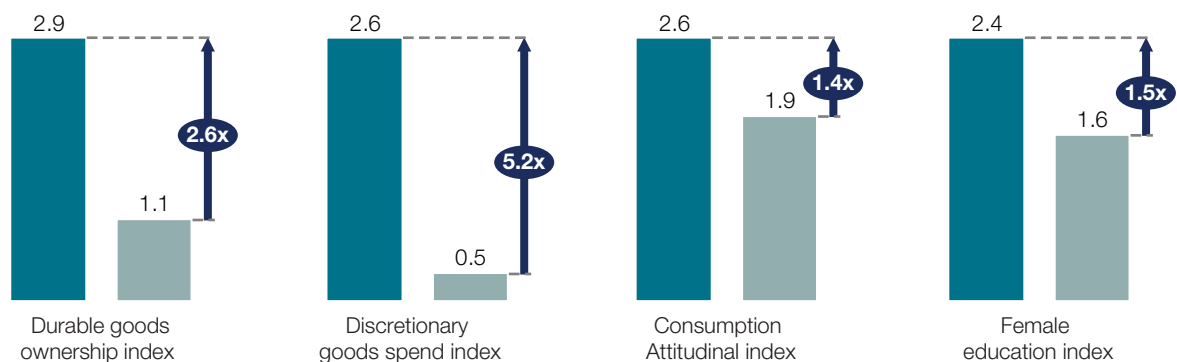
Exhibit 5

Consumers in consumption Tier 1 cities exhibit a higher ability and propensity to consume than their peers in consumption Tier 4 cities

Comparison of ability and culture to consume in Consumption Tier 1 vs. Consumption Tier 4

Indices per city consumption tier

■ Consumption Tier 1   ■ Consumption Tier 4

	Durable goods ownership index	Discretionary goods spend index	Consumption Attitudinal index	Female education index
Consumption Tier 1	2.9	2.6	2.6	2.4
Consumption Tier 4	1.1	0.5	1.9	1.6
	2.6x	5.2x	1.4x	1.5x

SOURCE: McKinsey Consumer Insights Indonesia 2013

Exhibit 6

Even small consumption Tier 1 cities such as Gresik present an interesting consumer market

Gresik

▪ City linked to Surabaya on Eastern Java

▪ City has some big industrial companies, such as Gresik Portland Cement

Location	Close to Surabaya
GDP	IDR 18,353 billion
GDP per capita	IDR 15.5 million
% consuming class	59%

Percent

	Urban average		Gresik
Discretionary spend[1]	26	+12%	29
Durable goods ownership[2]	34	+35%	46
Consumption Attitudinal index[3]	2	+25%	3
Female education[4]	13	+85%	24
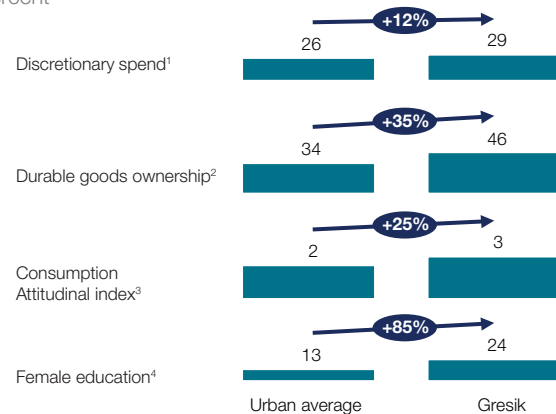
1 Share of spend on non-essential items
2 Average share of credit card, washing machine, computer/laptop, telephone and car ownership
3 Indexed score of 14 attitudinal questions
4 Average share of women having a college degree or higher

SOURCE: McKinsey Consumer Insights Indonesia 2013, press search

Another city to consider is Padang—a Tier 2 city with a population of 845,000 and GDP of IDR 992,128. This capital city of West Sumatra shows healthy consumption and boasts a high level of female graduates. Major urban development projects are underway including a new township, Bandar Minangkabau, valued at IDR 10 trillion. These factors directly impact on consumers' spending potential.

The message is clear. Companies need to go beyond the obvious indicators—population size, GDP levels—to truly appreciate the consumption potential of Indonesian cities, and to determine how it will impact product, marketing and branding strategies. A one size approach to Indonesian cities does not fit all. ●

Five hidden gems

Indonesia's top 10 cities will always matter—together they contribute 55 percent of the country's GDP, and rapid urbanization will ensure these cities stay relevant. Our research goes a step further in redefining consumerism where we see the emergence of what we call *five hidden gem* cities in Indonesia. Despite their smaller population sizes, these cities show significant promise, redefining consumerism with higher disposable incomes and higher consumption attitudes (Exhibit 7).

Denpasar, the gateway of the popular tourist destination of Bali, is also a hub for other cities in the Lesser Sunda Islands. Tourism has fueled the growth of this city, and new infrastructure projects are underway including the expansion of its airport and construction of new roadways. With a population of 800,000, it ranked as a Tier 1 city on our consumption index, based on a very high ownership of durable goods and high female literacy ratios.

Gresik in East Java, with a population of 1.2 million, is an important trading city with a number of industries largely supporting agriculture and agricultural machinery, cement and fertilizers. It is also a Tier 1 city with very high levels of ownership of durable goods.
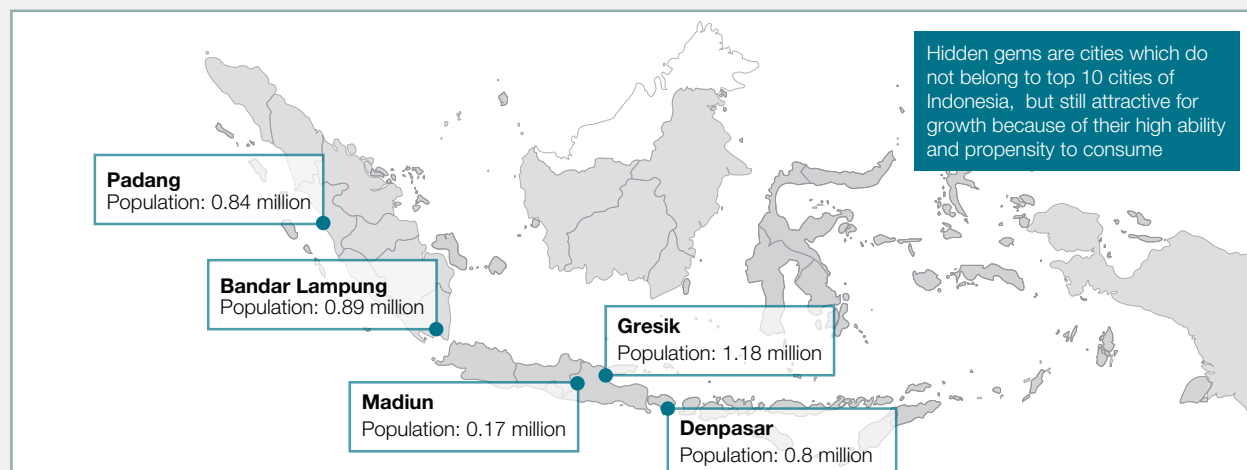
Padang is the capital of Western Sumatra and situated along its western coast. Its population of 800,000 includes a large share of female graduates. Major urban developers and banks have recently increased their investments here, confident of the city's economic growth potential.

Bandar Lampung with a population of 890,000 is the capital and economic hub of Lampung province; it frequently serves as the entry point to Sumatra from Java. Residents show a high propensity to consume with moderately high female literacy rates and ownership of durable goods.

Madiun is situated west on the province of East Java, and is the smallest of our hidden gems in terms of population with 170,000 residents. It has a very high female literacy ratio and a high share of the consuming class.

Exhibit 7

Our city analysis reveals 5 hidden gems – cities with small populations that are commercially attractive because of their consumption culture

Hidden gems are cities which do not belong to top 10 cities of Indonesia, but still attractive for growth because of their high ability and propensity to consume

Padang
Population: 0.84 million

Bandar Lampung
Population: 0.89 million

Gresik
Population: 1.18 million

Madiun
Population: 0.17 million

Denpasar
Population: 0.8 million

SOURCE: McKinsey Consumer Insights Indonesia 2013

3. While traditional retail channels dominate, modern retail continues to gain ground

Hypermarkets are growing, however a perception of higher prices among non-users is inhibiting stronger growth

Traditional retail channels, including mom-and-pop stores (warungs) and wet markets, still dominate the retail landscape in Indonesia, but modern trade's share continues to rise, led by the growth of convenience stores. In the food and beverage sector, for example, we compared our 2011 results and found the usage of both mom-and-pop stores and convenience stores had grown (Exhibit 8).

Modern retail in Indonesia is expected to continue to grow strongly over the next few years, more than doubling from 2010 levels to reach USD 87 billion by 2017. While growing steadily, the modern retail landscape remains increasingly fragmented as consumers rely on multiple channels—convenience stores, hypermarkets, supermarkets, department stores and others. In the food and beverage sector, we found the Consuming class using more channels today when compared with 2011; they are also experimenting more when compared with other consumer segments (2.3 channels by the Consuming class versus 2.0 channels by the Aspiring class).

Furthermore, the different retail channels have a following among all classes, but to varying degrees. Hypermarkets, for example, are much more popular among the Affluent Consuming class than any other group. Convenience stores are broadly popular across all consumer segments, while supermarkets are only beginning to gain traction with the Aspiring Consuming class (Exhibit 9).

What explains the continued popularity of convenience stores? Stores such as Alfamart, 7-Eleven, and Indomart have grown fastest at 32 percent a year between 2000 and 2011. They are expected to continue on a double-digit trajectory, but at slowing rates as supermarkets gain ground. According to our research, the convenience factor combined with service levels and product availability is what makes convenience stores a natural first choice. The numbers of hypermarkets and supermarkets are also on the rise, and hypermarket shoppers recognize the low prices on offer. However a *perception* of higher prices at hypermarkets persists among non-users, which appears to be inhibiting their growth (Exhibit 10).

The broader conclusion, based on our interviews, is that while Indonesians are experimenting with modern retail, purchasing behavior remains fragmented with consumers using multiple channels for every product category. Traditional retailers should continue to invest in improving customer experience and distribution quality including better product assortment and availability. For modern
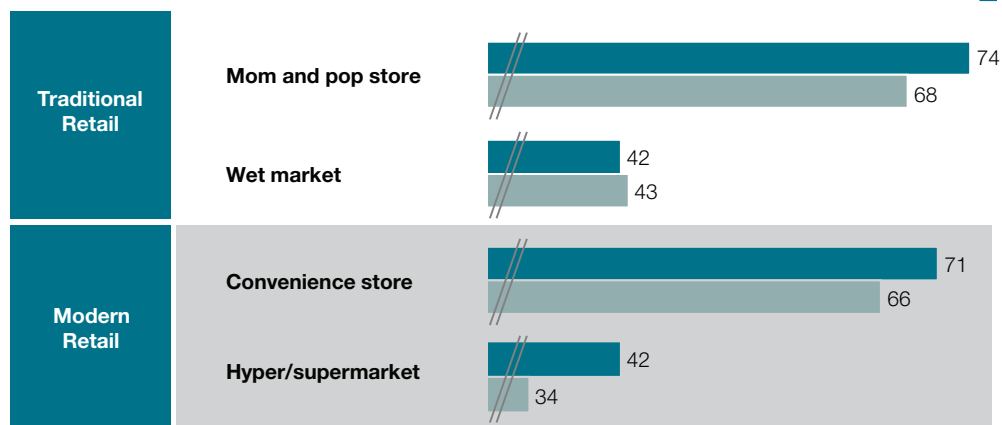
Exhibit 8

Although modern retail is growing faster, traditional retail channels remain dominant

Food and beverage

% of respondents buying from the channel
■ 2013 ■ 2011

Traditional Retail

Mom and pop store
74
68

Wet market
42
43

Modern Retail
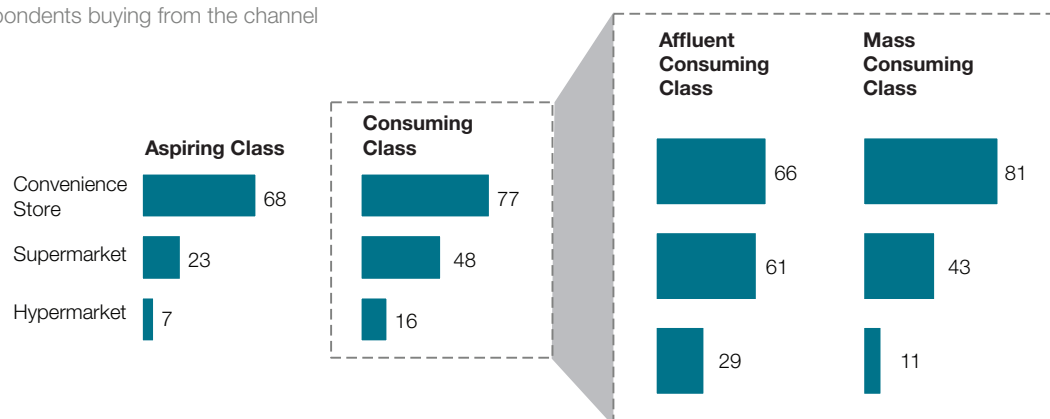
Convenience store
71
66

Hyper/supermarket
42
34

SOURCE: McKinsey Consumer Insights Indonesia 2013

Exhibit 9

Within modern trade, convenience stores are the primary channel across all classes, though hypermarkets and supermarkets are gaining popularity

Food and beverage

% of respondents buying from the channel

Aspiring Class

Convenience Store 68

Supermarket 23

Hypermarket 7

Consuming Class

77
48
16

Affluent Consuming Class

66
61
29

Mass Consuming Class

81
43
11

SOURCE: McKinsey Consumer Insights Indonesia 2013

Exhibit 10

A perception of high prices at hypermarkets persists among non-users

Perception of hypermarkets by users versus non users

FOOD & BEVERAGE

— Shoppers at Hypermarkets
— Average F&B shopper

Lowest price

Good in-store and after-sales service

Convenient, easy to go to

Wide range of products

Enjoyable shopping experience
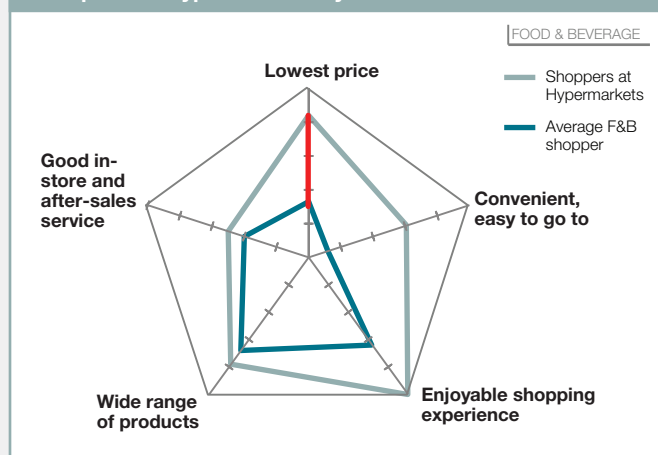
SOURCE: McKinsey Consumer Insights Indonesia 2013

retailers, the future looks bright, and many firms are expanding aggressively in that sector. Modern retailers should start building new skills and capabilities to put themselves in a position to reap big rewards.

Indonesians are savvy with digital platforms but not yet with online retail

Internet usage in urban Indonesia has risen sharply over the last two years—by almost 40 percent—to reach about 40 million users in 2013. Social networking is by far the most popular activity, with 70 percent of online users actively engaged on sites like Facebook and Twitter. Search and chat take up the next two spots at 44 and 30 percent respectively. The vast majority of Indonesians online—80 percent—belong to the Consuming class.

Commercial activities such as online shopping and online banking, by contrast, have low penetration. Online shopping, in particular, can hardly be

Exhibit 11

Retailers can accelerate growth of online shopping by addressing key consumer concerns such as sales support and secure payment options

Reasons for not shopping online

Top 3 reasons selected (%)

■ Reasons that can be mitigated by online retailers

Reason	%
Online shopping has a fraudulent image	56
Online sales support is not satisfactory	30
Price is higher	35
Payment is not safe/convenient	35
Product quality is not reliable	34
I cannot try/test the product	36
I don't know how to purchase online	22
Poor after-sales service	8
Online shopping has a low-end image	9
Products/services that I want are not available online	8
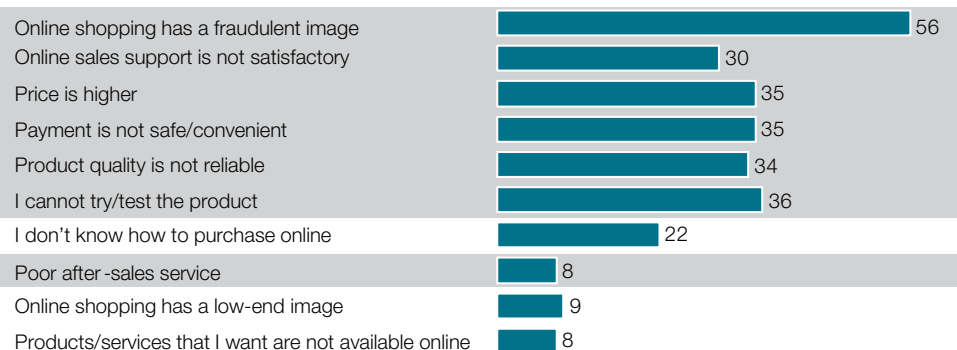
SOURCE: McKinsey Consumer Insights Indonesia 2013

described as a popular activity—only seven percent of online users said they shopped online in our survey. Compare this with China where 32 percent of consumers we surveyed regularly shop online. Within the small base of online shopping in Indonesia, only clothing and footwear have really reached a critical mass. About 58 percent of Internet users in Indonesia reported purchasing clothes and shoes online during the previous 12 months. Nearly every other product purchased online is negligible by comparison—even "virtual" items like tickets and digital content have not found their footing.

Indonesian consumers say they simply don't trust online shopping yet, and worry about payment safety, lack of sales support and unreliable quality (Exhibit 11). On the positive side, these are things that retailers can address to accelerate the growth of online shopping networks. The popularity of micro blogging site Twitter with a base of approximately 29 million Indonesian users opens up new marketing opportunities for companies to engage in conversations with consumers, and to market their products and services. Also, while most Internet users are male, more than 55 percent of online shoppers are female, and two-thirds are under the age of 35. These demographics offer huge potential if companies work to build trust and gain the confidence of shoppers. ○

Zalora Indonesia: Moving ahead in e-commerce

Launched in February 2012, *Zalora Indonesia* is a business-to-consumer online shopping retailer that offers fashion products from leading local and international brands. Its entry and success in the Indonesian market offers useful insights for companies trying to allay consumers' concerns with shopping online. Zalora operates in several countries across Southeast Asia. The company relies on heavy advertising both in online channels (eg., Google, Facebook) and through traditional television campaigns to raise awareness and promote its services.

We studied Zalora's experience in Indonesia and identified five key success factors:

• **Free shipping with no minimum spend:** For value-conscious Indonesians, offering free shipping service with no minimum spend during the first year clearly helped Zalora win new consumers and retain existing ones. The company also launched an express delivery and loyalty program to help sustain their user base and further incentivize new customers.

• **Breaking the trust barrier:** A seven day money-back guarantee and cash-on-delivery model provides a sense of ease and assurance for consumers, particularly for those shopping online for the first time.

• **Variety of choice:** Zalora stocks more than 600 local and international brands, and more than 30,000 products, across a wide range of fashion categories including shoes, clothes, accessories and beauty products.

• **Staying local, but with foreign flair:** The company created fashion brands for local tastes and preferences but with foreign-sounding brand names to boost credibility and price premiums (e.g., Sidewalk, Tolliver).

• **Mobile strategy:** The company is focusing on its mobile strategy with the recent launch of its Android and Iphone-based applications.

4. Indonesians strongly prefer and trust local brands, and the Consuming class is driving growth in new emerging categories

Local brands dominate, however it's only the perception of being local that matters

Across most product categories, Indonesians are not only faithful to brands but also show a strong preference for local brands. Seventy five percent of those surveyed, on average, said they already have a preferred brand in mind when they go into stores to buy home and personal care products; and more than two-thirds said the same for food and beverage items such as juice, instant noodles, tea, chocolate, and coffee.

Taking this further, we found that local brands clearly dominate, particularly in the food and beverage and pharmaceutical sectors. Why? Simply because consumers trust Indonesian companies, take pride in using local brands, and believe that local companies truly understand Indonesian consumers and provide better value for money when compared with foreign brands. Only with consumer electronics, we didn't find the same high level of brand loyalty; consumers instead rely on research and sales advice from store personnel.

For local brands, this is good news. For foreign brands, it is interesting to note that it's only the perception of being local that matters. In many interviews, respondents spoke warmly of what they thought were local brands but were in fact part of a portfolio of global companies. Foreign companies have been able to successfully capture the market through localization or acquisition strategies. Consider the case of Buavita, an Indonesian fruit juice brand, which Unilever acquired from a local company in 2008. Others such as French food multinational Danone went back to basics and created a local biscuit band Biskaut which was eventually acquired

by Kraft in 2007 (now Mondelez). Danone successfully marketed the biscuits, raising awareness of its benefits for children's health. Biskaut today is a leading brand in its product category. It also has a growing fan following of more than 291,000 users on the social networking site Facebook, reflecting a marketing strategy that is taking advantage of young Indonesians' affinity for social media platforms.

Given the high degree of brand loyalty, companies—local and foreign—should consider investing significantly in creating brand awareness and building trust among consumers. It is the only way to win the market. Most consumers in Indonesia are not actively looking to switch brands, raising the imperative for companies to gain a deep understanding of consumers' unmet needs for developing brand loyalty.

The Consuming class is driving the growth of new emerging categories

When we compared results from our 2011 and 2013 surveys, we saw several product categories showing strong growth and deeper penetration driven by the

purchasing power of the consuming class. Indeed, right now, most of the increase in consumer spending in Indonesia comes from people making a greater number of purchases of staples, and there is relatively little from spending on higher-priced items.

However as consumers start to move up the ladder from being Aspirants to Mass consumers, they are experimenting with new discretionary products such as face moisturizers, washing machines, flat panel televisions, credit cards and health insurance. In those product categories where consumers do appear to be trading up and trying premium brands and services it is, naturally, the Affluent Consuming class that is leading the way—70 percent of this premium spending is stimulated by the 20 million strong Affluent class, and is most evident in spending on entertainment, healthcare, personal care products, apparel, footwear and accessories (Exhibit 12).

Traditional media has the broadest appeal but word-of-mouth has greater bearing on decision making

Television advertising is by far the dominant source of product information for Indonesians across all the categories we examined. More than 90 percent of those surveyed said they receive information through television broadcast when compared to in-store advertisements, billboard advertisements, newspaper listings and sales advice.

However family orientation and influence is evident when you consider that word-of-mouth recommendations are stated as the most credible source for endorsements, with close to 90 percent of respondents attesting to this (Exhibit 13). The consumer electronics sector was a slight anomaly in this regard, given consumers' strong preference to visit stores, to find out relevant details and test new products. ●

Exhibit 12

Several product categories are showing strong growth and penetration, driven by the Consuming class

More product categories used as consumers migrate from Aspiring class to Consuming class

Aspiring — Mass Consuming — Affluent Consuming

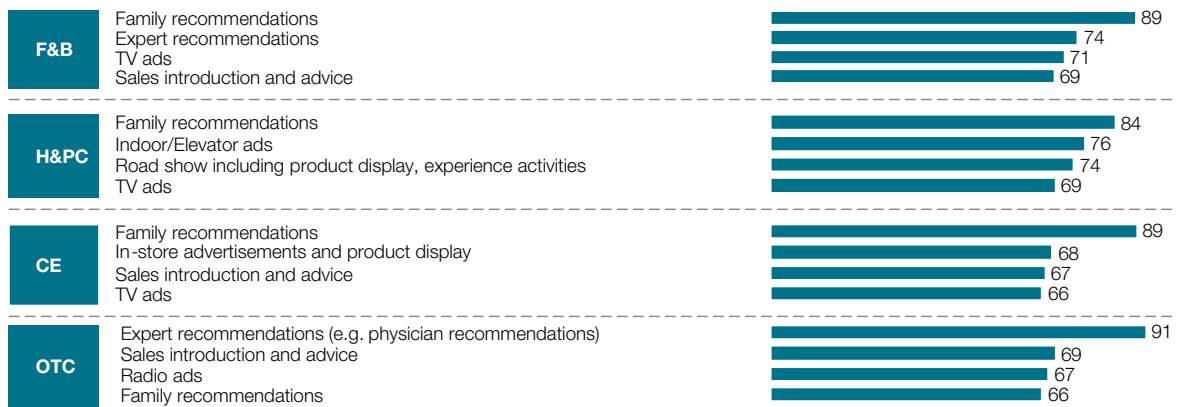|	Aspiring	+ New categories added (Mass Consuming)	+ New categories added (Affluent Consuming)
Food and Beverage	▪ Instant Noodles ▪ Bottled water ▪ Biscuit / Wafer	+ 100% fruit juice + Chocolate + Ice cream	+ Yogurt + Oat Meal + Energy Drinks
Household & Personal Care	▪ Shampoo ▪ Laundry Detergent ▪ Toothpaste	+ Hand Body Lotion + Face moisturizer + Facial tissue	+ Mouthwash + Hand washing liquid + Hair vitamin oil
Consumer Electronics	▪ Hand phone / Mobile phone ▪ Refrigerator ▪ Ironer	+ Washing machine + Flat panel TV + Laptop	+ Tablet computer + Microwave + Home theater
Financial Products	▪ Savings Local Currency ▪ Debit card	+ Credit card + Health insurance	+ Life Insurance + Auto insurance + Time deposits

SOURCE: McKinsey Consumer Insights Indonesia 2013

Exhibit 13

Word-of-mouth and expert recommendations are considered as the most credible sources

Credibility of media channels

% saying 'yes' to 'I find the information (mostly/very) credible

F&B	Family recommendations	89
	Expert recommendations	74
	TV ads	71
	Sales introduction and advice	69
H&PC	Family recommendations	84
	Indoor/Elevator ads	76
	Road show including product display, experience activities	74
	TV ads	69
CE	Family recommendations	89
	In-store advertisements and product display	68
	Sales introduction and advice	67
	TV ads	66
OTC	Expert recommendations (e.g. physician recommendations)	91
	Sales introduction and advice	69
	Radio ads	67
	Family recommendations	66

1 F&B: Food and Beverage; 2. H&PC: Household & Personal Care; 3. CE: Consumer Electronics; 4. OTC: Over-the-counter medicine

SOURCE: McKinsey Consumer Insights Indonesia 2013

Questions to ask yourself to stay ahead

Our research on consumers and cities in Indonesia over the past three years has led us to identify several key characteristics related to consumer profiles, spending habits, product and brand preferences, and uncovers evolving trends in e-commerce, product category growth and modern retail formats. These findings carry implications for local and foreign businesses wishing to expand their footprint in this dynamic—and dispersed—market. To ensure they're thinking strategically about how to stay ahead, companies should ask themselves a number of questions related to consumer targets, e-commerce, product development, and other topics.

Granular growth in Indonesia

- Do you have the capabilities to systematically identify granular sources of growth in Indonesia with consumer segments, cities, product categories and channels?

- Do you understand the attitudes and needs of the Consuming class that are specific to your product category?

- How are you prioritizing the next tier of cities? Are you considering the consumption attractiveness of these cities?

- Are your products reaching the Consuming class in Cluster Rural markets?

Winning channels

- How do you plan to further improve the depth and quality of distribution in traditional trade?

- How are you riding the growth of modern trade in Indonesia? Are you building new capabilities and strategic partnerships with winning retailers?

- What is your online retail strategy? Do you have a business model that enables fast scale-up?

- Are you exploring social media platforms to better engage with consumers, drive brand awareness and build trust?

Products and services

- Does your product portfolio comprise a healthy mix of mature categories and growth categories?

- If you are playing in a mature category (e.g., instant noodles), what are you doing to drive growth? Are you driving consumption growth? Are you innovating to develop premium products?

- If you are in a category with low penetration (e.g., tablets, yogurt), what are you doing now to ensure a leading position when the market does takeoff?

- Are you developing innovative products that can grow category penetration or promote higher consumption?

- Are you investing in building a portfolio of brands that caters to varying price points, with a combination of international and "localized" brands?

□   □   □

We see tremendous potential in Indonesia's consumer market with the rapid growth in the consuming class, the increasing sophistication of the affluent consuming class as well as opportunities that exist in serving the digitally connected consumers. Consumer spending is expected to increase by 7.7 percent a year—that presents a trillion dollar business opportunity by 2030.

Acknowledgements

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