



WINNING ON THE NEXT FRONTIER: Five Rules for Reaching Indonesian Shoppers

Indonesia Shopper Report 2013

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BAIN & COMPANY 

KANTAR  **WORLD PANEL**

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Executive summary

Until recently, most consumer product companies paid relatively little attention to Indonesia. Today, many consider it a must-win market. Why? As many emerging markets enter a period of slower growth, Indonesia may be reaching an inflection point. It's not only attractive in its own right, but also may be critical to the global ambitions of many companies in search of the next wave of international growth.

If Indonesia can address economic challenges such as the threat of inflation, it will be on track to become the 11th-largest economy in the world—and potentially the next Brazil.

Of course, Indonesia's promise depends on its ability to address some significant challenges, as recent economic headwinds have highlighted. For example, the country will have to manage the threats of inflation and political instability, and it will have to reduce regulatory complexity and invest in infrastructure in order to realize its potential. But if Indonesia succeeds in these areas, it will be on track to become the 11th-largest economy in the world—and potentially the next Brazil.

To help companies position themselves for success in Indonesia, we provide an in-depth look at market conditions as well as consumer attitudes and behavior in the country. We then highlight five golden rules that consumer product companies should follow to succeed in the archipelago nation.

Indonesia is a “winners take all” market today. Consumer players need scale, and the cost of serving customers is high primarily due to the country's dispersed geography and population, poor infrastructure and

fragmented retail landscape. Its consumer product market is highly consolidated as a result, with the top four to six brands controlling 60% or more of the market in many product categories.

These unique market conditions shape consumer attitudes and behavior. To understand Indonesian shoppers, we synthesized findings from a range of exclusive sources, including proprietary consumer insights, gleaned from 7,000 Indonesian households and developed through a partnership with Kantar Worldpanel; and analysis from Bain's extensive expert network and years of experience in Indonesia. This enabled us to identify critical shopper insights in five areas related to Indonesians' willingness to pay for premium products, degree of loyalty, behavior across regions, shopping preferences, and attitudes toward social media.

Based on these market and consumer analyses, we highlight five golden rules for success in Indonesia:

1. Be clear on where and how to win
2. Truly understand the Indonesian consumer
3. Attain the right distribution coverage to reach target consumers
4. Win the battle for new consumers at each point of sale
5. Ensure that human resources (HR) is an accelerator and not a bottleneck

Consumer product companies as diverse as Unilever, Danone, Otsuka, AJEGROUP, and Wings have followed these rules to develop leadership positions in this “winners take all” market, and we offer examples of their success throughout this report.

No consumer product company with global ambitions can afford to ignore the Indonesian opportunity, and Indonesian brands won't survive unless they secure a sustainable leadership position in the market. While there are many paths to the winner's circle, brands of all types—from new entrants to established leaders—have shown that the golden rules are critical to achieving and sustaining success in Indonesia.

The Indonesia imperative

Few would dispute that Indonesia is poised to become the next big market for fast-moving consumer goods (FMCG) companies. Indonesia's economy is driven by domestic consumption, which rose at a compound annual growth rate (CAGR) of 17% over the five years ending in 2012. It is the world's fourth-most populous nation, and its consumer class is growing rapidly. Over the next 15 years, Indonesia will gain 80 million new consumers, accounting for 40% of the new consumers in the Association of Southeast Asian Nations (Asean) over that period.¹ Estimates by the Brookings Institution indicate that Indonesia will become the fourth-largest middle-class country by 2030, behind India, China and the US.²

While Indonesia's rate of growth is slowing, it is likely to grow faster than other large emerging market nations, which could enable it to become the 11th-largest economy in the world by 2030,³ up from the 16th slot in 2012. Thus, Indonesia could be the next Brazil, qualified to take its place as a member of the Brazil, Russia, India and China countries (BRICs).

Success in the country would be an imperative for multinational corporations (MNCs) seeking to catch the next wave of emerging market growth; it would be absolutely crucial for Indonesian companies, most of which have relatively few opportunities in other markets.

But, although Indonesia is poised for a dramatic rise, it will have to address significant challenges to achieve its potential. This includes maintaining political stability, rationalizing its regulations, managing inflationary threats, boosting labor productivity, developing local skills, and building infrastructure. Its success in these and other areas will determine the size of the prize available to consumer product companies.

Winners take all (for now)

Success in Indonesia may be an imperative for many brands, but evidence suggests that the country has not supported many winners per category thus far.

The high cost of serving customers in Indonesia makes it difficult for companies that lack scale to succeed. Those that do achieve scale often lock up critical resources, raising entry barriers even higher.

The market for most products is already consolidated. For example, the top four players in some dairy and food categories control from 60% to almost 100% of the market.

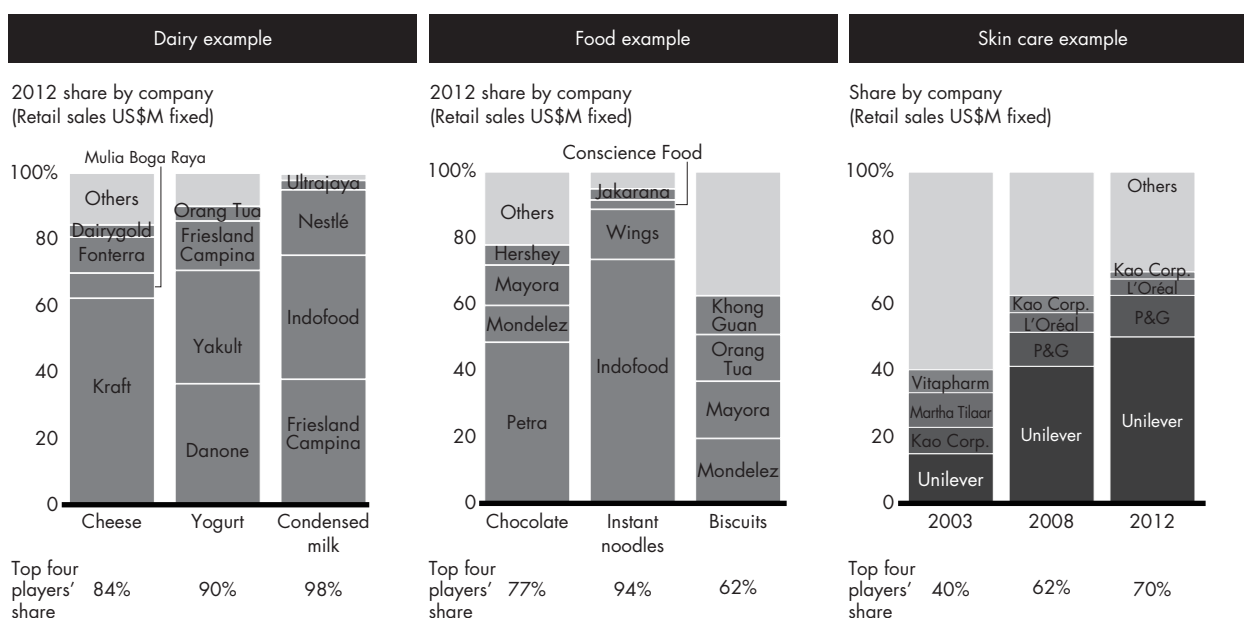
A "winners take all" environment predominates as a result; indeed, the market for most products is already consolidated. For example, the top four players in some dairy and food categories control from 60% to almost 100% of the market. In skin care, the top four players control 70% of the market, up from 25% a decade ago (*see Figure 1*). In comparison, the combined share of the top four players in similar categories in China is 25 to 50 percentage points lower. Notable exceptions include chocolate and condensed milk, where the combined share of the top four Chinese players is 67% and 83%, respectively (compared to 77% for chocolate and 98% for condensed milk in Indonesia). But chocolate is still a developing category in Indonesia and may consolidate further in coming years.

¹ Residents who reach the threshold of having at least US\$5,000 of disposable income per year at purchase price parity.

² Rankings based on 2005 purchase price parity. Source: Brookings Institution, "The New Global Middle Class" (2010).

³ Based on nominal GDP.

Figure 1: In most categories, the Indonesian consumer market is consolidated



Source: Euromonitor (Sep. 2013)

Indonesia's high cost-to-serve is driven by three main factors:

- *Dispersed geography and population.* Indonesians live on about 6,000 of more than 17,000 islands that span 5,000 kilometers from east to west. While 60% of the population lives on the island of Java, it is difficult to reach shoppers who are spread across this diverse archipelago, particularly since only 11 cities have more than one million residents.
- *Underdeveloped infrastructure.* Indonesia's road density is two-thirds that of China's and less than half that of Malaysia's, and 40% of its roads are unpaved. Congestion is common in large cities. For example, in Jakarta, the average work commute takes two hours, and commuters sit still 60% of that time. Moreover, Indonesia has only half the railway lines per person compared to China, Malaysia and Thailand.

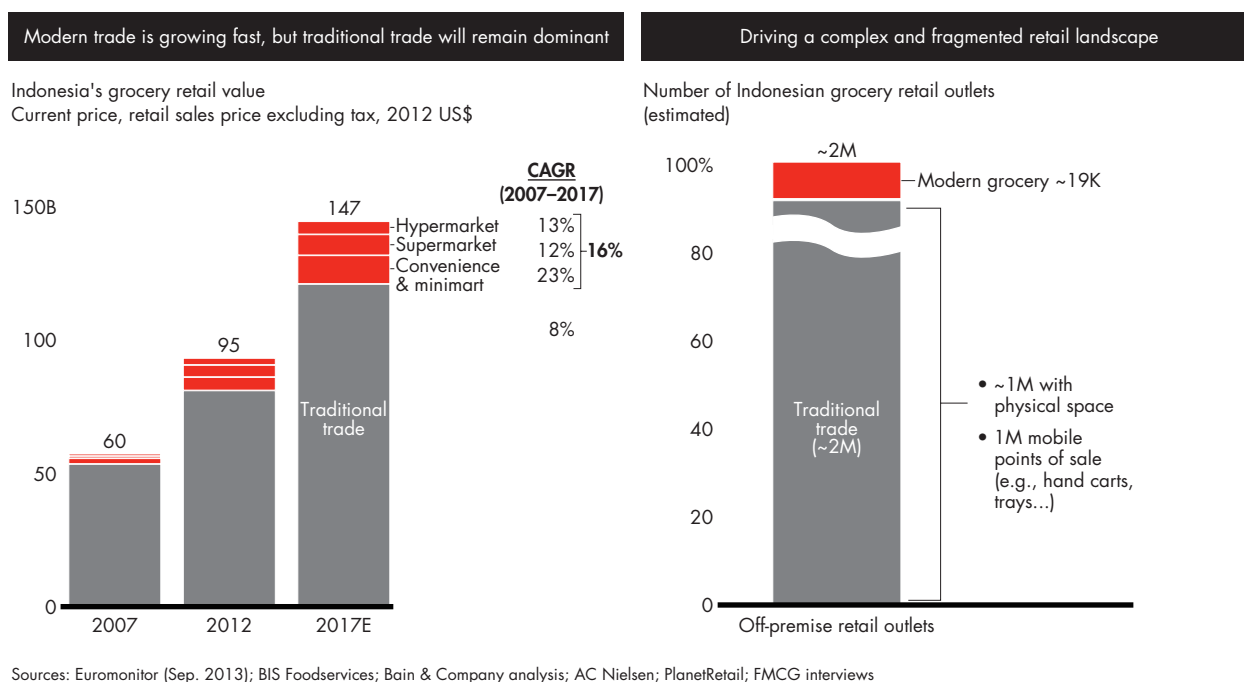
- *Fragmented retail landscape.* Traditional trade accounts for the vast majority of Indonesia's two million retail outlets, and it is expected to remain dominant even as small-format modern trade gains share. The dynamic is driven by regulation, poor infrastructure and the lack of public transportation options that would facilitate use of larger retail formats that are typically located farther from shoppers (see Figure 2).

Given these factors, distribution is a hard-won but critical advantage. Leaders develop extensive networks that enable them to reach customers all across the country at reasonable cost.

In addition to cost-to-serve, other factors also drive consolidation:

- Shelf space is scarce in the small outlets that dominate the market, which means that consumer choice is often limited. Traditional outlets carry

Figure 2: Indonesia's fragmented retail landscape is dominated by traditional trade and small-format outlets



only two or three brands per category; convenience stores and minimarts, the largest and most rapidly growing modern trade sector in Indonesia, carry only three or four brands per category.

- Seventy percent of advertising spending goes to television, and most of it flows to the 10 national stations that reach all Indonesians. Competition for the limited spots on these few channels is intense.
- Our research on shopping baskets shows that, within their social strata, Indonesians buy similar types of goods in similar proportion across the country. We believe this is driven mainly by the relative homogeneity (compared to other emerging markets) in diet, taste and preferences, which are partly shaped by the ubiquity of national television, the uniformity of climate across the country, and the limited number of products available in stores.

The market for most products in Indonesia is likely to remain consolidated in the foreseeable future, but consolidation could decrease in some categories. As consumer spending rises, customers may demand more diversity. As interest among MNCs increases, more brands will make their way into the market, raising the level of competitive intensity. And as modern trade expands, larger-format retail outlets with more shelf space will gain share, giving consumers more brands to choose from when they shop. In some categories, these trends will create opportunities for new entrants and followers, some of which are already making inroads. For example, followers such as Wings and AJEGROUP have had success in the instant noodles and carbonated drinks categories, despite the presence of the incumbents Indofood and Coca-Cola.

Shopper insights

To win in Indonesia, companies must understand Indonesian shoppers, including how their attitudes and behavior are likely to change as market conditions evolve. To this end, Bain developed an exclusive partnership with Kantar Worldpanel to conduct extensive consumer research in Indonesia, recording daily purchases in 70 product categories over a period of 1.5 years. The proprietary research included 7,000 representative households—nearly 5,700 urban and more than 1,300 rural households—spread across the country.⁴

We synthesized our findings from this effort with insights from Bain's extensive expert network and years of experience in Indonesia; interviews with senior leaders at a range of consumer product companies; interviews with consumer experts; and a broad survey of secondary sources.

Combined, this research provides the sharpest available profile of Indonesian shoppers to date, and it is an invaluable resource for consumer product companies. It enabled us to identify five characteristics of Indonesian shoppers that every consumer product company must heed to win in the country. In summary, we found that Indonesian shoppers:

1. Pay more for branded products with quality or functional benefits
2. Are not as loyal to brands as players may think
3. Fill their baskets with similar products (and often brands) across the country
4. Prefer small basket and pack sizes and frequent shopping
5. Embrace social media and digital marketing

1. Indonesian shoppers pay more for branded products with quality or functional benefits

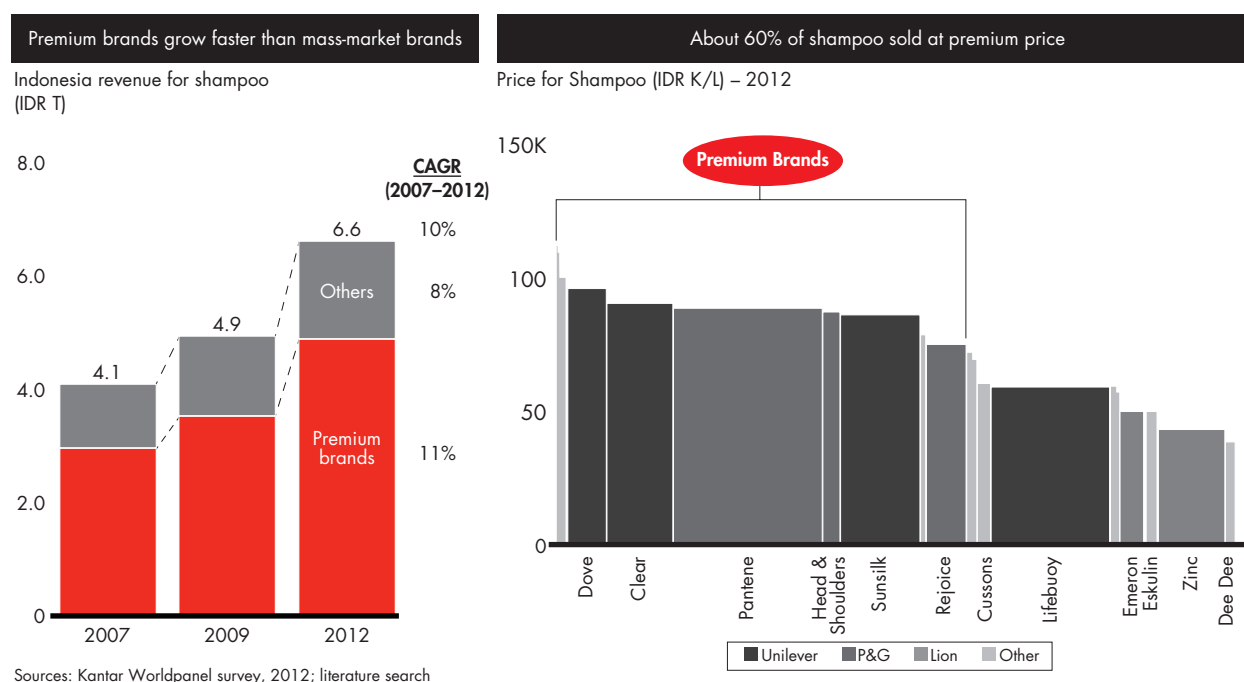
Premium brands account for a large share of the market in Indonesia, and they are growing faster than non-premium brands in some categories. No doubt this is partly because MNCs and local companies that offer premium brands tend to have extensive distribution networks and have sewn up shelf space, enabling them to reach more customers. But we also believe that Indonesian consumers recognize the promise of higher quality or functional benefits that branded products offer and are willing to pay more for them.

This is particularly true in the food and beverage categories. Premium brands such as Aqua, owned by Danone, capture 40% of the volume and command a premium of 30% in the bottled water category, most likely because of perceived superior quality and reliability of sources. Ice cream offered by Unilever and Campina sells at a premium of 450%, and chocolate confectionery offered by Mondelēz and Petra's top brand sells at a premium of 75%, due to superior taste, ingredients and quality (combined with effective TV advertising). And, because they offer distinctive functional benefits, Pocari Sweat, an isotonic drink, commands a 30% premium compared to soft drinks, and Anlene commands a 40% to 60% premium compared to other brands that offer calcium-fortified milk.

An increasing number of brands in categories other than food and beverage command premiums as well. For example, about 60% of shampoo brands earn a premium due to perceptions about quality, which are partly shaped through advertising (*see Figure 3*).

⁴ All islands included, except Western New Guinea, Maluku Islands and Lesser Sunda Islands.

Figure 3: Premium brands capture a large share of the market and are growing fast; shampoo is a good example



2. Indonesian shoppers are not as loyal to brands as players may think

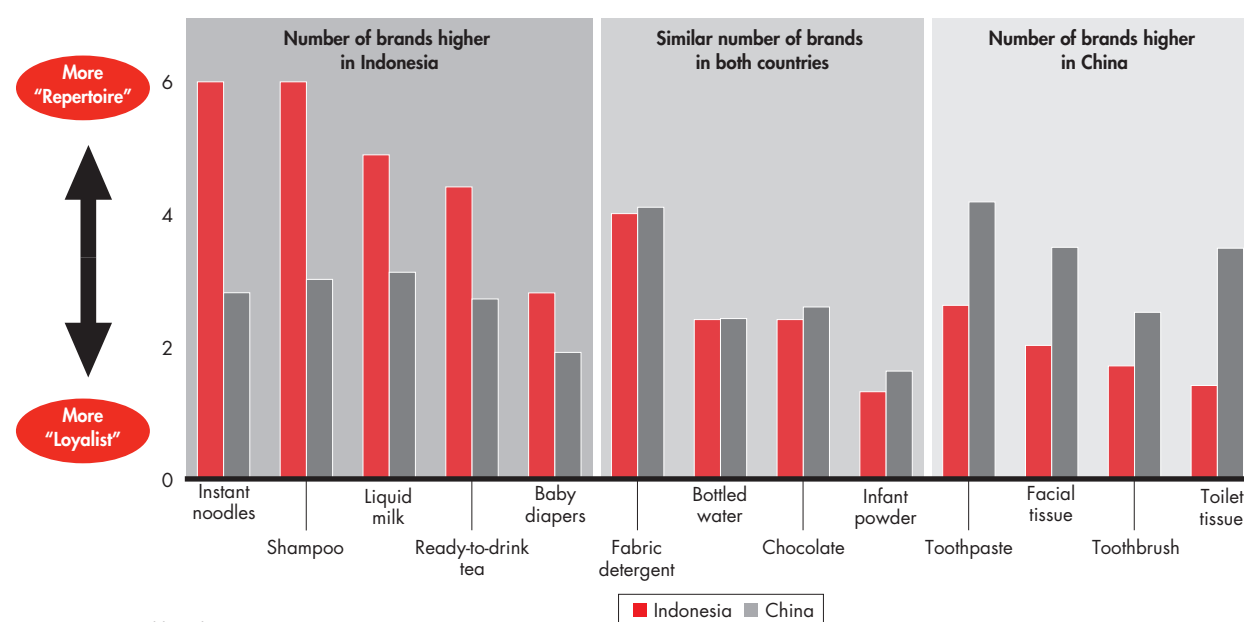
Consumer product players tend to overestimate the level of loyalty consumers have for their brands and products. Bain's global research indicates that consumer behavior ranges between two extremes, loyalist to repertoire. Most consumers exhibit both loyalist and repertoire behavior, depending on the category. Consumers demonstrate loyalist behavior when they repeatedly buy the same brand for particular occasions or needs; loyalist categories typically include infant formula, condensed milk and baby diapers. In contrast, consumers exhibit repertoire behavior when they buy different brands for particular occasions or needs; repertoire categories typically include instant coffee, biscuits and shampoo, although categories may elicit different buying behaviors in different countries.

Contrary to conventional marketing thinking, Bain research suggests that the majority of categories are repertoire in nature. This applies in Indonesia.

However, Indonesians are more polarized in their shopping behavior than are consumers in many other emerging markets, including China. They are highly loyal in some categories, such as toothbrush and toilet tissue, buying an average of 1.7 and 1.4 brands, respectively, in a given year. But Indonesian shoppers display a high degree of repertoire behavior in some other categories, such as instant noodles and shampoo, buying an average of almost 6 brands per year. By contrast, the average number of brands bought per Chinese household each year varies little across categories, ranging from about 1.6 brands (infant powder) to 4 brands (fabric detergent and toothpaste) (see Figure 4).

Figure 4: Indonesians are noticeably polarized in their loyalty and repertoire behavior

Average number of brands purchased yearly by Chinese and Indonesian households, 2012



Source: Kantar Worldpanel, 2012

Several factors contribute to Indonesia's unique profile regarding loyalist and repertoire behavior. Loyalist behavior may often be driven by constrained choice. Fewer brands are available in Indonesia, many categories are highly consolidated, and shelf space is limited in the small-format retail outlets that still dominate in the country. Thus, many consumers may behave as if they are loyal just because there are few options available to them.

On the other hand, high repertoire behavior may often be driven by the proliferation of local artisanal brands in some categories, such as biscuits. Indonesians also prefer to shop more frequently than consumers in many other countries, and Bain research shows that there is a correlation between high shopping frequency and the number of brands purchased in repertoire categories. Indeed, in line with Bain global findings, the most frequent shoppers buy the largest variety of brands in a given year. For example, the average Indonesian household buys seven brands of instant coffee

Fewer brands are available in Indonesia, many categories are highly consolidated, and shelf space is limited in the small-format retail outlets that still dominate in the country.

and five brands of milk in one year. But the heaviest shoppers—the 20% who shop most frequently—bought nine brands of instant coffee and seven brands of milk.

There also appears to be a high incidence of “basket leakage” in Indonesia—heavy users of a particular brand in one year often are not heavy users of the same brand the following year.

We believe that the more extreme patterns of loyalist and repertoire behavior in Indonesia will gradually soften as larger modern-trade retail formats take hold in the country, more big brands become available, and the number of available artisanal products falls.

3. Indonesian shoppers fill their baskets with similar products (and often brands) across the country

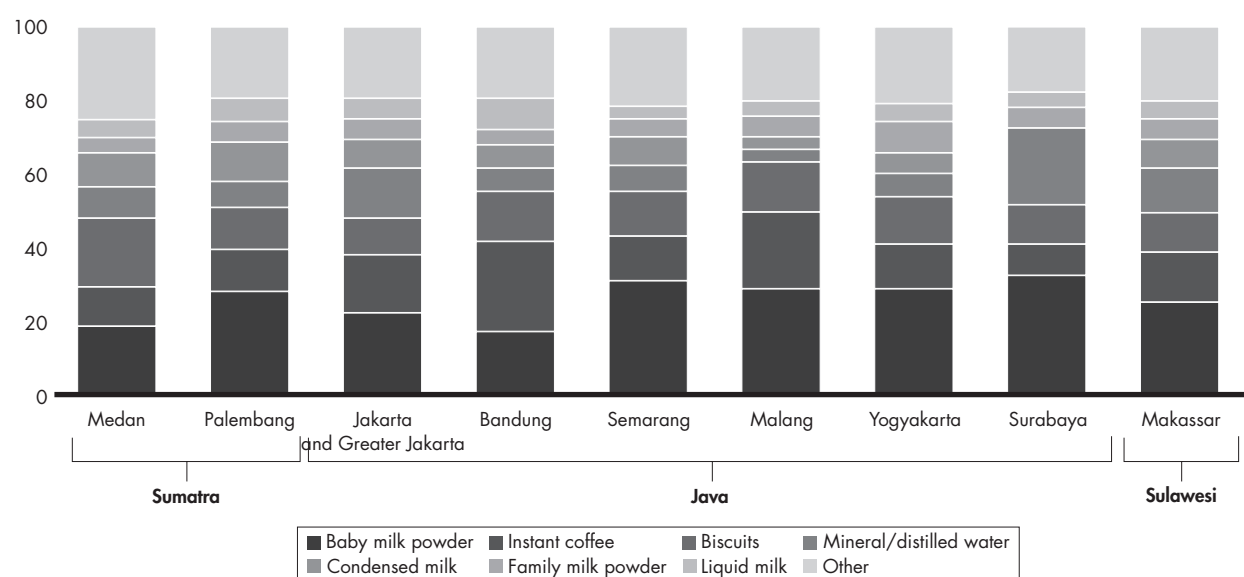
It is often said that there is significant variation in consumer behavior by region in Indonesia, but our research suggests that buying behavior is surprisingly homogeneous. From a category perspective, Indonesian shopping baskets are very similar across the country, although there is some variation in the brands that shoppers purchase in different regions (see Figures 5a and 5b). This is unusual and has far-reaching implications. In most emerging markets, including in China, the contents of shoppers'

baskets differ significantly by city or province. Indeed, evidence suggests that in Indonesia the variation in preference for different brands in different regions may often be due to historical factors or the configuration of the brand's distribution network.

We believe that the similarities result from a number of contributing factors, some of which we discussed in the "Winners take all (for now)" section on market conditions. For example, choice is often limited due to market consolidation and scarcity of shelf space in the small-format retail outlets that dominate in Indonesia. TV advertising is the number one source of information about products, but a relatively small number of brands are able to secure significant time on national networks, which accounts for the majority of the nation's advertising expenditures. Temperature and humidity levels are highly consistent across the country regardless of the season,

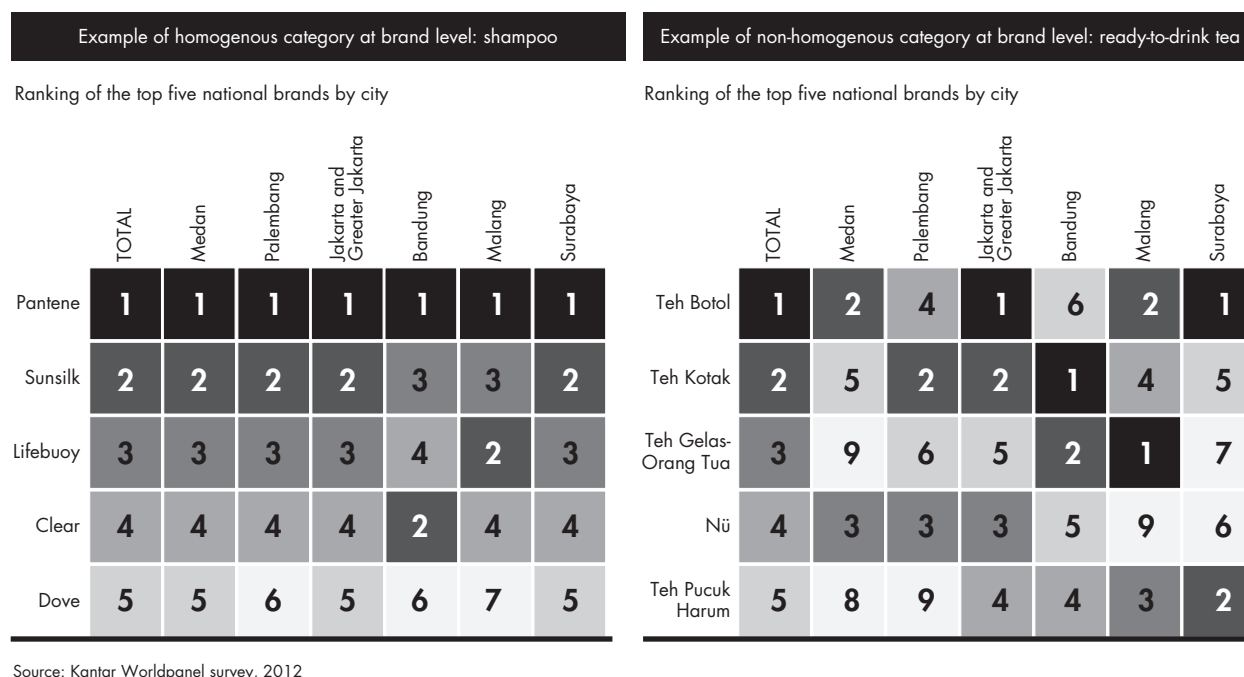
Figure 5a: Shopping baskets are similar across Indonesia

Average monthly discretionary spend per buyer, split by top Food and Beverage categories*



*Top categories shown (excludes top four staples – rice, instant noodles, cooking oil, and sugar)
Source: Kantar Worldpanel survey, 2012

Figure 5b: However, there can be variation in the baskets of brands that shoppers are buying



which creates consistent demand for similar products in categories ranging from food and beverage to personal and household care. And, although cuisines vary by region, Indonesians often have similar tastes and diets. Variation is more significant on the outer islands; although markets in these areas are growing, they are relatively small today.

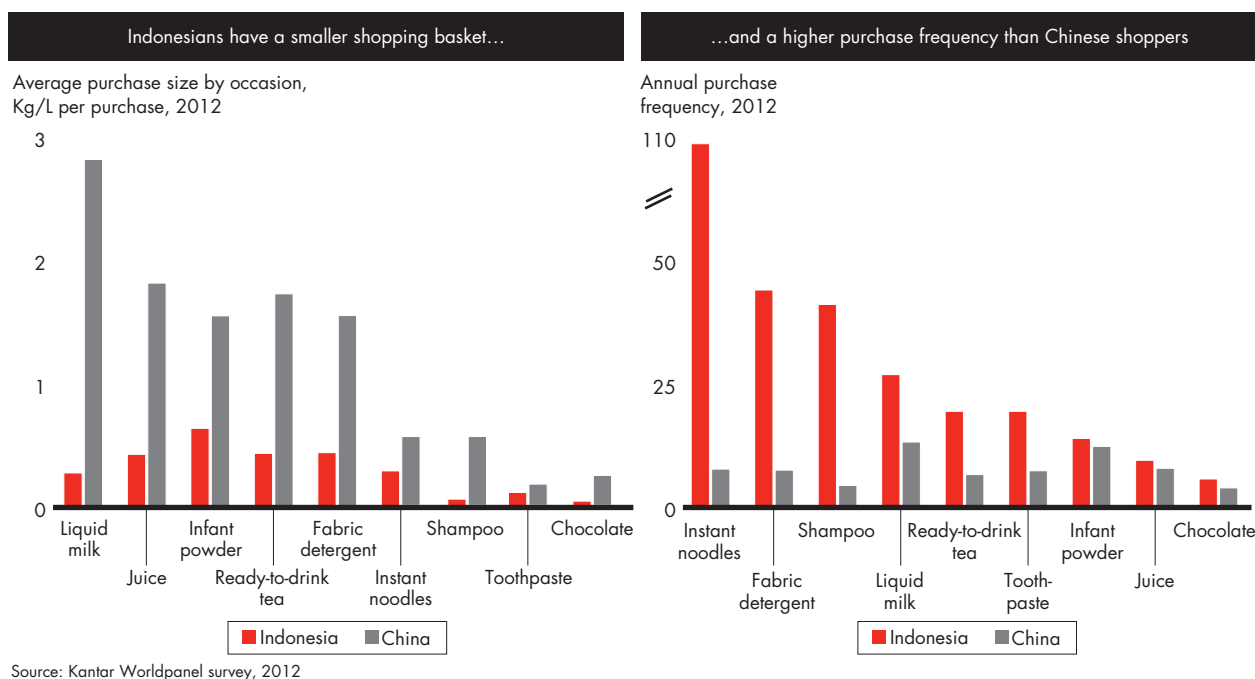
Our research indicates that Indonesians have a stronger preference for small basket and pack sizes and more frequent shopping compared to consumers in other emerging markets.

4. Indonesian shoppers prefer small basket and pack sizes and frequent shopping

Consumers in emerging markets typically prefer smaller pack sizes compared to consumers in developed markets, mainly because they are more affordable and easier to transport. This is particularly true in Indonesia.

Indeed, our research indicates that Indonesians have a stronger preference for small basket and pack sizes and more frequent shopping compared to consumers in other emerging markets. For example, Indonesians buy an average of 60 milliliters of shampoo per purchase (typically bundled in six-pack sachets of 10 grams each), whereas Chinese consumers buy an average of 570 milliliters of shampoo per purchase. But Indonesians shop for shampoo about once every nine days, compared to once every 11 weeks for Chinese consumers (see Figure 6).

Figure 6: Indonesians put less in their shopping baskets and buy more often than Chinese shoppers



Similarly, the average basket size for instant noodles is 300 grams in Indonesia, as opposed to almost 600 grams in China. But Indonesians purchase noodles once every three days, compared to once every six weeks in China.

The difference may have to do with the fact that Indonesian consumers have less purchasing power and rely more on traditional trade, which often offers products with smaller pack size. Less developed infrastructure and transportation options may also come into play.

5. Indonesian shoppers embrace social media and digital marketing

Many companies associate social media with the US, but Indonesians are among the most frequent and committed users of social media in the world.

Indonesia is Twitter's number five market (accounting for 30 million of Twitter's 500 million active users), and there are more tweets sent from Jakarta than any other city in the world. Indonesia accounts for more than 60 million of Facebook's one billion members and is that network's fourth most-active country; Greater Jakarta has more than seven million Facebook users, making it the second-largest Facebook city in the world. Other rising networks include Mig33, the high-growth social entertainment platform, and YouTube, which is used with increasing frequency by brands and individuals for airing videos.

This is partly because Indonesia, with a median age of 28, has such a young population, and young people tend to be the most active users of social networks. Indonesia also has an exceptional mobile culture, with a strong appetite for mobile social-media applications. Most people use their mobile phones

to surf the Web, and telecom operators often provide free mobile access to social networks. Mobile is also popular in Indonesia because the country's fixed-line and broadband infrastructure are underdeveloped and expensive to use.

Indonesians are also highly receptive to digital marketing. For example, they use Twitter extensively to get information about and help with products, and they readily watch the campaigns that brands air on Facebook or YouTube. In part, this may be because Indonesians have relied heavily on word of mouth to

learn about brands, and thus digital marketing may seem like a natural progression to them.

These five characteristics of Indonesian shoppers are critical to success, and they deeply inform the golden rules we outline in the following section. But it's worth noting that the underlying dynamics that led to our findings are still evolving. Some factors are as likely to be affected by the market's evolution as they are to affect it, and consumer product companies should watch them closely to understand how to apply the insights we've highlighted as conditions change.

Differences between Indonesian and Chinese shoppers

Bain research unearthed a number of noteworthy differences between consumer behavior in Indonesia and China. We highlight four below.

Characteristics	Indonesia	China
Homogeneity	Indonesian shopping baskets are very similar across the country at a category level and often at a brand level	Brand preferences differ significantly across provinces
Attitude toward premium products	Readily pay a premium for products with quality or functional benefits	More price sensitive and more likely to hunt for bargains
Pack size and shopping frequency	Prefer smaller packs and basket sizes and more frequent shopping	Can afford larger packs and basket sizes and less frequent shopping
Loyalty	Polarized: Significant variations in the number of brands bought per household across categories	Consistent: Distinction between loyalty and repertoire behavior is less pronounced

Five golden rules for winning in Indonesia

We've observed that Indonesia is a "winners take all" environment in which a few players often sew up 60% or more of the market in each product category. But who wins? How do they win? And is their experience relevant to other players?

Success is not limited to a particular type of company. Large MNCs have done well but so have large local champions and new entrants, and there are many paths to the winner's circle. For example, Unilever is a strong category leader in Indonesia. The company has been active in the country for decades, and it rose to leadership in a range of categories through a combination of organic growth driven by superior innovation and inorganic growth fueled by savvy tuck-in acquisitions. Alternatively, Danone mounted a mergers and acquisitions (M&A) strategy in the 1990s to buy its way into the market and now has a large share in a number of categories, including water, dairy and infant formula.

Small players have had success through category creation, launching products in categories that didn't previously exist in Indonesia. For example, Otsuka introduced Pocari Sweat to create the isotonic drink category in Indonesia from scratch; the category took off in the early 2000s.

And fast followers have grown rapidly to compete with competitors by focusing intensely on executing category success factors. Wings introduced the Mie Sedaap brand of instant noodles in Indonesia in 2003 and won significant share by focusing ruthlessly on the basics: creating a compelling "value for money" proposition, leveraging its broad distribution reach, and achieving cost leadership through economies of scale. AJEGROUP won share for Big Cola in the carbonated drinks category by targeting the mass segment with innovative pack sizes and attractive prices.

These brands have charted unique courses to the top, but our research indicates that virtually all winners follow five golden rules for success in Indonesia. These rules are relevant across the country, and they apply to every type of player, from large companies with a strong market presence that are seeking to expand to new entrants that have no foothold in the market.

Small players have had success through category creation, launching products in categories that didn't previously exist in Indonesia.

1. Be clear on where and how to win

Companies that succeed in Indonesia define their objectives at the outset. They identify imperatives (for example, gain share, grow the category or develop a premium offering) and determine how to achieve them (organically or inorganically) early on to ensure all their efforts are focused on attaining scale and leadership.

Our research indicates that winners base their strategies on two main factors:

- Category dynamics. How established is the category? What's the level of competitive intensity in the category? What dynamics define competition in the category?
- Market position. Is your brand a leader, close follower, distant follower or new entrant in the market?

Answering these questions will enable companies to carefully determine which of three main paths to take to achieve a leadership position: organic growth, inorganic growth [M&A, joint ventures (JVs) or partnerships], or category creation.

Leaders in established categories typically focus on growing the category and developing or strengthening premium offerings while protecting their share and extending their advantage. Unilever, which has been present in Indonesia since 1933, generally takes this approach. The company drove results through innovation, adapting products from other markets and developing new ones to suit Indonesian consumers. But M&A was also critical for Unilever, a serial acquirer that has frequently filled portfolio and capability gaps by purchasing local brands. For example, the company bought the vitality-drink brand Buavita from Ultrajaya in 2008.

Many companies have also used M&A to develop scale and gain access to the market (see *Figure 7*). Danone used M&A to acquire its way into Indonesia—for example, it became the top player in the soft drinks category through its 1998 purchase of a majority stake in Aqua, the bottled water brand. It repeated the strategy in 2007, acquiring the baby formula brands Numico and Sari Husada (as part of a global acquisition of Numico) to become a category leader in baby nutrition.

History suggests that those willing to pay top dollar for promising brands will benefit. Philip Morris' purchase of Sampoerna is a great example of an acquisition that seemed expensive at the time but has proven to be an excellent investment.

Other companies have pursued different strategies to reach the winners' circle. For instance, brands such as Pocari Sweat forged a path to leadership through category creation (see the sidebar "Category creation: Pocari Sweat brings isotonics to Indonesia" for more details on page 16).

Leaders use consumer insights to determine the right mix of above-the-line and below-the-line marketing and activation levers.

2. Truly understand the Indonesian consumer

This rule may seem basic, but it bears emphasizing because so many brands don't have the type of deep insight into consumer attitudes and behaviors that is a prerequisite to success in Indonesia. Indeed, the landscape is evolving so rapidly that insights gained a few years ago may now be out of date.

Brands should ask themselves the following questions: Why are today's consumers attracted to certain products and not others? Do consumers in our category primarily exhibit loyalist or repertoire behavior? How do we leverage fresh consumer insights (as opposed to those developed five years ago) to drive innovation and marketing? How can we emphasize the quality and functional benefits of our products to capture a premium?

Winning brands excel at continuously developing new insights into evolving consumer behavior, and they adjust their value propositions by tailoring their approach to innovation and the 4Ps of marketing (product, price, promotion, and place) to meet emerging consumer needs.

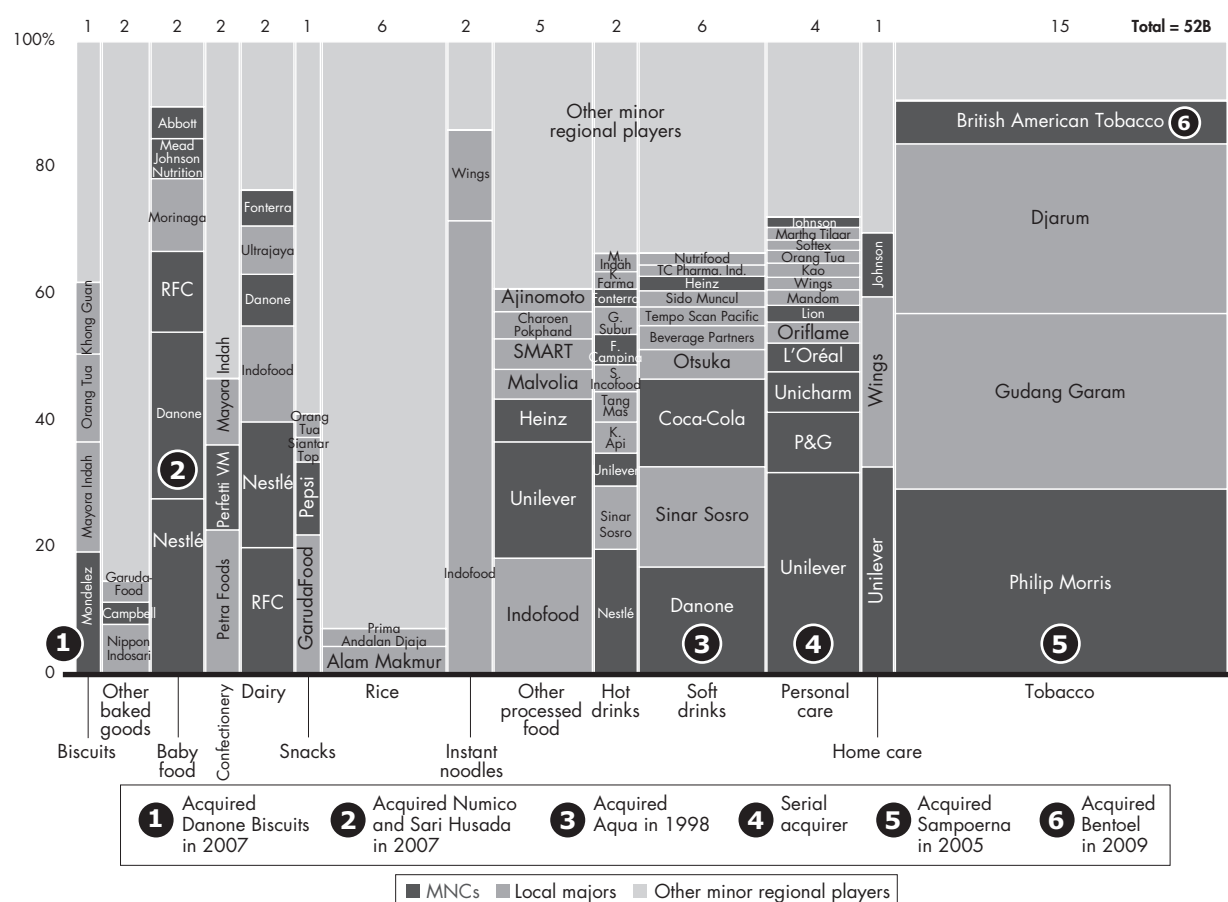
Leaders also use consumer insights to determine the right mix of above-the-line and below-the-line marketing and activation levers.

In categories where consumers show strong loyalist behavior, marketers should strive to establish their product as the preferred brand and to create high switching costs. This can be accomplished through above-the-line marketing as well as through specific shopper recruitment programs involving free trial periods.

In categories where repertoire behavior is stronger (for example, instant noodles), companies should concentrate on recruiting and re-recruiting new consumers every day at the point of sale. Companies need to focus their entire organization on "hero" SKUs, emphasizing below-the-line marketing (such as in-store sales promotions), as well as trade spending to ensure constant engagement with shoppers at

Figure 7: Leaders have achieved leadership through M&A, while others others have used acquisitions to get market access

Indonesia consumer products market*
2012 US\$B, retail sales value



* Excludes fresh food, apparel, consumer electronics, appliances, toys, personal accessories and home/garden categories

Other processed food includes oils and fats, sauces/dressings, frozen processed food, canned processed food, chilled processed food, ice cream, meal replacement, spreads and other smaller processed food categories. Soft drinks includes water, carbonated drinks, juices; Personal care includes beauty, tissue and hygiene and other personal care

Sources: Euromonitor (Sep. 2013); literature searches

the point of sale. In-store visibility and distinctiveness, along with outstanding outlet execution, are critical. In many cases, brands should be available in multiple locations in the store, not just on the main shelf.

Pocari Sweat, the isotonic drink brand, rose to leadership based on its ability to leverage superior consumer insights. The brand understood that Indonesian consumers had a deep need for rehydration and recovery, particularly after periods of fasting by its large Muslim population during the

holy month of Ramadan, but also due to the prevalence of dengue fever.

Wings' Mie Sedaap brand of instant noodles achieved dramatic results by leveraging consumer insights from the category leader, while taking advantage of category growth, which was driven in part by the leader's investment in advertising. The company focused on developing a value proposition based on superior taste and competitive unit price, and it invested to build the brand by increasing trial usage and securing

Category creation: Pocari Sweat brings isotonics to Indonesia

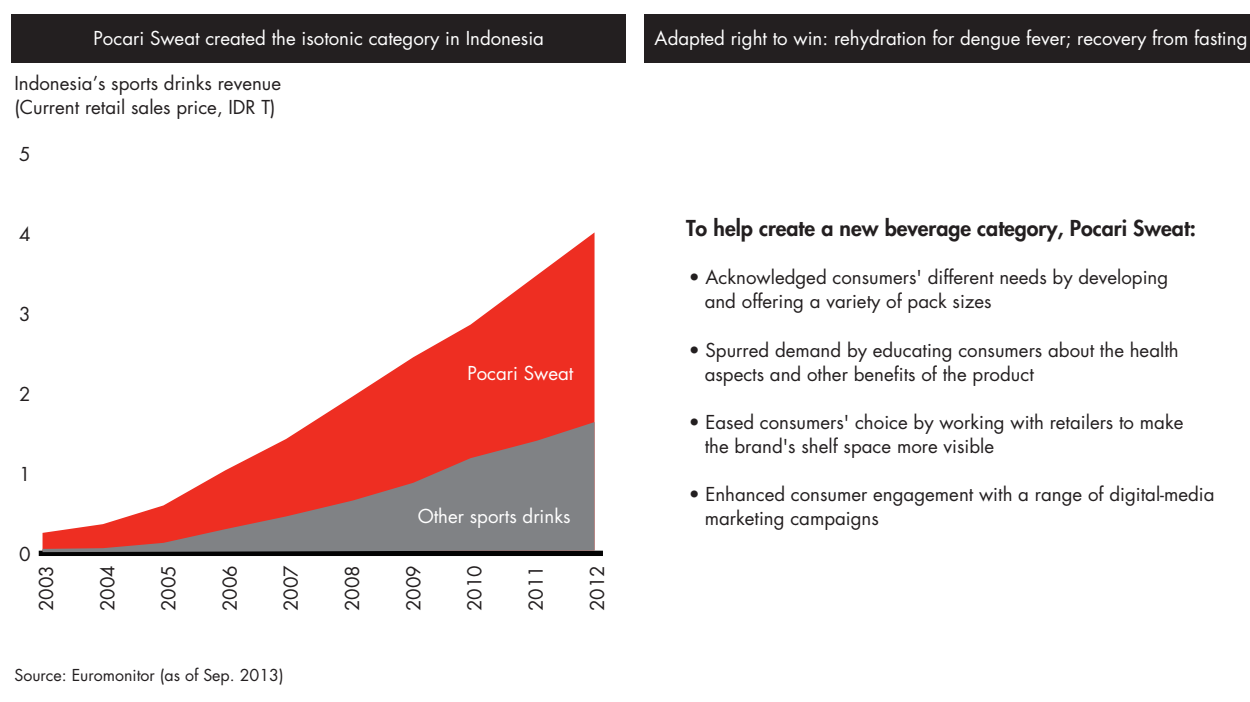
Isotonic sports drinks barely existed in Indonesia when Japan's Otsuka Pharmaceutical launched Pocari Sweat in the country. Within a decade, the value of the sports drink category rose by a factor of 1.5 to 4 trillion Indonesian rupiahs. Despite the influx of new entrants, Pocari Sweat still accounts for nearly 60% of the market and commands a 30% premium compared to soft drinks (see Figure 8).

Pocari Sweat developed a tailored 4P approach based on consumer insights, such as the recognition that Indonesians had a deep need for rehydration and recovery. The brand offered its drink in a variety of sizes and formats (including standard liquid or powder) to accommodate a range of consumer needs, developed marketing campaigns leveraging digital media to educate the public about the functional benefits of isotonicity, and worked with merchants to ensure they provided visible shelf space for the brand.

Pocari Sweat is also very good at using digital media to win customers. It has the third most popular YouTube channel in Indonesia, by views. But perhaps its most innovative initiative was its 2010 launch of Indonesia's first digital marketing game, which created a buzz on social media and elsewhere online. Called "lonopolis," the objective was to educate consumers about the benefits of the brand by harnessing consumers' enthusiasm for social media. To that end, it integrated Twitter, Facebook and Foursquare, offering prizes for participation and reward points for purchases. More than 13,000 people signed up to play the game within the first week of its launch.

And Pocari Sweat attracted consumers with other functional benefits that went beyond its isotonic proposition by launching programs such as "Pocari Sweat One Heart for Environmental Care," which supports environmental efforts aimed at maintaining or improving the cleanliness of coastal areas and beaches.

Figure 8: Category creation is another route to leadership; Pocari Sweat is a great example



prominent shelf space in retail outlets. As a result, its revenues grew at a CAGR of 26% from 2003 to 2013,⁵ raising its market share from 4% to 16% (see *Figure 9*). Wings is now successfully applying this strategy in other categories, such as juice and coffee.

AJEGROUP launched Big Cola in Indonesia in 2011 and more than tripled its sales volume by 2012. Big Cola focused on developing affordable products for mass-market consumers. It is the only beverage company to offer consignment options to Indonesian retailers to mitigate their inventory and cash risks.

3. Attain the right distribution coverage to reach target consumers

To achieve a leadership position, brands must develop extensive distribution networks that reach outlets across the country, focusing on traditional trade and small-format modern trade, such as convenience stores and minimarts. There are approximately two million off-premise retail outlets spread across Indonesia, and most of these are traditional trade formats.

However, not all of these outlets will be suitable for selling every product. For example, certain premium brands of chocolate confectionery can only be sold in the 20,000 to 35,000 outlets that have air conditioning. Shampoo is rarely sold through mobile points of sale, which leaves about one million relevant outlets. On the other hand, soft drinks are sold through on-premise and off-premise outlets, making about 2 million to 2.5 million outlets relevant for this category.

We mentioned that successful MNCs often develop exclusive contracts with large local distributors, and leading

Brands must develop robust distribution networks nationwide—reaching traditional trade outlets as well as convenience stores and minimarts.

Indonesian brands that can afford it often develop their own distribution networks (see *Figure 10*). For example, Coca-Cola Amatil leveraged its long-term presence in Indonesia to build a broad network through a mix of exclusive agreements with several hundred independent distributors and about 1,200 owned delivery trucks from over 100 distribution centers nationwide. Coca-Cola Amatil was also the first beverage company to provide retailers with coolers. This enables them to reach 450,000 outlets direct through distributors.

Wings, which was originally in the soap and detergent business, had already developed an extensive network that combined its own distribution arm with exclusive distributors. When it entered the instant noodles category, it was able to leverage this network to capture market share quickly.

On the other hand, smaller players or new entrants are often left to negotiate with distributors that lack sufficient reach or that request an equity stake for broad distribution.

Research also demonstrates that it's necessary to develop tailored distribution strategies to ensure success with different channels. For example, in traditional trade it is critical to establish robust distributor-management practices that align incentives and maximize coverage and that ensure consistent in-store execution. In modern trade it is critical to develop strong relationships and robust account-management practices with leading retailers.

4. Win the battle for new consumers at each point of sale

Given that Indonesian shoppers are not loyal in most categories, leading brands put as much or more emphasis on winning new consumers as they do on retaining existing ones. To attract repertoire shoppers, brands should deploy compelling in-store strategies that influence consumers where they make buying decisions. Brands should clearly define the “ideal store” for each channel, and they should work with merchants to help them win. And brands should also develop simple steps that the sales force can follow when dealing with merchants, and

Figure 9: Category followers have opportunities to break through; Wings shows how

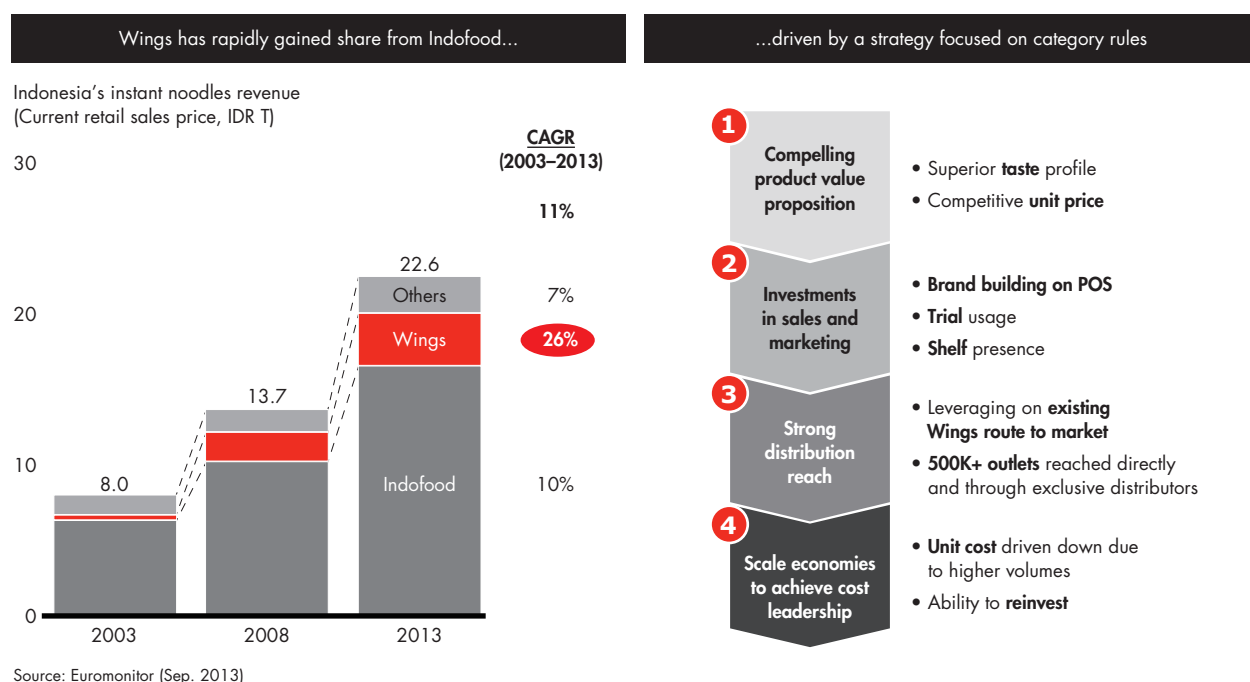
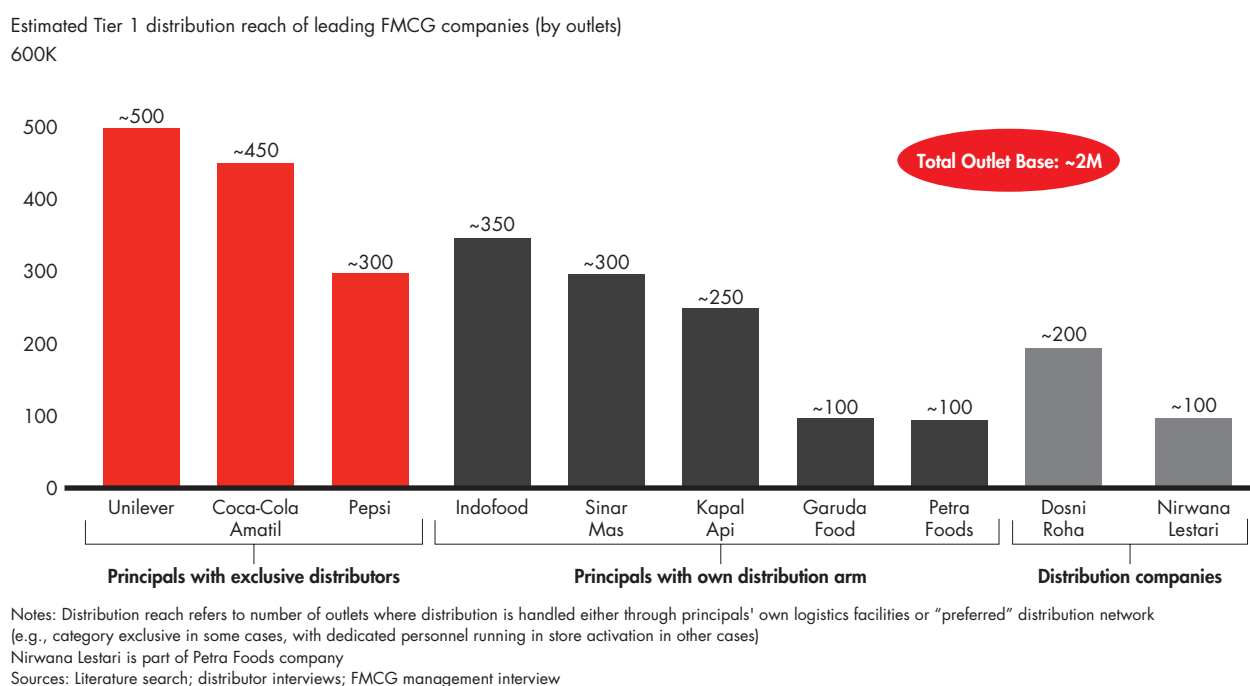


Figure 10: Leading players have achieved broad reach with different models



they should create mechanisms to track the performance of sales people and reward their success.

Several leading MNCs have in place programs to drive sales growth in emerging markets, with names like “Perfect Store” or “Perfect Sales Execution.” These programs start by defining an “ideal outlet” for different outlet types in terms of product assortment, shelf space, location in store, displays, etc., and then work to ensure that sales representatives’ in-store activities are 100% aligned to delivering this ideal outcome. Often sales representatives’ compensation is tied to achieving ideal outlets. Given the importance of winning at point of sale, an increasing number of companies are using this approach to achieve sales excellence in Indonesia, including Unilever, Coca-Cola Amatil and Heineken.

5. Ensure that HR is an accelerator and not a bottleneck

Finally, it’s even more difficult for consumer product companies to secure the necessary talent in rapidly growing emerging markets than it is in established markets. Indonesia is no different, where companies in the consumer space or others are aggressively looking to hire or retain the best talent in a severely talent-constrained market. Winners focus on four key areas: develop a talent-pipeline plan that is aligned with the business strategy; regularly assess talent to ensure each role is occupied by the best people with the right skills; empower local leaders to make decisions that make sense in their particular contexts; and build a performance-based culture that is in sync with the company’s objectives for growth. Each of these areas is discussed in detail in the Bain article, “HR readiness.”⁶

Unilever has made “winning the talent war” a top global priority in Indonesia. It has invested consistently over many years to empower employees and build a high-performance culture. As a result, Unilever has developed a significant advantage in Indonesia, establishing itself as one of the most attractive

companies in the industry for new graduates and achieving one of the lowest turnover rates in the market for managers and senior executives.

Danone also prioritizes recruitment and development of local talent in emerging economies, including Indonesia. The company’s DanYouth program focuses on attracting, engaging and recruiting future local leaders in Indonesia. Included under the DanYouth umbrella are the Danone Young Social Entrepreneur program, which targets Indonesian University students, and the STAR management trainee program, which aims to fast-track top Indonesian performers to management positions within three years. In 2012, Danone also launched Trust, a social game that aims to attract young talent in Indonesia and other emerging markets.

The five golden rules highlight critical priorities, but they aren’t comprehensive. For example, companies must also develop strategies for managing their supply chains to ensure they have access to the resources they need to operate in Indonesia. And they have to understand the evolving regulatory market and develop the capabilities to manage relationships with regulators. But brands that apply these five rules will be far ahead of those that don’t in their ambition to achieve, maintain or expand a leadership position in Indonesia.

As growth slows or stagnates in leading emerging and developed markets around the globe, the Indonesian opportunity looks all the more like an imperative that few can afford to put off. The long-term presence of large brands attests to the market’s potential, and opportunities will continue to open up for brands that seek to expand their presence in or enter the market. But winning in Indonesia has never been more difficult or important for large consumer-focused companies. Competition is intensifying, and companies are rapidly sewing up the resources required for success. Those that act now and prioritize the five golden rules are more likely to win in a market that may prove critical to the global ambitions of so many consumer brands. 🕒

⁶ “HR readiness: A growing pain for consumer products multinationals in emerging markets,” <http://www.bain.com/publications/articles/hr-readiness-a-growing-pain-for-consumer-products-multinationals-ceo-forum.aspx>.

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Acknowledgments

This report is a joint effort between Bain & Company and Kantar Worldpanel. The authors would like to thank Johanne Dessard, Asia-Pacific practice area manager, for leading the thinking behind the report. They extend their gratitude to the many others who contributed to the report, in particular Bain & Company managers Edy Widjaja and Dominik Utama, and practice area senior consultant Laura Norrie.

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