

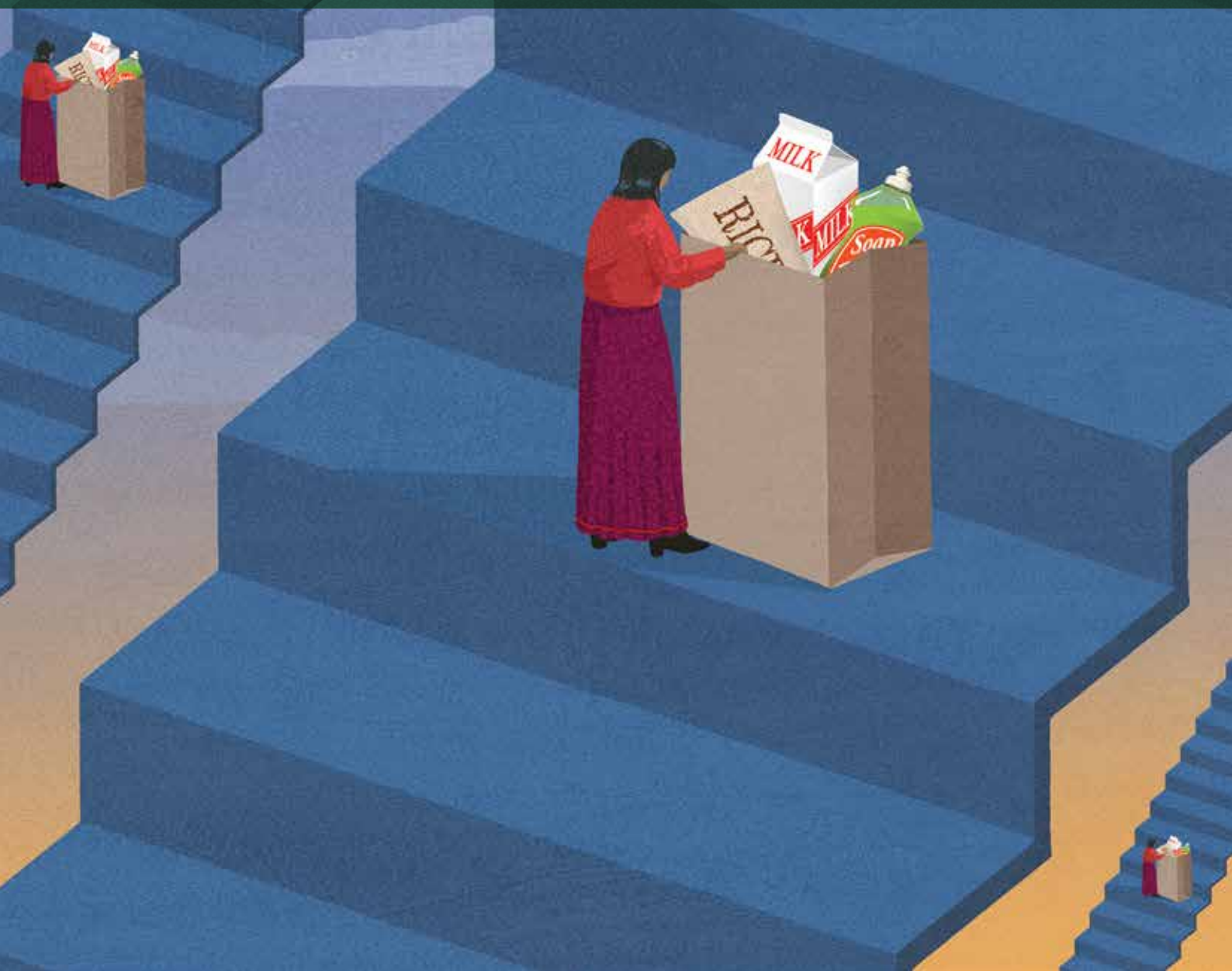
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INDONESIAN CONSUMER SERIES

Fast-Moving Consumer Goods

Capitalizing on a Growing Population of Shoppers



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Capitalizing on a Growing Population of Shoppers

Vaishali Rastogi, Edwin Utama, Shiv Choudhury, and Vivek Nauhbar

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AT A GLANCE

Despite the recent turbulence in emerging Asian markets, Indonesia still has favorable economic prospects, creating an opportunity for fast-moving consumer goods (FMCG) companies. To capture it, manufacturers must understand the preferences and behavior of Indonesia's shoppers.

THE NUMBER OF MIDDLE-CLASS AND AFFLUENT CONSUMERS IS GROWING

Indonesia's population of middle-class and affluent consumers is growing significantly, and one demographic subset—"modern housewives"—is particularly influential in making FMCG purchasing decisions.

INDONESIAN CONSUMERS ARE TOUGH TO WIN OVER

Many Indonesian consumers buy multiple brands within a well-defined repertoire of preferred options. Companies that cannot break into the repertoire will struggle.

CONSUMERS BUY THROUGH MULTIPLE CHANNELS

As the country's retail network shifts from traditional trade to modern formats, consumers increasingly buy from—and are influenced through—multiple retail channels. Convenience stores are emerging as a significant channel for growth, and digital is becoming more influential in shaping brand choice.

INDONESIA'S FAST-MOVING CONSUMER GOODS (FMCG) sector is poised to benefit from rising incomes and living standards over the coming years. Like most emerging Asian markets, Indonesia has experienced significant turbulence throughout much of 2015, caused largely by the slowdown in China, which has affected exports and weakened the nation's currency. Yet the country's mid- to long-term economic prospects are still positive. Demographic changes, increases in discretionary income, and new consumption patterns will continue to boost growth in most FMCG product categories. In particular, Indonesia's population of middle-class and affluent consumers (MACs) is projected to increase sharply, from approximately 88 million people in 2014 to more than 140 million by 2020.¹ Companies that understand the needs of the new Indonesian consumer can capitalize on the country's expanding middle class, but they will have to contend with shifts in retail and media channels and with evolving shopping patterns.

To gauge the scope of the opportunity, The Boston Consulting Group recently surveyed Indonesian consumers regarding their savings habits, spending levels, and overall sentiment, and we used the results to analyze their behavior regarding FMCG brands. (For details on the research, see the sidebar, "Methodology.") We performed similar analyses of Indonesia's durable goods and financial services sectors, which are discussed in separate publications.

Key Insights for FMCG Companies

Winning in the rapidly evolving Indonesian market will require FMCG companies to evaluate their entire go-to-market strategy. Our client work and research, as well as the results of our Indonesian consumer survey, have produced ten insights that can help companies make the most of today's opportunities in this growing market.

1. "Modern housewives" are a critical segment. Housewives in general have an important influence on the purchase of household grocery and personal products. But our analysis indicates that a subset of this group—which we call modern housewives—will be a key segment for most FMCG categories over the next five years. We define modern housewives as married women aged 20 to 35 in the MAC segment. They have a strong impact on 63% of all FMCG sales—more than any other demographic segment we analyzed—either by making the final purchasing decision or by influencing the opinions of family and community members. Our research suggests that modern housewives actively advocate for their favorite brands, making them key opinion leaders. Manufacturers must understand these women and make a concerted effort to increase their brands' relevance for them.

Modern housewives have a strong impact on 63% of all FMCG sales—more than any other demographic segment we studied.

METHODOLOGY

We conducted face-to-face interviews with more than 3,000 consumers across all socioeconomic groups in 19 locations—both cities and regencies—throughout Indonesia. Respondents were between the ages of 15 and 55, evenly split between men and women in all socioeconomic groups. We define socioeconomic groups according to a combination of criteria, including monthly expenditures and ownership of household assets, in order to provide a more accurate indication of household wealth.

We conducted a deep-dive analysis of consumers' shopping attitudes, spending levels, channel preferences,

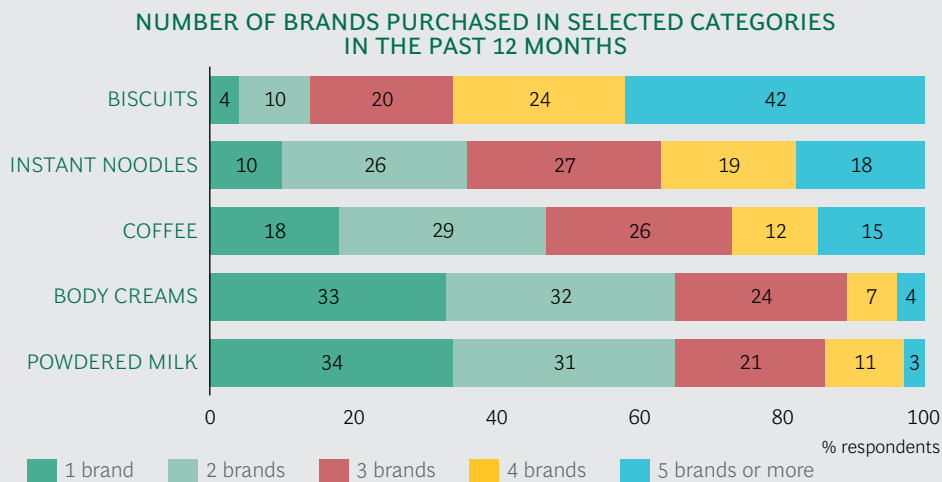
and experiences with several brands in order to better understand how they assess products and make purchasing decisions, giving us an in-depth understanding of the path to purchase (that is, the process by which customers make buying decisions). We analyzed the path to purchase for 63 product categories across three consumer categories: consumer durables (18 categories), fast-moving consumer goods (23 categories), and financial services (22 categories). Additionally, we captured a wide range of profiling variables, including demographics, household expenditure, and overall consumer sentiment in Indonesia.

2. Consumers are loyal to a repertoire of brands. Consumers of most FMCG categories display a high degree of “repertoire behavior,” with no single brand determining a significant share of brand choice. More than 65% of consumers purchase multiple brands within the same category, and for some staples and indulgences, the share exceeds 80%. (See Exhibit 1.)

3. Consumers display significant inertia when it comes to trying new brands. We found that Indonesian consumers usually don't search for new brands and categories unless they have had a negative experience with a product they already use, or unless they hear something significant about a new product or product feature. Their final purchase decision is frequently made at the store (rather than in advance), but they still buy within their existing repertoire of preferred product options. For FMCG companies, these consumer patterns require a two-step approach to brand growth. The first step is to get into consumers' consideration set by using tools such as innovative product features, effective marketing, and trial offers. The second step is to gain share from other brands within the set, using tools like promotions, contests, store displays, and larger pack sizes.

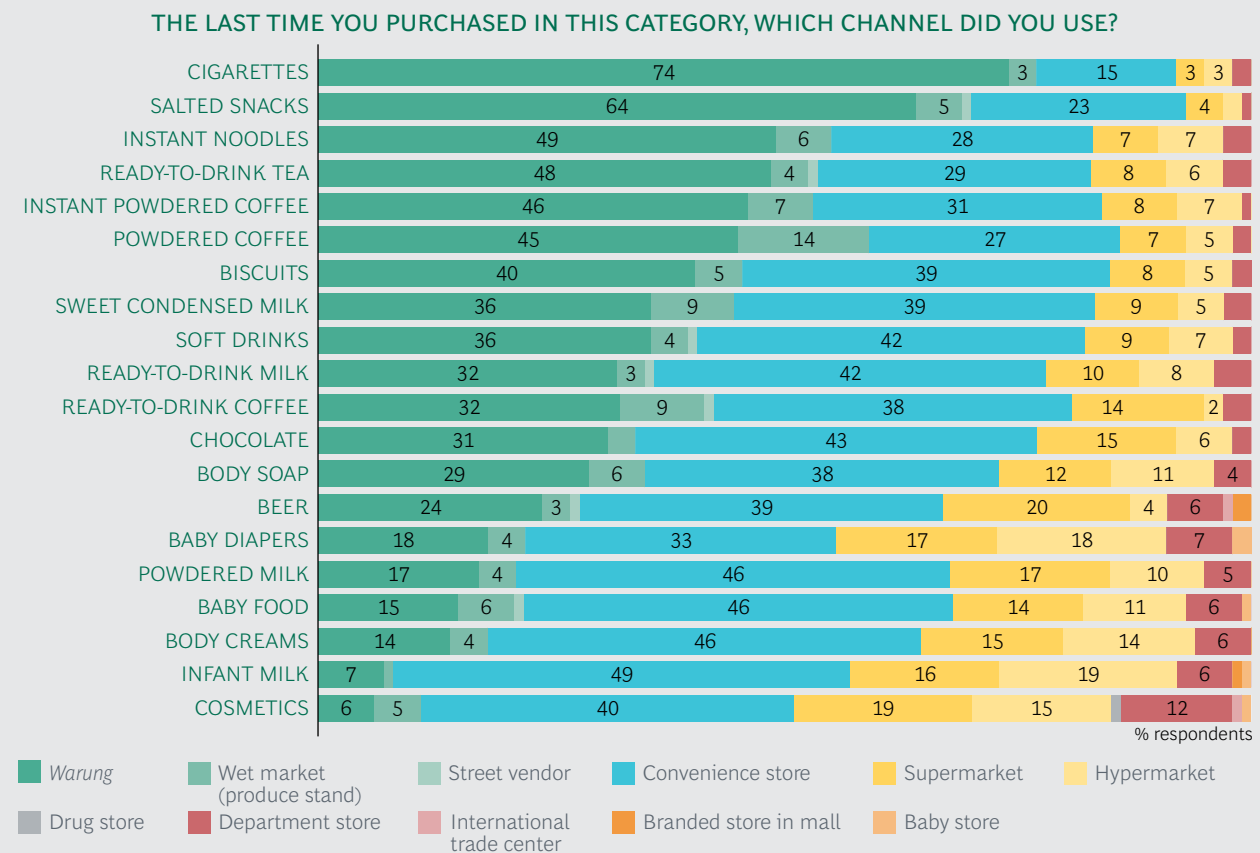
4. Indonesians make purchases in a wide range of retail channels. The mix of channels is evolving, and no single channel dominates across FMCG categories. Rather than making all their purchases in one place, shoppers increasingly buy at different types of stores, depending on the category. (See Exhibit 2.) For example, they are most likely to buy cigarettes and powdered coffee at the local grocery store (*warung*); cosmetics, infant milk, and baby food at a convenience store; and baby diapers at a supermarket or hypermarket. As modern-trade venues become more prevalent, these stores are becoming the main channel for larger or less frequent

EXHIBIT 1 | Indonesian Consumers Buy Within a Repertoire of Brands in a Given Category



Sources: Indonesia consumer study, 2014; BCG analysis.

EXHIBIT 2 | Indonesian Consumers Buy Across Channels, Depending on the Category



Sources: Indonesia consumer study, 2014; BCG analysis.

purchases—such as those that a family makes on its monthly trip to stock the pantry. However, convenience stores are still the main channel for quick stops to buy a few staples (such as baby food and powdered milk), and traditional-trade formats are still the main source of staples and impulse categories such as salted snacks, ready-to-drink tea, and biscuits.

5. Convenience stores continue to be an important channel. Convenience stores continue to proliferate across Indonesia and are an increasingly critical channel for most consumer segments and product categories. This is true not just in terms of overall sales volume but also in terms of influence. Our research indicates that 66% of consumers make either occasional or more frequent trips to convenience stores. The proliferation of these stores is also reshaping behavior. As consumers get accustomed to the convenience channel, they are using these stores for monthly shopping as well as for “top up” purchases, which is leading to a shift toward large pack sizes. We expect this trend to intensify as convenience stores expand their offerings and become mini-supermarkets.

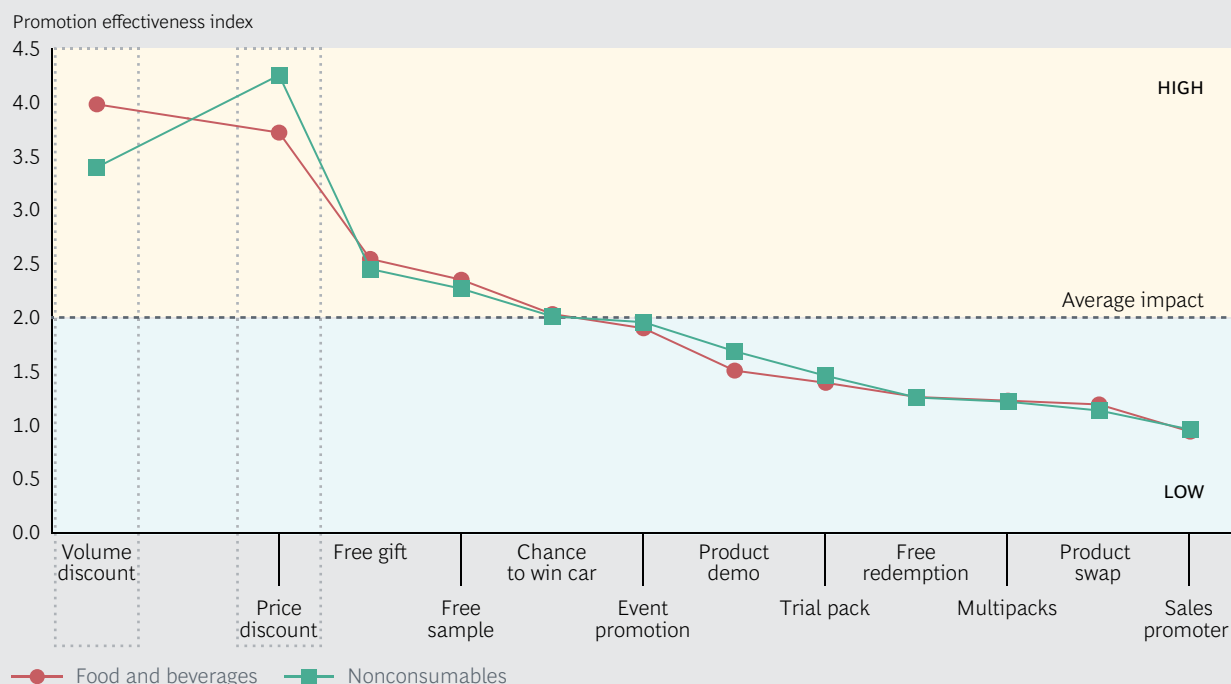
6. The influence of digital technology is growing rapidly. Digital technology is still in the early stages when it comes to e-commerce in Indonesia, but it is already having an influence on purchase decisions. This is particularly true for categories in which consumers tend to compare products, such as personal-care products like face creams, and in categories such as baby food, where word-of-mouth is a critical part of the consumer journey. (A correlating factor is that MACs, the primary consumers of indulgences and luxury goods, tend to be more digitally savvy and more comfortable comparing and purchasing products online.) FMCG companies that get better at digital marketing will be able to generate awareness of their brands and even influence purchasing decisions in certain categories. Digital marketing will also become increasingly relevant as Indonesia’s Internet infrastructure improves.

Given Indonesian consumers’ willingness to spend a bit more on affordable premium goods, manufacturers need to think of ways to enhance their offerings.

7. Promotions are effective, but only within consumers’ existing brand repertoire. Indonesian consumers respond to promotions primarily for brands that are already within their repertoire of preferred options. Receptivity to promotions is typically greater for staples than for luxury products, but the effect varies. We found that promotions for products like noodles and personal-care items perform better than those in other categories, like baby products. Our experience also indicates that the effectiveness of different types of promotions varies by product category. For example, in food and beverage categories, volume discounts tend to be more effective than price discounts. Conversely, price promotions are more effective for nonconsumable products. (See Exhibit 3.)

8. Consumers are willing to upgrade to affordable premium products within categories. Indonesians are willing to trade up to more expensive product versions. For example, in the ice cream category, Wall’s offers several product lines aimed at different consumer segments. The company’s Magnum brand uses higher-quality packaging and ingredients to appeal to shoppers interested in upgrading, yet it is still priced below premium brands like Häagen Dazs. Given consumers’ willingness to spend a bit more on affordable premium goods, manufacturers need to think of ways to enhance their offerings—for example, through product innovation or premium packaging—and to choose the right media channels in which to market

EXHIBIT 3 | Different Promotions Are Effective Depending on the Product



Sources: Indonesia consumer study, 2014; BCG analysis.

these products. In addition, the incremental markup for affordable premium variants is a crucial factor, as most Indonesian consumers are still seeking value. Manufacturers need to set a reasonable target price before investing to develop such products.

9. Consumers share stories about their negative experiences with brands. Indonesian consumers are far more likely to share negative experiences with FMCG products than positive ones. (See Exhibit 4.) This is in stark contrast to durables and financial services, where consumers are more likely to advocate for brands that they like. As a result, FMCG companies will need to add a new dimension of PR management, especially now that social media allows consumers to quickly disseminate unfavorable experiences to a wide audience.

10. Upward mobility is creating new points of market entry. In the dynamic Indonesian economy, income levels and aspirations are changing for more and more consumers, leading to changes in buying behavior. As consumers move into the MAC segment and start spending more in discretionary product categories, companies can capitalize by tapping into this new consumer base.

Critical Questions for FMCG Companies

In sum, FMCG manufacturers that wish to capitalize on Indonesia's economic boom should ask themselves some critical questions regarding their company's current readiness:

EXHIBIT 4 | Indonesian Consumers Are More Likely to Spread the Word About Negative Brand Experiences



Sources: Indonesia consumer study, 2014; BCG analysis.

Note: The brand advocacy index is a weighted index that shows the number of brand enthusiasts minus the number of brand critics as a percentage of the total customer base.

- Do we have the right strategy in place to attract modern housewives—or, at a minimum, a marketing plan to influence them?
- Are we aware of our performance at key points along the path to purchase, especially relative to other brands? Where are customers most likely to opt for a competitor's product, and are we designing the right interventions to reduce those losses?
- Are we focusing our digital investments on the right areas (and not simply spending a lot of money on digital marketing campaigns)?
- Do we have a clear distribution strategy that services multiple channels while limiting complexity?
- Do we truly think of the store as a point of influence and not just a distribution node? Do we have the right programs in place to ensure that retailers are advocates for our brand? What new capabilities are needed—both within the organization and with our distribution partners—to help drive such initiatives?

NOTE

1. BCG's first comprehensive study of Indonesian shoppers looked exclusively at the country's growing population of MACs, a critical socioeconomic segment given its large and increasing purchasing power. See *Asia's Next Big Opportunity: Indonesia's Rising Middle-Class and Affluent Consumers*, BCG Focus, March 2013. We define MACs as consumers living in households with a regular monthly household expenditure of more than 2 million Indonesian rupiahs (approximately \$140). Regular household expenditure includes expenses such as food, utilities, communication, and transportation, and it excludes nonroutine expenses such as entertainment, clothing, and debt payments.

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