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# Asia's Next Big Opportunity

*Indonesia's Rising Middle-Class and Affluent Consumers*



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# Asia's Next Big Opportunity

*Indonesia's Rising Middle-Class and Affluent Consumers*

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## AT A GLANCE

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The universe of middle-class and affluent consumers (MACs) in Indonesia is growing in size and purchasing power, making the country a compelling opportunity for both local operators and multinational corporations over the coming decade.

### **AN EXPANDING OPPORTUNITY**

Indonesia has the fourth-largest population in the world, attractive demographics, and a strong investment climate. Its MAC population is expected to double to 141 million by 2020, making this period a significant opportunity for businesses seeking strong growth.

### **TARGETING THE MAC POPULATION**

Companies that wish to sell products and services to this consumer base must engage with them by targeting key regions (the number of cities with substantial MAC populations will double by 2020), adjusting their distribution strategies, and crafting marketing messages that resonate.

### **FAMILY AND FUNCTIONALITY ARE KEY**

Indonesians are extremely optimistic, they are family oriented, they like to save money, and, even at higher income levels, they love to hunt for bargains.

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INDONESIA'S ECONOMY IS GROWING rapidly, and a large portion of the population is entering the middle-class and affluent consumer (MAC) socioeconomic category. As those in this group begin to ramp up their spending in key segments—such as home goods, vehicles, consumer durables, and financial services—this is a critical window of opportunity for companies that sell consumer goods.

Demographic trends show the size of the opportunity. There are currently about 74 million MACs in Indonesia, and this number will double by 2020, to roughly 141 million people. During that period, some 8 million to 9 million people will enter the middle class each year. Perhaps because of this rising economic tide, Indonesians are extremely optimistic about their financial futures—more so than people in any other country, including both emerging and developed markets. They expect to make more money next year than this year, and they believe that their children's lives will be better than their own.

The growth of the MAC population is occurring throughout the country. There are now 25 locations in Indonesia (both cities and regencies) with MAC populations in excess of 500,000, and there will be 54 by 2020. As a result, companies that wish to keep reaching the same proportion of the MAC population will need to double their presence in the country. This has huge implications for the way businesses operate—for example, how a company organizes its sales force, structures its supply-chain network, and expands its distribution footprint.

While the population is not homogenous, our research indicates some broad characteristics that apply throughout the country. Indonesian consumers are extremely family oriented, and as they move from lower and aspirant classes into the middle and affluent classes, they initially focus their spending on improving living conditions for their families rather than splurging on themselves. They trust traditional media and tend to believe marketing messages, advertisements, and advice from salespeople—all of which makes them more likely to try new products.

Indonesians shop primarily at *warungs* (small shops) and minimarts for the majority of their necessities, along with wet markets for fruits, vegetables, and other perishables. Large-format stores such as supermarkets and hypermarkets are becoming more prevalent. These consumers are extremely connected through digital technology. Regardless of their wealth level, they enjoy hunting for bargains. And they are value conscious; when buying large-ticket items, they like to think they are buying tangible benefits, such as greater functionality, in order to justify their purchases.

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Indonesians expect to make more money next year than this year, and they believe that their children's lives will be better than their own.

If companies are to capture this opportunity, they will need to understand the country's demographic and regional trends, and they must tailor the right product mix and go-to-market strategy. In addition, they must customize their value proposition, marketing message, use of media, and the shopping experience they offer in order to meet the needs and preferences of the growing consumer base.

## An Expanding Opportunity

Much has been written in the past several years about the growth of large emerging economies, but there has been little focus on Indonesia. This country, however, represents a more compelling opportunity than many others. Indonesia has the world's fourth-largest population, with approximately 248 million people; highly favorable economic conditions; a rich base of natural resources (including crude oil, metals, and coal); and a strong investment climate. Moreover, the country has a stable political landscape. Indonesia is the third-largest democracy in the world (after the U.S. and India) and has repeatedly held smooth and successful parliamentary and presidential elections.

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The country's working-age population is almost twice that of Vietnam and nearly three times the size of South Korea's entire population.

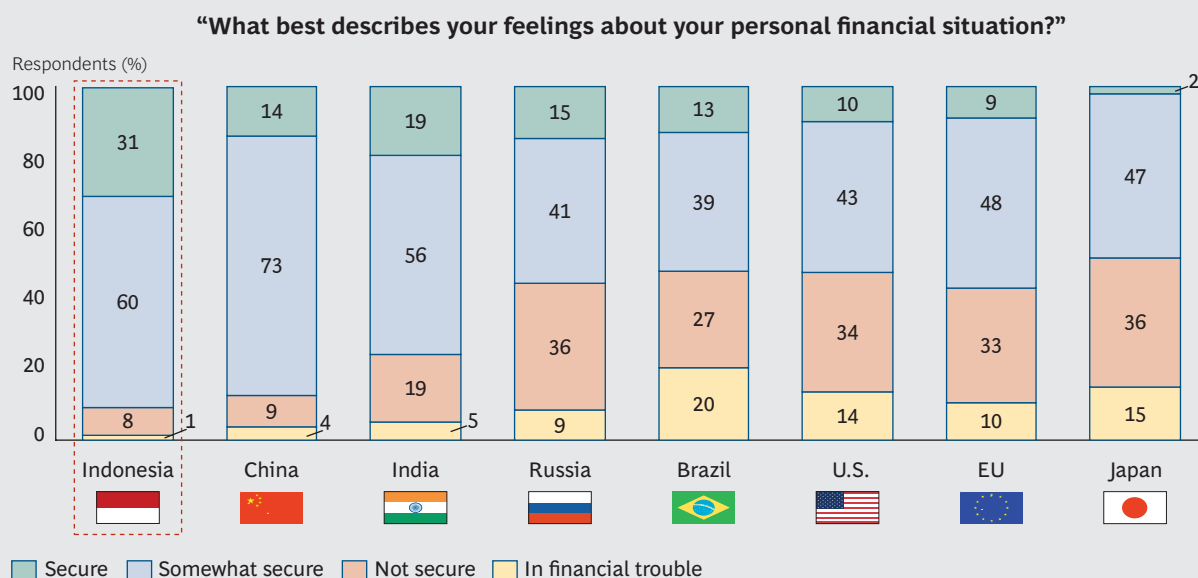
In addition, Indonesia's demographics are attractive. More than 60 percent of its residents are currently aged 20 to 65—the principal working years. In fact, its working-age population is almost twice that of Vietnam and nearly three times the size of South Korea's entire population. Another 27 percent of Indonesia's population is below age 15, giving the country a large incoming workforce and a low dependency ratio.

The country's large working-age population also results in a large domestic market; more than half of Indonesia's GDP is derived from domestic demand, which makes the country resilient to external shocks. This big local market has fostered the development of financial institutions and markets, and it offers significant growth potential for nonbank financial institutions such as insurers, mutual funds, and finance companies. Because of these factors, Indonesia's economy is expected to grow at 6.4 percent over the next five years. And over the next two decades, Indonesia is poised to become one of the fastest-growing economies in the world.

Individual Indonesians seem to have internalized this promise of growth. A recent survey by The Boston Consulting Group's Center for Consumer and Customer Insight (CCCI) found that 91 percent of Indonesians feel financially secure—a higher percentage than every other country in the world, including all of the BRIC economies (Brazil, Russia, India, and China). (See Exhibit 1.) More broadly, Indonesians are very optimistic about an improving quality of life for the foreseeable future. Some 66 percent of those surveyed believe that they have lived a better life than their parents did, and 71 percent believe that this trajectory will continue for the next generation. This is a striking contrast to the mood in developed economies such as the United States (where 44 percent believe they have lived a better life than their parents, and only 21 percent believe their children will have a better life than they), or Japan (21 percent and just 8 percent, respectively).

To date, there is scarce detailed analysis regarding the middle class in Indonesia. As a result, companies that wish to target this audience have limited insight into these

## EXHIBIT 1 | Indonesians Feel More Financially Secure Than People in Other Countries



**Sources:** BCG Global Consumer Sentiment Survey 2012; BCG Indonesian Consumer Survey 2012; BCG analysis.

**Note:** The baseline global survey considers only urban consumers. To ensure consistency, the bottom income quartile of the responses was cut and the remaining sample reweighed to represent real wealth distribution in each country. Some percentages do not add up to 100 because of rounding.

consumers and their regional expansion, attitudes, consumption patterns, and spending behavior.

To address this, CCCI has developed a holistic picture—at both a macro and micro level—of the MACs in Indonesia. Our proprietary population expenditure model forecasts the size of different wealth segments (poor, aspirant, emerging middle, middle, upper middle, affluent, and elite) through 2020 for urban and rural Indonesia in all of the country’s 99 cities (*kota*) and 398 regencies (*kabupaten*). In addition to quantitative analytics, CCCI also conducted comprehensive consumer interviews to uncover the characteristics, consumption behaviors, and attitudes of Indonesian consumers. The results from this proprietary model, together with substantial primary consumer insight, will provide local and multinational businesses with a comprehensive view of MACs as well as behavioral triggers and other factors that have an impact on their purchasing decisions. (See “Appendix: Methodology,” page 15.)

Despite the conditions that make Indonesia an important opportunity, the country will need to overcome several challenges if it is to deliver on its economic potential. For example, it has clear infrastructure bottlenecks, including the quality and availability of airports, highways, railways, seaports, and power plants. Development of these features over the past decade has not kept pace with expectations. In addition, while the sheer size of the working-age population is attractive, a large part of that labor force will need upgraded training to become fully effective. Both of these issues require significant investment—from public and private entities—in order to sustain the country’s long-term economic growth.

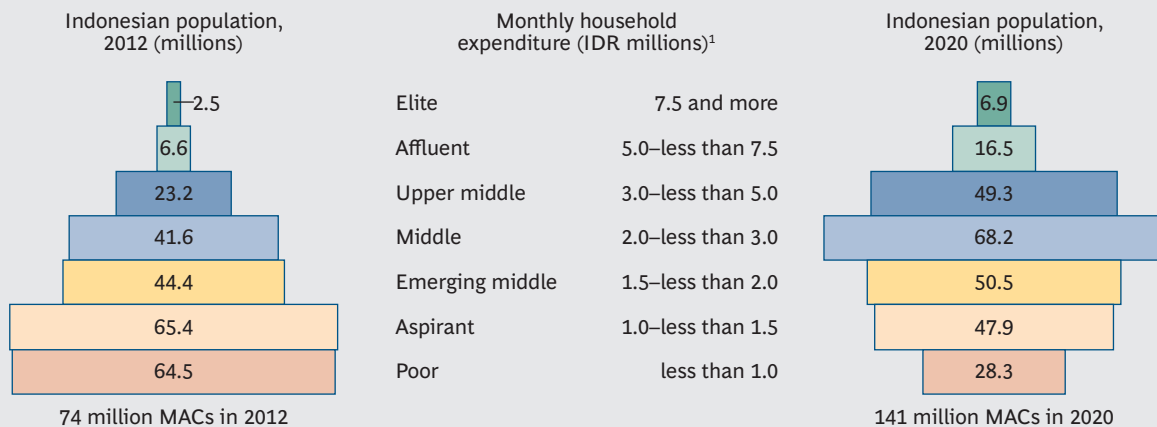
## Demographic and Regional Shifts

Indonesia's economy is growing rapidly, and the country's rising proportion of MACs will likely bring a wave of consumer spending; greater ownership rates of homes, vehicles, and white goods; and increased adoption of services such as financial counseling and education. Currently, MACs represent about 30 percent of the Indonesian population, or 74 million people, and that group will grow far larger in the coming decade, in both absolute and percentage terms. About 8 million to 9 million people currently enter the MAC segment each year, and by 2020, this group will reach a total of 141 million people, or 53 percent of the population. (See Exhibit 2.) At that point, the island of Java alone will have more MACs than the entire population of Thailand, and Sumatra will have more than the populations of Malaysia and Singapore combined.

About half of the country's MAC population currently resides in the five most-populous provinces in Java, and this concentration will likely remain in the coming years. The MAC population on some other islands is projected to grow faster—Sulawesi, for example, is forecast to see an increase in MACs by 109 percent from 2012 to 2020, compared with a 69 percent rise in greater Jakarta and a 96 percent rise in the rest of Java—yet those regions are starting from a smaller base. In fact, Java's absolute MAC-population growth for the same eight-year period is roughly 35 million, more than the MAC population growth of the six remaining islands combined. (See Exhibit 3.)

At a city level, however, the MAC population is becoming more dispersed. Currently there are 12 cities with more than 1 million MACs, and another 13 with more than 500,000, accounting for 44 percent of the country's total MAC population. By 2020, these numbers will double—22 cities will have more than 1 million MAC consum-

### EXHIBIT 2 | Indonesia's Population Is Growing and Becoming More Affluent



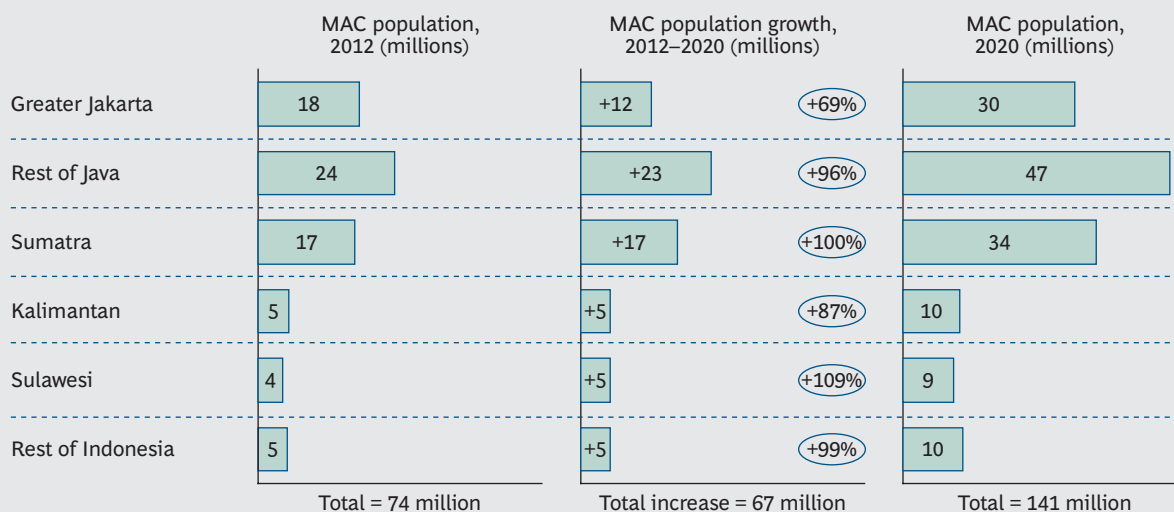
#### MAC population includes middle, upper-middle, affluent, and elite consumers

**Sources:** BCG Population and Household Expenditure Database 2012; BCG analysis; Indonesian Government Statistics Office (BPS).

<sup>1</sup>Monthly household-expenditure numbers are stated in real 2011 terms (adjusted for inflation) and include regular household expenditures such as food, utilities, transportation, communication, and regular household supplies, and exclude discretionary spending such as entertainment, restaurant dining, and similar categories. Note that the expenditure level is based on data from BPS, which uses regression analysis to remove irregular expenditures. The spending levels used to define wealth classes in this model may differ from those used by market research agencies to define socioeconomic status levels because of different data-collection methodologies and models.



### EXHIBIT 3 | All of Indonesia's MAC Population Is Growing, yet Java and Sumatra Dominate and Will Continue to Do So



Sources: BCG Population and Household Expenditure Database 2012; BCG analysis.

ers (including emerging cities such as Palembang, Makassar, Batam, Semarang, Pekanbaru, and Padang), and 32 will have more than 500,000, accounting for 53 percent of the MAC population.

The growth in the number of locations with large MAC populations has tremendous implications on business operations. Given the highly fragmented geographical nature of Indonesia, companies need to decide on the level of reach they want to achieve and which locations to target. For example, if a company currently reaches about 50 percent of the MAC population and wants to maintain that level through 2020, it will need to double its presence. (See Exhibit 4.) As a result, the geographic footprint required for a company to reach MAC consumers will be constantly expanding, including increasing numbers of what companies today consider to be low-tier locations (such as those with smaller populations). Companies will need to rethink the way they operate and scale up—how they organize their sales force and the organization, how they manage their supply-chain networks, and how they distribute goods.

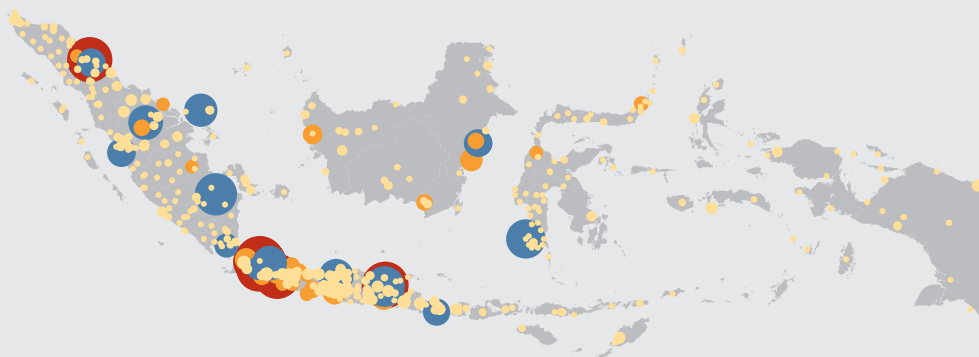
## Clear Consumption Trends

Companies that wish to reach Indonesia's MACs must go beyond the data and gain a better understanding of these consumers' purchasing behaviors and lifestyles. A more granular look reveals a group that is substantially different from MACs in countries with similar demographics—and it is a group very much in flux. The typical middle-class Indonesian rides a motorbike and shops at a mix of local stores such as *warungs* and minimarts. Very few have the luxury of air conditioners or a car. Yet many of Indonesia's MACs are beginning to make more discretionary purchases. Our research shows several clear trends regarding this progression.

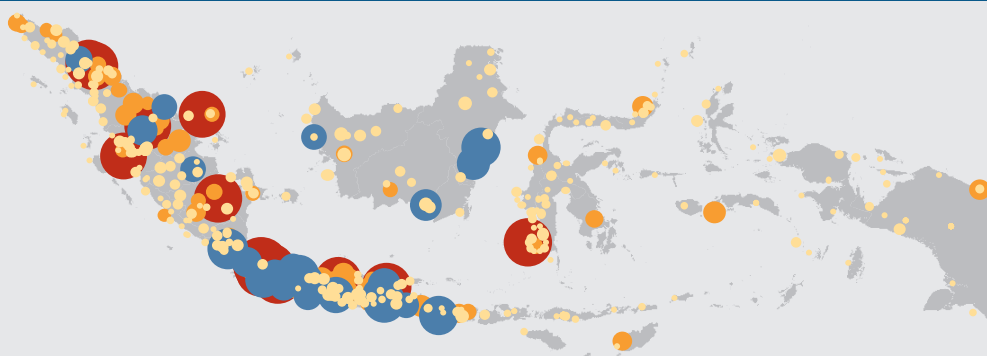
#### EXHIBIT 4 | Businesses Will Need to Double Their Regional Presence by 2020 to Maintain a Constant Share of MAC Penetration

Cities with sizable MAC populations

2012



2020



- Tiers 1 and 2: More than 1,000,000 MACs
- Tier 3: 500,000–1,000,000
- Tier 4: 250,000–499,999
- Tiers 5 and 7: Less than 250,000

Sources: BCG Population and Household Expenditure Database 2012; BCG analysis.

**The Arc from Need to Convenience to Comfort.** As wealth rises and living standards increase, not only do consumers' savings and purchasing power increase but their needs follow a natural progression: from products that address their basic needs to those that offer greater convenience—and finally to those that offer comfort. For example, at the poor end of the income spectrum, we found that only about half of Indonesian households have a motorcycle or refrigerator, and far fewer have a washing machine. Roughly a third of low-income families have a bank account.

As urban consumers move into the middle class and begin to accumulate savings, there is a big jump in the purchase of consumer durables. With this group, our data show that almost half of all households own a washing machine. Technology products also begin to gain popularity in the middle class, with penetration rates of smartphones (at 22 percent) and laptops and PCs (29 percent) growing rapidly. Nearly three out of four people in this group have a bank account.

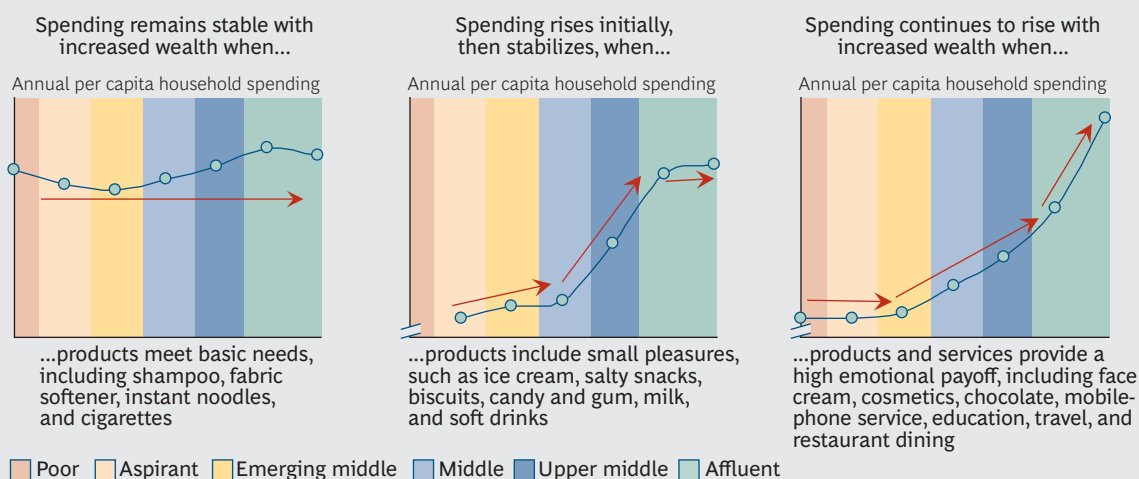
Further up the scale, among affluent consumers, people look for products such as air conditioners, cars, and microwaves that they hope will make their lives more comfortable. The majority of Indonesian consumers at this income level own a washing machine, and about half (52 percent) own a car. Similarly, bank

account penetration is high, while credit cards are popular, with correspondingly increasing penetration rates.

**The Connection Between Wealth and Spending.** A closer look at consumption reveals that the link between spending and rising wealth depends on the type of product or service that consumers are purchasing. (See Exhibit 5.)

- *Consumption remains stable as wealth increases.* This category includes functional products that fulfill basic living needs: shampoo, detergent, and even some foods, such as instant noodles. As incomes rise, there is typically little increase in spending on such products, because consumers already spend enough to buy what they need.
- *Consumption rises and then stabilizes.* The second category consists of nice-to-have products that generate small pleasures, including food products such as ice cream, salty and crunchy snacks, and carbonated soft drinks. As incomes rise, consumers have a greater ability to make such discretionary purchases. Beyond a certain point, however, the penetration of these products reaches a natural plateau and spending flattens.
- *Consumption continues to rise in line with increasing wealth.* The third category includes products with high emotional payoff—including items such as cosmetics and face cream and big-ticket purchases such as travel and children’s education. In all these areas, spending will continue to rise as consumers become wealthier. Furthermore, consumers with rising wealth will likely trade up on these categories, as product quality (both functional and emotional) becomes more important and brands become a form of self-expression. (See the sidebar “The Affluent Married Couple.”)

#### EXHIBIT 5 | The Relationship Between Spending and Wealth Depends on the Type of Product or Service



Source: BCG analysis.

Note: Consumption patterns are summarized based on annual spending per household.

## THE AFFLUENT MARRIED COUPLE

Mr. Agung and Mrs. Ferina have been married for 11 years and own a restaurant together. In recent years, their lifestyle has become more comfortable, and their purchasing patterns have shifted. Five years ago, Ferina made most of the purchasing decisions for the family. She preferred to shop for household items in hypermarkets, which she found had a larger variety and gave her the chance to try out new products. However, Agung disliked large-format stores because he thought the huge variety of products would tempt him into buying things that he did not really need.

Now, with a fair amount of financial security, Agung is more willing to spend on luxuries and gadgets that give him a sense of prestige. He enjoys going to the malls so he can browse the latest electronic items. While Agung makes the buying

decisions on big-ticket items for the family, Ferina takes care of all the other household purchases. “My wife is the minister of finance for our house,” says Agung. “She takes care of all the needs. I make a lot of impulsive purchases, but it’s OK since I can afford these things now. I’ve reached this place in life from my own hard work, so why not enjoy it?” Worth noting is that even though the family is financially well-off, Ferina remains relatively conservative with her spending and does not splurge on many things for herself.

### NOTE

This and the other consumer profiles in this report are based on actual participants at focus group discussions and in-home visits, and their quotes are accurately represented here. However, in order to protect their identities, we have opted to change their names.

## Channels of Engagement

To effectively target MACs, companies must understand this population’s principle channels of engagement—specifically media and retail formats—along with its spending patterns and preferences.

**Trust in Traditional Media.** Most, if not all, households throughout the country own a television, even those at the bottom of the pyramid of demographic groups, and it remains the most important source of information for consumers. Indonesians trust television commercials, but they also rely on word-of-mouth recommendations from friends and family, advice from salespeople, and marketing messages. All of this makes them more willing to try out new products.

**Highly Connected Society.** The Indonesian population is very connected. In 2012, there were more than 50 million Facebook users in Indonesia (the fourth-largest Facebook population in the world), along with 29 million Twitter accounts (fifth-largest worldwide). More Twitter posts originate in Jakarta than in any other city in the world. The majority of Internet users go online using a mobile device, and the proliferation of affordable smartphones will drive the growth of mobile-Internet users in the coming years. However, when it comes to researching product information or deciding on a purchase, online media is still considered a source of comple-

mentary information. Companies can leverage the social connectivity of Indonesian consumers to create buzz about products and tap into the desire among Indonesians to be in the know and ahead of trends. (See the sidebar “The Socially Connected Mother.”)

**A Slow Shift in Shopping Channels.** The majority of Indonesians shop at *warungs* (96 percent of the non-MAC population and 91 percent of the MAC population) or minimarts (72 percent and 80 percent, respectively) for regular household supplies. These formats are popular because they offer a reasonable product assortment and are generally within a short distance of customer households—critical for a country in which much of the population still does not own a car. In particular, these stores dominate food categories and impulse purchases such as candy and gum, biscuits, and salty snacks, and they feature a strong distribution network for such products. In addition, about half of MACs still go to traditional wet markets, which many Indonesians say they prefer because they can bargain with familiar sellers and feel that they have negotiated a good price.

Despite their current popularity, these traditional retail formats have constraints that make them less than ideal. Consumers cited product assortment and availability as key barriers for *warungs* and a chaotic atmosphere as the principal deterrent for wet markets.

As wealth and living standards rise across the country, modern retail formats such as convenience stores, supermarkets, and hypermarkets are becoming more prevalent. Because these facilities are more modern, they offer the perception of higher quality and freshness as well as greater variety. For this reason, they are more popular for goods that people care a lot about—such as personal care and baby products—and for food that requires a controlled temperature, such as milk, ice cream, and chocolate.

Large retail formats such as supermarkets and hypermarkets, however, do not yet address the core retail needs of most Indonesian consumers. They still only capture

## THE SOCIALLY CONNECTED MOTHER

Sari Wijaya is a stay-at-home wife and mother of three children. While she has many friends, she is often busy with home chores and only meets up with her friends occasionally. Instead, she uses her BlackBerry—which she calls her “lifeline”—to stay updated with her friends’ lives through group chats. “I love my BlackBerry,” she says. “It’s what all the women are using these days. We share jokes and gossip, even though we’re not togeth-

er. It helps me stay connected with my friends and family. With this, I won’t be left out. While I use the same BlackBerry model as my friends, I like to keep changing my phone case so that it looks a bit different from the rest.”

Sari jokes about how the previous generation would send love letters and not know if they got delivered. “Now everything is instant!”



about a third of the potential MAC base (and only about a fifth of non-MACs), partly due to accessibility. Roughly 75 percent of people who do not shop at these stores cite distance from their home as the major reason. Consumers also perceive that large-format stores have higher prices (cited by a third of those who don't shop there).

The shift to modern retail channels has significant implications for businesses. The capabilities required, including key account management, in-store execution, and shopper insight, are very different from those that companies currently use in traditional trade distribution. If companies are to succeed in the new formats, they will need to develop these skill sets while at the same time continuing to win in the substantive traditional trade channel.

## Family, Functionality, and Value Are Critical

While no population is homogenous, Indonesians share some characteristics that companies must understand. These consumers tend to be extremely family oriented, and they typically justify indulgences and large purchases based on functionality and benefits for the family more than on other attributes. And even those at higher income levels enjoy hunting for bargains.

**The Importance of Family.** First and foremost, family is a major influence. Indonesians emphasize the needs of the family over those of the individual, and this dynamic underlies most, if not all, purchasing decisions. Our data show this clearly—63 percent say they never spend on themselves until the needs of the family have been met, compared with 46 percent in China. The data also point to categories in which consumers would likely be more willing to trade up as they enter the MAC segment. Some parents who have recently joined the middle class will opt to send their children to private tutoring classes that cost \$500 a month, a huge component of their income. But education is not the only example. Family- and child-related categories such as home renovations, consumer durables, and health care are promising, as people seek to improve the quality of their families' lives. For example, the most popular car models in the country right now are Toyota's Avanza and Kijang, which are both reliable, family-friendly vehicles. And marketing messages that recognize the importance of family have been influential, such as Lifebuoy soap's slogan: "One soap for the whole family." (See the sidebar "The Family Influencer.")

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Indonesian consumers tend to be extremely family oriented, and they justify indulgences and large purchases based on functionality and benefits for the family.

**Justifying Indulgences and Big-Ticket Items.** There is a practical undercurrent to many Indonesian purchases. As people grow wealthier and have the means to go beyond their basic needs, they will be able to afford indulgences both small and large. In such cases, consumers often focus on the functional benefits of a product or service in order to justify buying it and as a way to avoid feeling guilty. Among consumers who have bought premium products in the past year—that is, products with a significantly higher price than the average in that category—functional claims were the most important driver. For example, home durable products are viewed as investments. Consumers justify the purchase of home theater systems and flat-screen televisions by saying they will spend less on going out to movies. Because functionality is so crucial, brand-name recognition and clear messaging regarding product features will become increasingly important. (See the sidebar "The Rationalizer.")

## THE FAMILY INFLUENCER

A student at Universitas Indonesia, Asep Kurnia comes from an upper-middle-class family in Jakarta. He is very ambitious and positive about his future. In terms of his purchasing habits, Asep is image-conscious and willingly pays more for better-quality products that reflect status, such as sports shoes and headphones. Brand image and quality are most important, but functionality is important, too. Asep recently persuaded his parents to buy him a laptop because it would allow him to study anywhere, anytime.

Asep also has a big influence on his family's purchasing decisions. He researches products online and among his circle of friends for information on all the big-ticket items that his parents consider, from appliances to cars. For example, he persuaded his parents to buy a Toyota Avanza, arguing that even though there are cheaper family cars on the market, the Avanza is more fuel efficient and has a higher resale value, making it a better long-term investment.

**The Hunt for Bargains.** Indonesian shoppers actively seek out promotions and hunt for deals. At the lower half of the income pyramid, this is a function of family dynamics. Men typically give their wives a monthly budget for the family. The more money that these women can save on groceries, the more they have to splurge on small indulgences for themselves. However, the bargain-hunting drive spans the wealth spectrum—more than 60 percent of the overall population says they enjoy searching for discounts and promotions, and more than 70 percent of the country's affluent population says they enjoy doing so.

## THE RATIONALIZER

For most of the nine years Fitri Yanti has been married, she and her husband lived with his parents because they could not afford their own place. But after saving up, they finally moved into their own house two years ago. She now believes that her family is financially secure and hopes to send her children to one of the best local private schools.

Since buying their home, Fitri and her husband have made several improvements and large purchases. They recently bought a 43-inch flat-screen television and put a down payment on a used car—money spent on what

they think of as functional necessities. Fitri believes that the TV provides them with better entertainment at home, and they don't need to spend on trips to movie theaters. She also thinks that the car will allow her family to save on public-transportation costs.

"The new TV is really good, since we can put it on the wall and make space on the cabinet for other things," she says. "The car was a big decision, but my children are growing up and we can't all fit on the motor-bike anymore."

## THE 360 DEGREE DEAL SEEKER

Lydia Abidin, like most Indonesian consumers, loves promotions. She has had nine mobile-phone numbers over the past two years from three providers, because of a large number of promotions that have been available for new subscribers. For her, the savings are more important than keeping the same number. Lydia actively compares prices among different supermarkets and local stores on items such as milk, cooking

oil, detergents, and rice in order to save as much of her monthly budget as she can. She then uses this saving to spend on herself. “Usually, I compare the prices among a few brands at the stores where I normally shop and go with the one that has a good promotion,” she says. “I like to save on these things so I can use the extra money to buy little things for myself, such as new shoes or beauty products.”

Companies are already leveraging the drive for bargains. Last year, thousands of Indonesian shoppers lined up at a shop that was selling 100 BlackBerrys at a steep discount. Similarly, XL Axiata, a mobile telecom company, developed an offering (IDR 1 per minute) that helped establish it as the number-two provider in a brutally competitive market. (See the sidebar “The 360 Degree Deal Seeker.”)

**I**NDONESIA’S STRONG ECONOMIC growth is creating a significant opportunity for companies that can reach the rapidly expanding MAC population. To capture this opportunity, executives should ask themselves a number of key questions regarding their company’s current level of preparedness to capture the hearts and wallets of Indonesian consumers:

- Do you know where your next growth clusters will be in Indonesia? How large will the opportunity be for your business by 2015? By 2020?
- Does your organization fully understand the new MACs and their expectations?
- What is your strategy to win during this unique window of opportunity?
- What are the implications for your go-to-market model, including product and service innovations, distribution footprint, and supply chain network? Are you ready to scale up these elements in order to meet growing demand?
- Are your organization and people ready for this challenge?

For the companies that take steps to truly understand Indonesia’s MACs—the regional trends, spending patterns, behaviors, and aspirations—and sell to them in ways that resonate with their lives, the prize will be a significant increase in spending over the coming decade. Conversely, the companies that don’t take such steps will miss a critical opportunity—and put themselves at a competitive disadvantage in the burgeoning Indonesian marketplace.

## APPENDIX: METHODOLOGY

The Indonesian population expenditure model developed by BCG's Center for Consumer and Customer Insight (CCCI) starts with a baseline and forecast of urban and rural population through 2020 across seven islands, 33 provinces, 99 cities (*kota*), and 398 regencies (*kabupaten*). We then break down these populations into seven segments by monthly household spending in key categories, including food, utilities, household supplies, communication, and transportation, and we exclude discretionary items such as entertainment, installments (that is, debt with structured, regular payments), and durable goods. The seven segments are as follows: poor (less than IDR 1 million in monthly spending on regular items), aspirant (IDR 1 million to less than IDR 1.5 million), emerging middle (IDR 1.5 million to less than IDR 2 million), middle (IDR 2 million to less than IDR 3 million), upper middle (IDR 3 million to less than IDR 5 million), affluent (IDR 5 million to less than IDR 7.5 million), and elite (IDR 7.5 million and more). We define MACs as those in the four highest of the seven levels: middle, upper middle, affluent, and elite.

Monthly household expenditure is a conventional indicator used by most public and private research agencies in Indonesia to define socioeconomic classes when such data are believed to be more accurately reported than incomes—thus offering a more accurate depiction of household wealth levels. Each location's population-wealth distribution is based on the analytics and modeling of a population census survey conducted by BPS (Indonesia's Central Agency of Statistics), which covers approximately 250,000 households annually. The model also builds in macroeconomic data from external organizations—including the International Monetary Fund, World Bank, Economist Intelligence Unit, and other sources—in order to project future trends.

In addition, BCG's CCCI also conducted primary consumer research to understand how consumers' behavior and spending change as their wealth increases. Our quantitative research draws from 3,950 households in 31 locations (both cities and regencies). It also looks at the consumption patterns of 20 product categories in areas such as home care, personal care, food, and consumer services including mobile communication and tourism.

### About the Authors

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