



Indonesia's Retail

Indonesia's retail landscape is undergoing profound change as modern outlets increasingly replace wet markets and independent small shops. High consumer confidence, an expanding middle class and rising personal incomes have made private consumption the most important component of Indonesia's economy and attracted numerous global retailers. Partnerships among banks and the retail sector to offer incentives and consumer credit are also fuelling spending.

While rising costs and increasing competition in the main urban areas are putting pressure on margins in the retail sector, investors can tap new growth potential in regions that are still under-served by modern outlets and shopping malls, but where demand is growing quickly.

A major geographic shift is taking place in Indonesia's retail landscape, with the centre of attention increasingly moving from Greater Jakarta and Bali's main tourist areas to regional capital cities across the country

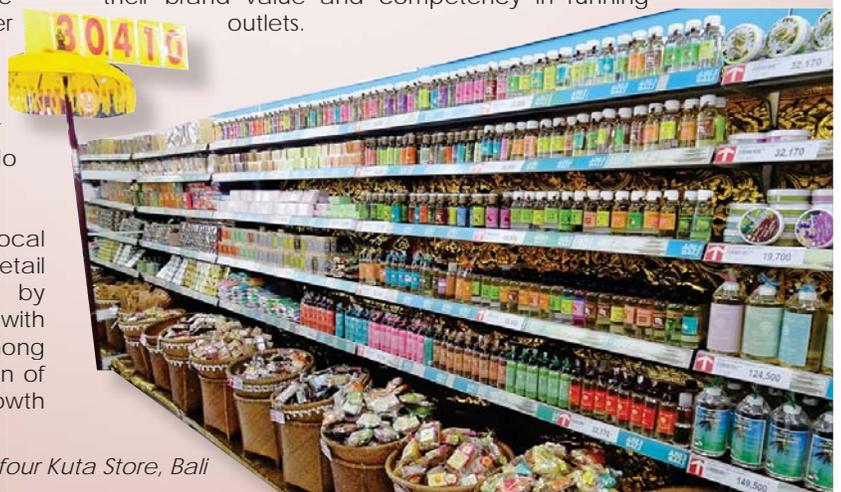
While fluctuating strongly from one month to another, retail sales have generally outperformed GDP growth in recent years with double-digit annual increases. Central bank data show that sales at 650 retailers surveyed across the country declined in January 2014 from the previous month, but were up almost 25% on the year. In terms of goods categories, information/communication equipment and other household equipment have seen the greatest increases since 2010, clearly benefitting from the rising living standard enjoyed by middle-class city dwellers. Indonesia Real Retail Sales Index (Base year 2010 = 100)

Modern Retail Spreading to The Regions

A closer look at the Bank Indonesia figures reveals that retail sales grew at a modest 7% in Jakarta between January 2013 and January 2014 and declined by 13% in the Balinese capital of Denpasar. By contrast, sales over the same one-year period rose by 33% in Bandung, 31% in Semarang and 23% in Surabaya. These three Javanese cities were followed by North Sumatra's capital of Medan (+17%) and North Sulawesi's Manado (+14%).

Similarly to the capital, the traditional local markets that were once the centre of retail activity are being increasingly replaced by efficient hypermarkets and mini markets, with the latter being particularly popular among Indonesia's young population. The expansion of modern retail, coupled with the overall growth

momentum in consumer spending, opens up a host of opportunities for foreign-based franchisers and retailers to set up shop across Indonesia and build on their brand value and competency in running outlets.



Leading retail companies are expanding their operations in the Indonesian market:

- PT. Matahari Putra Prima, which owns the Hypermart chain, the Foodmart chain and Matahari department stores, opened 39 new stores across the country in 2013. The company had a total store count of 222 in more than 60 cities at the end of 2013 and is committed to further expansion
- PT Hero Supermarket, similar owner to Giant hypermarkets, Starmart mini-markets and the Guardian chain of pharmacies, opened a net 77 new stores in 2013. Diversify its business with the opening of Indonesia's first IKEA store.

- PT Trans Retail Indonesia, which acquired full ownership of Carrefour Indonesia after acquiring the missing 60% stake from former French parent company Carrefour S.A. in January 2013, continued its expansion in 2013 and at the end of the year had 85 Carrefour hypermarkets in 28 cities, making it the country's leading hypermarket operator.

- South Korea's Lotte Group is increasing its presence in Indonesia with hypermarkets, wholesalers, duty free shops and department stores, after first entering the market in October 2008 through the takeover of 19 stores from PT Makro Indonesia.

Mini-Markets Making Their Presence Felt

Jakarta today boasts more than a hundred shopping malls. While malls with their hypermarkets and department stores steal most of the attention and account for a major share of overall sales, mini-market franchises are becoming an important factor and are claiming an increasing market share in the grocery segment. Consumers appreciate mini-markets for their convenient location and long opening hours. Like their larger-shop rivals, the leading mini-market chains Alfamart, Indomaret and 7-Eleven have all announced plans for aggressive expansion to grow

their business beyond Java. More nimble than supermarkets and hypermarkets, mini-markets will in many cases spearhead the move of modern retail into towns and cities up and down the country.



Food and Fashion to Benefit from Consumer Trends

By 2020, Boston Consulting Group predicted, the MAC population would almost double to 141 million. Other studies have come to similarly upbeat conclusions about the country's growing consumer class and rising per-capita income, which are bound to boost discretionary spending. In the largest cities, growing purchasing power, coupled with the young average age of Indonesia's most-courted consumers, should benefit the fashion segment in particular.

Hence it is hardly surprising that newcomers are still entering that market. Japan's Fast Retailing Co opened its first four stores of fashion retailer Uniqlo in Indonesia between June 2013 and April 2014, while Sweden's Hennes & Mauritz inaugurated its first of several planned Indonesian outlets in October 2013,

through local franchisee PT Hindo. The spread of modern retail into the regions, on the other hand, should see the food and beverage segment reap most of the gain initially. This is because living standards in the secondary cities still lag far behind those in the urban centres, and lower-income consumers tend to spend a larger portion of their earnings on groceries.



Online Retail Not Pulling Its Weight

Internet shopping is considered to be under-utilized in Indonesia even though major brands such as Carrefour Indonesia offer products on their websites at the click of a mouse. In the past, this was blamed on e-commerce security concerns and inadequate infrastructure. However, as consumers are beginning to feel more at ease with online banking and as internet connectivity is becoming both more robust and more affordable, online sales are a major new opportunity that retailers cannot afford to pass up.



Rising inflation, a depreciating rupiah and slower GDP growth reflected a harsher macro-environment in Indonesia in 2013, which could very well take the

shine off retail sales even in 2014. The sector also has to deal with intensified competition and rising costs from salaries, rents and utility bills. In the long run, however, there can be little doubt that favourable demographics, rising personal incomes and plenty of untapped potential make the world's fourth-most populous country an attractive home for retail investment.