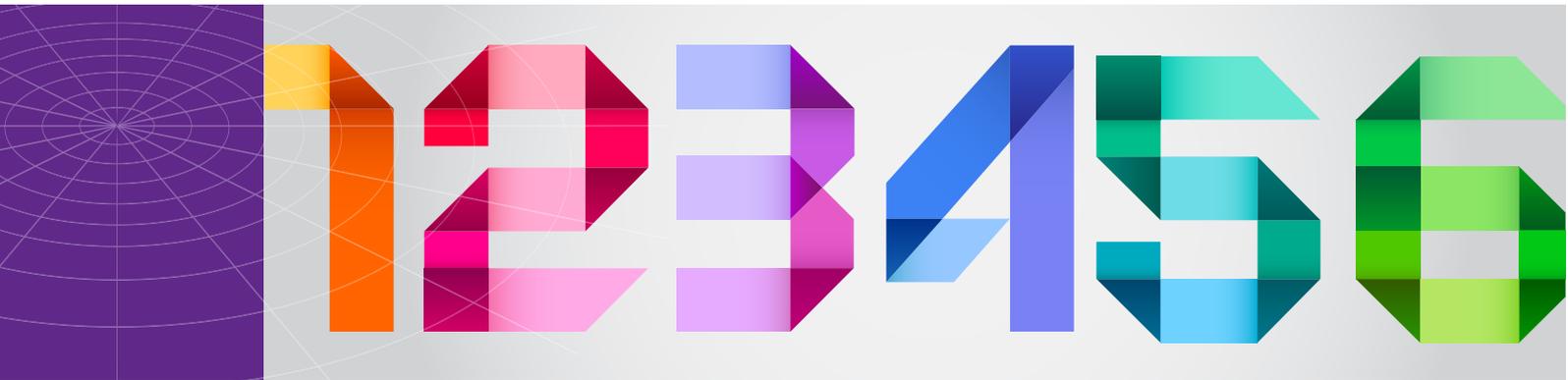


The top six things marketers need to know about the new Indonesian consumer

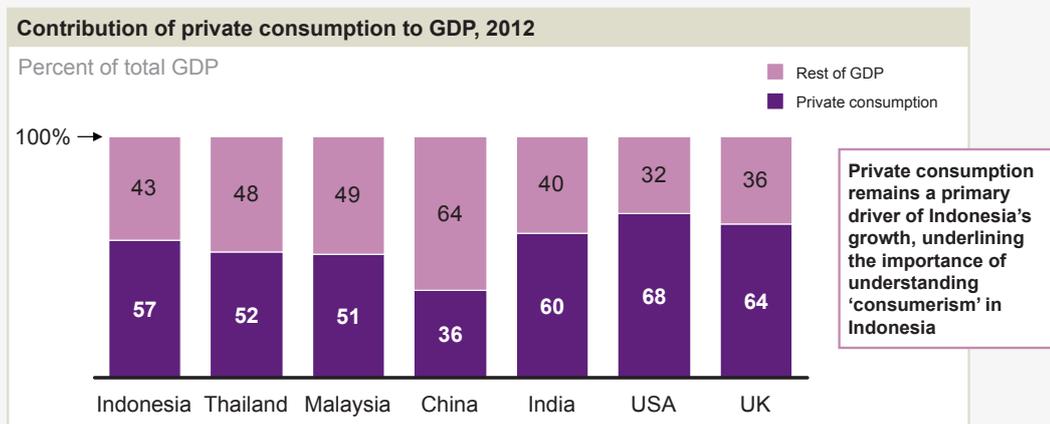


By Rohit Razdan, Mohit Das and Ajay Sohoni

For marketers eager to grow their businesses in Southeast Asia, understanding Indonesia and its growing class of consumers is a must. Home to one of the world’s fastest-growing economies, this archipelago country will account for 40 percent of ASEAN¹ growth through 2030, with much of that expansion coming from private consumption. Already consumer activity is a significant part of Indonesia’s economy, at 57 percent of its GDP. Thus, the key to driving growth is a deep understanding of how Indonesians think and behave.

As part of McKinsey’s Asia Consumer Insights Center, we surveyed more than 5,500 Indonesian consumers across all socio-economic groups, in both urban and rural areas. We covered 44 cities in 24 provinces, asking respondents about their general attitudes and beliefs, as well as thoughts about five product sectors (food & beverage, household & personal needs, financial services, consumer electronics and OTC pharmaceutical).

Exhibit 1:
With private consumption a significant contribution to GDP in Indonesia, understanding Indonesian consumers is fundamental to driving growth



SOURCE: WMM

1 Association of Southeast Asian Nations

Here are five key insights that emerged from our latest round of research, results that we will expand upon in a full report out next month.

1) Indonesia is urbanizing quickly, and while the top 10 cities contribute 55 percent of GDP, five smaller cities emerge as “hidden gems” in terms of their consumption potential.

By 2030, 71 percent of Indonesians will live in cities and the urban contribution to the country’s total GDP will increase from 74 percent today to 86 percent. Such growth means it will be critical for marketers to understand the behavior and attitudes of city consumers and to recognize which cities have similar consumption patterns and characteristics. In addition to the top ten cities, the five “hidden gem” cities are: Madiun, Bandar Lampung, Padang, Gresik and Denpasar.

2) At 55 million people and growing fast, Indonesia’s urban consuming class represents a sizeable opportunity. These urban Indonesians (and those living close to urban areas) share certain defining characteristics that cut across all social classes.

The Indonesian urban consuming class is growing by 5 million people every year and will reach 86 million by 2020. These Indonesians are family-oriented, risk-averse and brand loyal, particularly in favor of local brands (though it is only the perception of being local that matters). They place a high value on saving money and are late adopters of products and services. These characteristics also apply to what we call the “Cluster Rural” population – people living in rural areas that are close to urban centers.

3) However, an affluent consuming class of 20 million people is breaking away from these traditional Indonesian attitudes and behaviors.

The large, rapidly growing Affluent Consuming class likes to try new products and buy premium goods and services. They appreciate the value of indulging and rewarding themselves a little. They are financially savvy.

4) While Indonesians are highly brand loyal and prefer local brands, it is only the perception of being local that matters.

Indonesians express strong brand loyalty across most product categories and have high faith in their country’s local products. Yet an opportunity exists for international companies to create brands with local images and uniquely appealing Indonesian value propositions.

5) Indonesians are online, but not to shop.

There are 40 million digitally-connected urban users and 70 percent of them engage in social media, yet only 7 percent shop online. This opens up an opportunity for retailers to stimulate e-commerce by addressing concerns many Indonesians have about the security of paying online and the amount of sales support they will receive.

6) With hypermarkets burdened by the perception of high prices, convenience stores remain the most popular format within Indonesia’s growing retail industry.

Indonesians are increasingly experimenting with modern formats such as hypermarkets and supermarkets, and those who shop there say they value the low prices and convenience. Yet non-users continue to believe that these formats have higher prices and are not very convenient. Convenience stores remain popular because they are viewed as an ideal bridge between the convenience of mom-and-pop stores and the product assortment of hypermarkets and supermarkets.

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