



# IE Insights

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## Indonesia's Consumer Sector: Tapping the Consumer Dollar in Food and Retail

Rapid urbanisation, rising income levels, favourable demographic patterns and changing lifestyle trends are just some of the factors that make a convincing case for investing into Indonesia's consumer sector. This sector is projected to be worth some S\$1.38 trillion by 2030 as Indonesia's consuming class triples to 135 million to become the world's largest middle class after China and India. IE Singapore highlights investment opportunities in the food and retail industries, and explores ways that Singapore companies can participate in this exciting sector.

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# Summary

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- Strong domestic demand is expected to underpin Indonesia's GDP growth, as the share of private consumption is predicted to rise from 56% in 2012 to 65% in 2030. With more than 60% of Indonesia's population at less than 30 years old, Indonesia's demographic dividend, rising income levels and evolving modern lifestyles, promise a positive outlook for domestic consumption which is projected to be worth S\$1.38 trillion by 2030.
- Jakarta will continue to remain a key hub for Singapore's food and retail brands targeting the middle-upper income groups. Meanwhile, cities such as Surabaya, Bandung and Medan are expected to see faster growth.
- As the Indonesian household evolves, Indonesian urbanites are increasing domestic consumption of goods and services, as well as discretionary spending on secondary needs. The new face of Indonesia's urbanites highlights some consumer trends that Singapore companies may wish to capture.
- The food sector currently remains the biggest sector benefiting from Indonesia's rising middle class consumption spending, especially for food services, packaged food and beverage sectors. In retail, fashion apparel and consumer electronics are projected to remain the two largest segments in terms of sales value by 2016. Business opportunities in F&B and retail industries provides insights into Indonesia's F&B and retail market potential, modes of market entry, competitive landscape and regulations.

# Summary

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- Finding a strong domestic partner with the resources, capability as well as right market connections is key to business success in Indonesia. These not only help Singapore companies to quickly scale up and capture market share in Indonesia, but also assist Singapore companies in navigating Indonesia's regulatory and business landscape and generate greater brand awareness. Other market entry strategies include undertaking OEM (Original Equipment Manufacturer) manufacturing within Indonesia, working with big-box retailers, and merger and acquisition opportunities. Additional success factors in investing in the Indonesian consumption sector include raising brand and product awareness, as well as adapting products to local taste and preference.
- While Indonesia's economic outlook over the next few years is expected to remain positive and strong domestic consumption is forecast to continue, investors should watch out for changes in the business environment after the coming 2014 elections. When the potential of the ASEAN Economic Community is fully realised, we can also expect intra-ASEAN business to increase significantly.

# Consumerism: The Catalyst to Indonesia's Growing Economy

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**Strong domestic demand is a key linchpin to Indonesia's economic growth. The crux to Indonesia's robust consumption growth is its young demographic profile, a growing middle class and rising income levels. Indonesia's consuming middle class, now at 45 million, will triple to 135 million by 2030, to become the world's third largest middle class after China and India. These will provide business opportunities in the consumer sector worth an estimated S\$1.38 trillion.**

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## **Domestic demand to drive economic growth**

Indonesia, Southeast Asia's largest economy, was the world's third fastest growing economy after China and India over the last 10 years. Since 2007, Indonesia registered GDP growth at more than 6% per annum, bar 2009 (+4.5%) due to the global financial crisis. Strong domestic demand, particularly private consumption and investment, is a key linchpin to Indonesia's economic growth. The crux to robust consumption growth for the world's fourth most populous country is its young demographic profile<sup>1</sup>, a growing middle class and rising income levels. Increased urbanisation has created new jobs and raised labour productivity, leading to rising per capita income and economic growth.

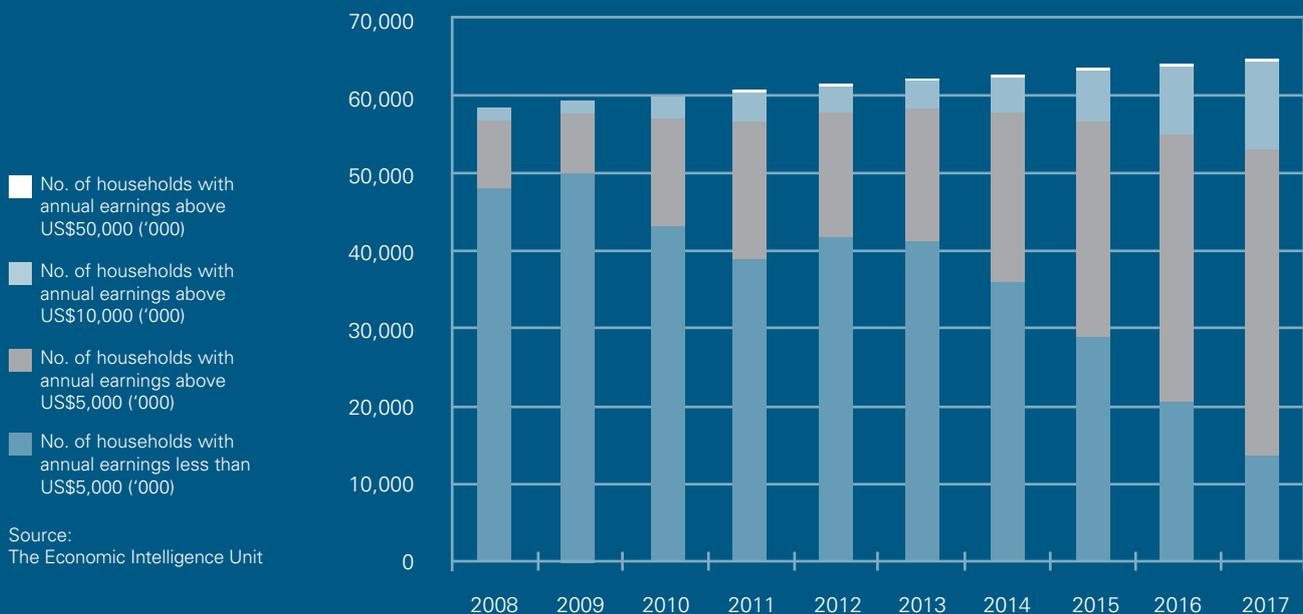
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<sup>1</sup> According to CIA World Factbook, around 66% of Indonesia's population is within the age cohort of 15-64 years, with the median age for males at 27.7 and females at 28.7 in 2011; 60% of the population is less than 30 years of age.

# Consumerism: The Catalyst to Indonesia's Growing Economy

Close to 80% of Indonesian households is expected to have combined annual earnings of more than US\$5,000 (S\$6,250)<sup>2</sup> by 2017<sup>3</sup>. Indonesia's consuming middle class<sup>4</sup>, now at 45 million, will triple to 135 million by 2030, to become the world's third largest middle class after China and India. These will provide business opportunities in the consumer sector worth an estimated US\$1.1 trillion (S\$1.38 trillion)<sup>5</sup>. In fact, Indonesia's retail sector has already benefited from the increase in domestic purchasing power, with retail sales having risen at a rapid annual rate of 12% between 2008 and 2012; total retail sales CAGR is forecast at 12.9% between 2013 and 2017<sup>6</sup>.

**Growing Purchasing Power of Indonesian Households**



<sup>2</sup> US\$1 = S\$1.25.

<sup>3</sup> EIU.

<sup>4</sup> Any individual with an annual net income of more than US\$3,600 (S\$4,500) at 2005 purchasing power parity.

<sup>5</sup> The archipelago economy: Unleashing Indonesia's potential, McKinsey Global Institute.

<sup>6</sup> Indonesia Consumer Goods and Retail report 2012, EIU.

# Consumerism: The Catalyst to Indonesia's Growing Economy

Meanwhile, sustained investor confidence in Indonesia's economic outlook will underpin foreign direct investment (FDI). The Indonesia Investment Coordinating Board (BKPM) expects FDI to reach US\$29 billion (S\$36.3 billion) in 2013, after reaching a record high of US\$23 billion (S\$28.8 billion) in 2012<sup>7</sup>. This will further boost domestic consumption and economic growth. The table below summarises the key trends that paints a positive macroeconomic outlook for Indonesia's consumption sector.

Key Macro Statistics		
<b>GDP growth</b> 2012: 6.2% 2013f: 5.8-6.2%	<b>Population:</b> 250 million <b>Middle class (2012):</b> 45 million <b>Middle class (2030):</b> 135 million	<b>FDI achievement:</b> 2012: US\$23.0 billion (S\$28.8 billion) (+26% Y-o-Y) 2013f: US\$29 billion (S\$36.3 billion, +26% YoY)
<b>GDP per capita</b> 2012: US\$3,660 (S\$4,575) 2017f: US\$5,000 (S\$6,250)	<b>Private Consumption:</b> 2012: 56% of GDP 2030f: 65% of GDP	<b>Inflation</b> 2012: 4.4% 2013f: 9.6%

Source:  
Credit Suisse, McKinsey, EIU, Indonesia  
Investment Coordinating Board (BKPM)

<sup>7</sup> According to BKPM, FDI hit a record Rp221 trillion (S\$28.8 billion) in 2012 (up 26% year-on-year, while Domestic Direct Investment) (DDI) reached Rp92.2 trillion (S\$11.5 billion) (up 21.3% y-on-y). Direct investment realisation for the year reached a record Rp313.2 trillion (S\$39.15 billion) (up 24.6% y-on-y), with Singapore (18%), Japan (9%), South Korea (7%) and the US (5%) constituting Indonesia's largest foreign direct investors. S\$1 = Rp8,000.

# Rise of Indonesia's **Regional Hubs/ Cities of Consumerism**

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**Rising urbanisation have created new regional hubs of consumerism. Jakarta will continue to remain a key hub for Singapore's food and retail brands targeting the middle-upper income groups, while cities such as Surabaya, Bandung and Medan, are expected to see faster growth in the middle-lower income segments. Singapore companies may prefer to start operations in these cities to gain market share.**

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## **Rapid urbanisation is a key driver of consumerism**

Rising urbanisation have created new regional hubs of consumerism especially in large Indonesian cities such as Surabaya, Bandung and Medan, besides Jakarta<sup>8</sup>. McKinsey predicts that by 2030, Indonesia's urban population could reach 71% from 53% today, contributing 86% to GDP, as an estimated 72 million could live in urban areas by then. Most cities outside of Jakarta and Java (with a population of more than 150,000) are forecast to grow at a much faster rate, at more than 6%, while cities between five and ten million people are estimated to grow the fastest, at a CAGR of 9.1%<sup>9</sup>.

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<sup>8</sup> World Bank. From 1996 to 2007, Indonesian cities with a population between five and 10 million people were the fastest growing with an average CAGR of 11.6%, followed by Indonesian cities with a population of more than 10 million, which grew at an average CAGR of 7%.

<sup>9</sup> The archipelago economy: Unleashing Indonesia's potential, McKinsey Global Institute

# Rise of Indonesia's Regional Hubs/ Cities of Consumerism

## Targeting different key cities

Jakarta, with an average per capita income of around US\$10,000 (S\$12,500), will continue to remain a key hub for Singapore's food and retail brands targeting the middle-upper income groups. Meanwhile, cities such as Surabaya, Bandung and Medan, are expected to see faster growth as rising minimum wages across Indonesia this year are expected to boost spending power of the middle-lower income segments, which have on average per capita income of between US\$2,000 (S\$2,500) and US\$2,500 (S\$3,125). Some Singapore companies may also prefer to start operations in these cities, which have less competition, so as to more rapidly gain market share.

## GDP per capita (US\$ at PPP); % Private Consumption per cap

City	Population (2010 census) (million)		Population density (per km <sup>2</sup> in 2010)	Per Capita GDP
	City	Greater region		
Jakarta	10.2	28.0	15,342/km <sup>2</sup>	US\$10,046 (S\$12,558)
Surabaya	3.1	5.6	8,300/km <sup>2</sup>	US\$2,458 (S\$3,073)
Bandung	2.4	7.4	14,000/km <sup>2</sup>	US\$2,521 (S\$3,151)
Medan	2.1	4.1	7,957/km <sup>2</sup>	US\$2,083 (S\$2,604)

Source:  
Central Bureau of Statistics,  
Indonesia; IE Singapore

## Modern retail is taking shape in urban areas of Indonesia

Although most retail outlets in Indonesia remain independent traditional stores<sup>10</sup> which are dominated by local companies, modern retail formats have gained popularity. Modern retailing<sup>11</sup> has emerged as the preferred channel for points of sale in cities among the middle class, especially in urban areas<sup>12</sup> such as Jakarta. Big retailers such as hypermarkets and department stores have become anchor tenants in malls attracting visitors and shoppers, while retailers such as supermarkets and mini-markets have expanded into Tier 2 and 3 cities. The emergence of Modern Grocery Retail (MGR) channels may provide opportunities for Singapore companies to tap Indonesia's fast growing consumer market.

10 According to Market Management Indonesia (Asparindo), traditional channels (such as wet markets, street stalls (warungs) and individually owned shops) currently account for close to three quarters (or around 70%) of the retail market.

11 According to the Indonesian Retail Entrepreneur Association (Apindo), modern retail includes departmental stores (e.g. Sogo; Metro; Matahari etc); hypermarkets (Carrefour; Lotte Mart; Hypermart etc); supermarkets (Hero; Giant; Kem Chicks; Ranch market etc); mini markets (e.g. Indomaret; Alfamart; Circle K etc); and specialty stores (Ace Hardware, Frank & Co) that are commonly found in shopping malls.

12 Urban areas which accommodate an estimated 53% of the population will remain the focus of retail activity, and Java will be the most important region for retailing.

# Rise of Indonesia's Regional Hubs/ Cities of Consumerism

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## **Spotlight on Jakarta**

Jakarta is the capital and largest city in Indonesia. With a population of more than 10 million (Greater Jakarta has a population of 28 million), Jakarta has the best demographic and highest per capita GDP income numbers among all cities in Indonesia. These are forecast to improve with increasing affluence and a growing middle class. In particular:

- Jakarta offers a larger cluster of middle to higher income earners, and is a more developed market for high-end retail shopping and consumer spending. This provides comparatively higher pricing power for Singapore F&B companies and retailers to meet strong domestic consumption and derive overall favourable margins and volume growth.
- Changing household demographics and lifestyle trends of Indonesian urbanites have evolved to become wealthier, trendier, more brand conscious, and adventurous in trying new brands and concepts. Greater disposable incomes also add to the propensity to consume goods and services that contribute to the domestic demand story.
- A stronger cluster of well-established Indonesian conglomerates and corporations in Jakarta can provide valuable partnership opportunities for companies looking to invest in Indonesia. This is particularly important because a strong Indonesian partner would be able to help a foreign company attain a foothold in the country for its business and for future expansion.

Increased demand and competition for leased retail space by new foreign retailers have seen occupancy rate reach 81.4% as at end-2012. More retail space is in the offing, but the moratorium on the issuance of new building permits for malls in the CBD area by the Jakarta governor will cap additional retail space for the next two to three years. All is not lost however, as more supply outside the CBD is expected. This suggests that future retail development could move into the more affluent West and South Jakarta as well as Greater Jakarta, translating to greater opportunities for expansion by retailers.

# The New Face of Indonesia's Urbanites

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**The Indonesian urbanite today is richer, trendier and more brand-conscious. Rising income levels, favourable demographic patterns and changing lifestyle trends are redefining Indonesia's consumerism landscape.**

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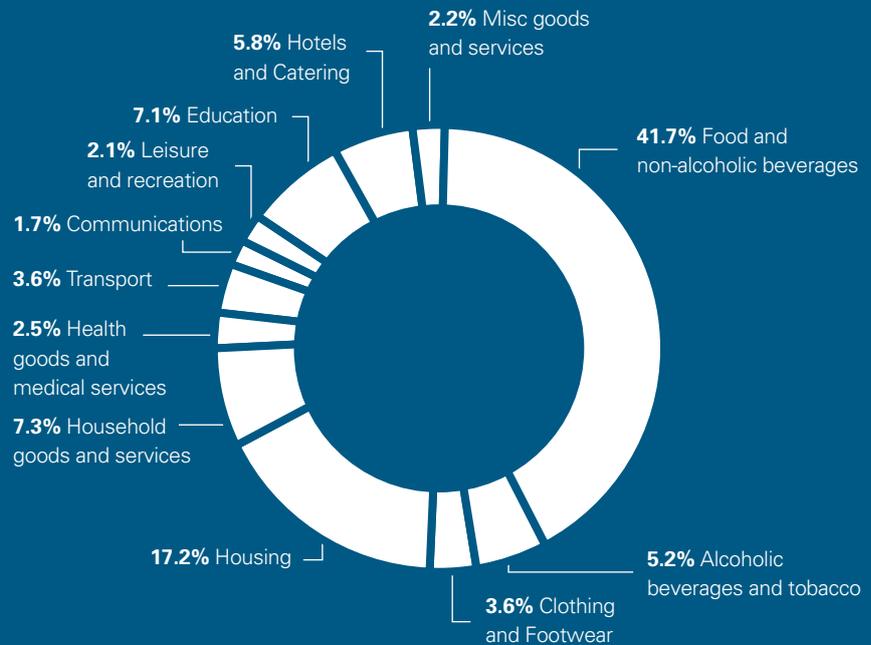
## **Lifestyle trends of modern Indonesian urbanites**

Indonesia's urbanites are redefining today's consumerism landscape thanks to continued optimism in Indonesia's economy as well as more young couples and smaller nuclear families living in the cities.

In fact, today's Indonesian urbanite is richer, trendier and more brand-conscious. Most urbanites are keen to try out new brands and concepts (e.g. food service restaurants, retail goods, such as private labels) and are willing to pay premium prices for goods and services that convey higher quality and reflect their social status. Although they may be price-sensitive, some consumers are likely to trust large, well-established national and multinational brands.

# The New Face of Indonesia's Urbanites

A summary of the lifestyle trends of the Indonesian urbanite in the F&B and retail sectors (see below for a breakdown of Indonesian household spending in consumer goods and services)



Source: IE Singapore, Statistics from Euromonitor

F&B continues to be a major expenditure for Indonesian households, but a larger number of Indonesians are increasing discretionary spending on secondary needs (such as casual or fine dining, fashion apparel, IT and consumer electronics, education and entertainment).

<b>F&amp;B</b>	<ul style="list-style-type: none"> <li>• Among all cuisine types, Japanese cuisine appears to be gaining popularity amongst Indonesians</li> <li>• Kiosk concepts must include sit-down facilities: Indonesians generally prefer the sit-down concept for restaurants, as they do not have a culture of eating on-the-go partly due to the relaxed pace of life</li> <li>• Indonesians are generally familiar with Singapore's ethnic cuisines and prefer "nasi" and fried chicken in their daily meals</li> <li>• Convenient and packaged food products from supermarkets are popular with Indonesia's increasingly busy urbanites</li> <li>• Rising demand for health and wellness food products, and fortified packaged food are perceived to be healthiest</li> </ul>
<b>Retail</b>	<ul style="list-style-type: none"> <li>• Shopping is increasingly popular amongst Indonesians that has become a leisure activity or hobby. Indonesians enjoy spending their weekends/free time in malls</li> <li>• International branded products are popular amongst Indonesians as they are regarded as of better quality, and can be an indication of one's social position</li> <li>• More Indonesians are embracing smart phones. More spending on discretionary goods and services, and the push towards an information-based society has led to more Indonesians using mobile devices</li> <li>• Rising loan demand for big-ticket items: more Indonesians are able to afford a middle-class lifestyle, defined as being able to afford a TV set, refrigerator, and a car or motorcycle</li> </ul>

\*The above table is a sample listing of concepts observed in Jakarta. This is not representative of an exhaustive listing.

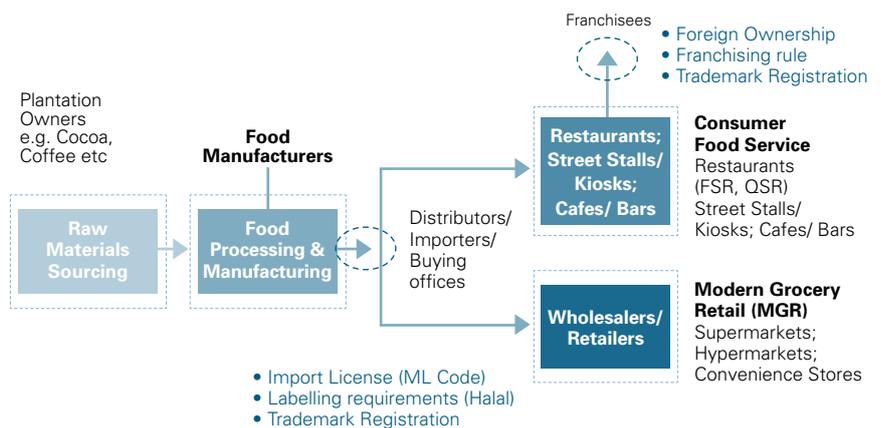
# Business Opportunities in F&B and Retail Industries

**F&B and Retail provides good opportunities for Singapore companies. Singapore companies may participate in these opportunities by partnering with private Indonesian companies.**

This section highlights business opportunities in both the F&B and retail industries.

## F&B

### Food Industry Value Chain for Indonesia



Indonesia's food industry presents opportunities for Singapore companies in two key sectors, mainly consumer food services and food manufacturing.

# Business Opportunities in F&B and Retail Industries

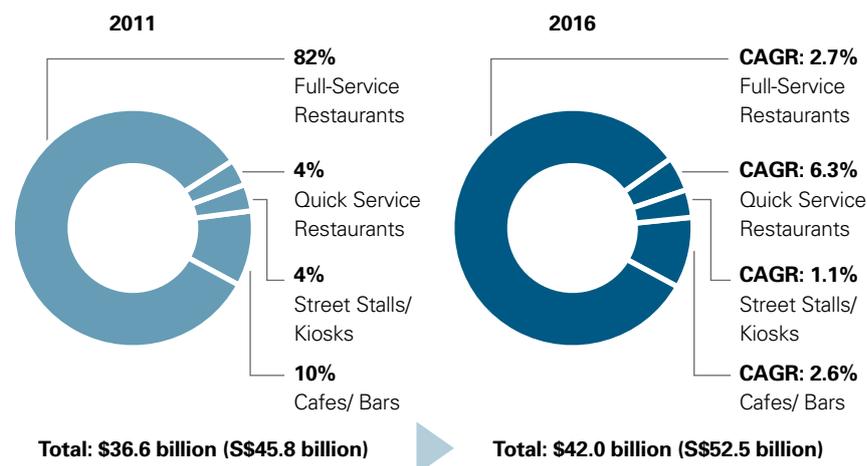
## Food service

### Market size and potential

The competitive landscape of Indonesia's food services sector can be broadly classified into four categories, namely (1) Full Service Restaurants (FSR) (casual dining and fine dining); (2) Quick Service Restaurants (QSR) (fast food, bakery and ice-cream); (3) street stalls/ kiosks; and (4) cafes/ bars.

In 2011, Indonesia's consumer food services sector was valued at Rp366.4 trillion (S\$45.8 billion), and projected to grow to Rp420 trillion (S\$52.5 billion) by 2016, at a CAGR of 2.8%. In 2011, there were 200,640 food service outlets in Indonesia. A breakdown of the respective sub-segments of Indonesia's food services sector<sup>13</sup> is as follows:

### Indonesia's Food Services sector



Source:  
Euromonitor

### Estimated Pricing for Food Service Outlets

FSRs	OSRs	Street Stalls/ Kiosks	Cafes/ Bars
<b>Price points</b> <b>Casual dining</b> Rp100,000 to Rp300,000 (S\$15 – S\$45)  <b>Fine dining</b> >Rp200,000 (>S\$20) (main course)	<b>Price points</b> <b>Fast food</b> Rp30,000 to Rp40,000 (S\$4.50 – S\$6)	<b>Price points</b> <b>Traditional street stalls (Warungs)</b> Rp10,000 – Rp15,000 (S\$1 – S\$1.60)  <b>Kiosks (outside malls)</b> Rp10,000 – Rp15,000 (S\$1 – S\$1.60)  <b>Kiosks (in malls)</b> Rp20,000 – Rp 30,000 (S\$2 – S\$3.50)	<b>Price points</b> <b>Coffee</b> Rp10,000 to 40,000 (S\$1.30 – S\$5.50)  <b>Snacks</b> Rp20,000 to 60,000 (S\$2.20 – S\$6.50)

Source:  
IE Singapore

13 Consumer Foodservice in Indonesia, Euromonitor

# Business Opportunities in F&B and Retail Industries

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Generally, most foreign companies are found in restaurants and cafe/ bar segments targeting the middle to middle-upper income groups, while local players dominate the street stalls/ kiosks segment. Currently, most Singapore food service players in Indonesia are present in FSRs (with presence in Chinese, Japanese and Western cuisines) and QSRs (bakery, coffee and toast). Singapore companies can continue to target these segments as FSRs is the largest segment whilst QSRs is the fastest growing segment.

## Mode of market entry

### *JV and Franchising*

Besides going into joint ventures with local partners, franchising is a common market entry mode for the majority of foreign food service operators in Indonesia. Partnering a strong local franchisee partner is key to the success of the franchise. Local companies will usually become major franchisees of foreign brands since foreign ownership for food service companies is capped at 51%. PT Fast Food Indonesia<sup>14</sup> and PT Mitra Adiperkasa<sup>15</sup>, for instance, are master franchisees of KFC and Starbucks in Indonesia. Having a strong local partner will enable the franchise to leverage the strengths and connections of the local franchisee to entrench itself in key developed cities and make in-roads into emerging Tier 2 and 3 regions. Owing to the success of the franchising model, a series of regulations on restaurant franchising were released this year that limit master franchisees to a maximum of 250 outlets. A third party must be invited to join the ownership if the franchisee wants to open more outlets. Major players in the restaurant franchise business, such as KFC, Pizza Hut and McDonalds (with more than 250 outlets), are expected to be affected. See Page 20 for regulations concerning the food service sector.

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<sup>14</sup> PT Fast Food Indonesia is currently the master franchisee of KFC in Indonesia, and offers restaurant, catering and delivery services for its customers. As of December 31, 2012, the Company operates 441 restaurants outlets in Jakarta and Greater Jakarta area (Bogor, Depok, Tangerang, Bekasi) and in Makassar.

<sup>15</sup> PT Mitra Adiperkasa is a fashion and lifestyle retailer that holds franchise rights to multiple brands, and is involved in the retail business (PT Panen Cosmetics Indonesia), department stores, manufacturing, cafes and restaurants (PT Sari Food Lestari), bookstores and others. As of December 31, 2012, the Company operates 1,395 retail stores under around 100 brands in Jakarta, Bandung, Surabaya, Bali, Medan, Makassar, Batam, Manado and other cities in Indonesia.

# Business Opportunities in F&B and Retail Industries

## Competitive landscape of Jakarta's food service sector

Categories/ Types of Cuisine	Full Service Restaurants	Quick Service Restaurants	Street stalls/Kiosks	Cafés/ Bars
<b>Western Cuisine</b>	Pizza Hut TGI Fridays Sizzler American Grill Papa Ron's Pizza Fish & Co Seoul Garden Pepenero Pizza E Birra Pizza Marziano Delifrance Bakerzin Pancious Manhattan Fish Social House Kitchenette	KFC Burger King Wendy's A&W Texas Chicken Popeyes Chicken & Seafood California Friend Chicken (CFC) Domino's Pizza Awfully Chocolate Crystal Jade (My Bread) BreadTalk BreadLife tou le jours	Edam Burger Red Crispy Sour Sally Quickly Bubble Tea Chevy Junior Beard Papa Mama oven Come Buy tea Share tea Cha Time Roti Boy Aunty Anne's Pretzel Baskin Robbins Shokupan New Zealand Natural Red Mango Heavenly Blush Mr. Puff Hop Hop bubble tea	Starbucks The Coffee Bean & Tea Leaf J Co & Donuts Dunkin' Donuts D'Creppes Yogen Fruz Saint Cinnamon
<b>Chinese Cuisine</b>	Duck King Soup Restaurant Tung Lok Crystal Jade Loy Kee Pu Tien Paradise Inn Dian Xiao Er Crystal Jade Palace Paradise Dynasty Din Tai Fung Ta Wan Mangkok Putih Chopstick Eaton the restaurant	Golden Century Yong Tau fu	Shillin Snacks Old Chang Kee Polar Puffs	
<b>Asian (ex-Chinese, ex Japanese)</b>	Chatterbox Café Solaria Pho24 Thai Express Dapur Sunda Bakmie GM Sari Ratu Platinum Iga Tekko Iga Lekko Blue Elephant Pho 2000	Es Teler 77 Mister Baso Bon Chon Afung Donner Kebab Thai Express Kari Umbi Mie Tarik Lekker Saboga	Kebab Turki Baba Rafi Donner Kebab	Excelso Café Kopi Luward Old Town Kopi Tiam Ya Kun Killiney Oey Kopitiam
<b>Japanese Cuisine</b>	Taichan Ramen Takigawa Sushi Tei Ministry of Food Sakae Sushi Ramen Sanpachi Pasta De Waruku Gokana Teppanyaki Sushi Groove Hanamasa Ajitei Shabu Tei Kiyadon	Hoka Hoka Bento Yoshinoya		

\*The above table is a sample listing of concepts observed in Jakarta.  
This is not representative of an exhaustive listing.

# Business Opportunities in F&B and Retail Industries

## Food manufacturing

### Market size and potential

Indonesia's packaged food and beverage sector is projected to grow at an annual rate of 5.6%, worth Rp595.5 trillion (US\$59.6 billion) by 2016<sup>16</sup>, and there is potential for growth in Singapore's food exports to Indonesia. Indonesia is Singapore's third largest export market for packaged food and beverages in 2012, after Japan (7.8%) and China (7.6%) and accounted for 6.6% of Singapore's total food exports or US\$704.1 million in value of food products.

Singapore food manufacturers have strengths in four main categories, namely (1) frozen processed food; (2) Asian sauces, dressings and condiments; (3) beverages; and (4) sweet and savoury snacks. The growth potential of these four categories in Indonesia can be tapped.

### Estimated pricing for F&B products:

Frozen processed food	Asian sauces, dressings, and condiments	Beverages	Sweet and savoury Snacks
<p><b>Average Price Point</b> Frozen food (shrimp, poultry, spring roll, seafood etc) Domestic brands: S\$0.80 – S\$1.20 (150g) Foreign brands: S\$1.00- S\$1.50 (150g)</p>	<p><b>Average Price Point</b> Sauces &amp; Condiments Domestic brands: S\$2.00 – S\$3.50 (600ml) Foreign brands: S\$3.00 - S\$6.00 (600ml)</p>	<p><b>Average Price Point</b> Bottled Drinks Domestic brands: S\$0.50 - S\$0.80 (500ml) Foreign brands: S\$0.70-S\$1.50 (500ml) Instant Coffee / Tea Domestic brands: S\$2.00 – S\$3.00 (600g) Foreign brands: S\$5.50 – S\$14.00 (600g)</p>	<p><b>Average Price Point</b> Nuts Domestic brands: S\$1.20-S\$3.00 (100g) Foreign brands: S\$2.50-S\$8.00 (100g) Chips Domestic brands: S\$0.60-S\$1.00 (50g) Foreign brands: S\$2.00-S\$3.00 (50g)</p>

Source:  
IE Singapore

# Business Opportunities in F&B and Retail Industries

## Food manufacturing

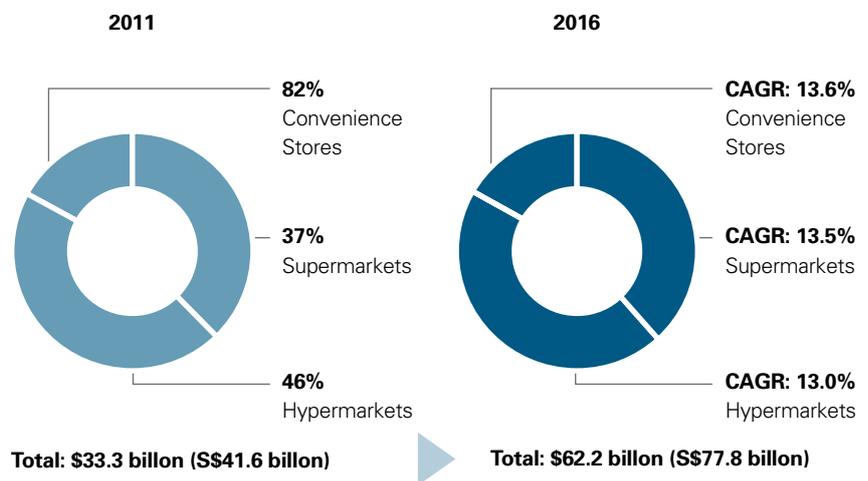
### Mode of market entry

#### Modern Grocery Retail Channels

Indonesia's Modern Grocery Retail (MGR) sector - comprising hypermarkets, supermarkets and minimarket/ convenience stores - presents opportunities for Singapore's food manufacturers. Although traditional retailers continue to dominate retail food product sales<sup>17</sup>, the strong development of Indonesia's MGR distribution channels in recent years has enabled the sector to enjoy much faster growth. Some MGR retailers (such as Carrefour, Matahari's Hypermart, and Circle K convenience stores) have also expanded their networks into major cities outside Java. MGRs are able to feature a wider range of imported food products and target affluent consumers. They are the key sales channels which Singapore food manufacturers should work with, to reach the middle and middle-upper income groups. Singapore companies may work with MGR retailers to list and distribute their products across Indonesia.

In 2011, Indonesia's MGR sector recorded sales of US\$33.3 billion (S\$41.6 billion), and is projected to grow into a US\$62.2 billion (S\$77.8 billion) sector by 2016, at a CAGR of 13.3%. Hypermarkets are expected to command the largest market share in Indonesia's MGR sector, followed by supermarkets and convenience stores/ minimarkets.

### Indonesia's Modern Grocery Retail



Source:  
BMI

<sup>17</sup> Traditional retailers, in the form of small, independent grocery stores and open-air markets, is estimated to account for around 72% of total retail sales in the country on average – with this figure far higher in lower-income rural regions. On the other hand, the modern retail sector, in the form of hypermarkets, supermarkets and convenience stores, continues to record strong growth in urban cities including Jakarta.

# Business Opportunities in F&B and Retail Industries

## *Distribution*

Some Singapore food products have made it onto the shelves of Indonesia's MGR outlets. However, most Singapore food manufacturers face the challenge of not knowing how to export food products into Indonesia. Some Singapore food manufacturers also experience low product brand awareness.

Having the support of a strong Indonesian distributor will be a key step to successful market penetration for Singapore food products in Indonesia as these distributors usually have local know-how to assist Singapore food manufacturers (1) to obtain the approval for import license (such as ML codes for food products); (2) in reaching out through their connections to a greater number of retailers for shelf space and increased product brand awareness to drive sales; and (3) providing support for in-store brand/ product promotions.

## **Competitive landscape of food products in selected categories in Indonesia**

<b>Frozen processed food</b>	So Good (PT Supra Sumber Cipta) Bumifood Belfood (PT Sierad Produce) Fiesta (PT Primafood International)
<b>Asian sauces, dressings, and condiments</b>	ABC Kecap Manis (PT Heinz ABC Indonesia) Bango (PT Unilever Indonesia) Indofood (PT Nestlé Indofood Citarasa Indonesia) Masako (PT Ajinomoto Indonesia) Lee Kum Kee (Lee Kum Kee Co Ltd)
<b>Beverages</b>	Teh botol (SOSRO) Garudafood Groups Chek Hup Nescafe (Nestle) Coca Cola (Coca-Cola Amatil Indonesia) Pepsi (PT Pepsi-Cola IndoBeverage)
<b>Sweet and savoury snacks</b>	PT Dua Kelinci Garudafood Groups Kong Guan Group PT. Kaldu Sari Nabati PT. AIM biscuit

\*The above table is a sample listing of food brands observed in Jakarta. This is not representative of an exhaustive listing

## Regulations concerning the food services and food manufacturing sectors

### 1. Foreign ownership<sup>18</sup>

Currently, local regulations do not allow wholly-foreign owned entities in the food service sector (maximum foreign shareholding is capped at 51%).

### 2. Trademark registration

Trademark registration currently operates on first-to-file basis. This may result in potential trademark issues where a brand may have been registered in Indonesia, and companies may need to negotiate with the relevant entities/ individuals to get the trademark back.

### 3. Franchising rule (Restaurants)<sup>19</sup>

The new franchising regulation limits a single master franchisee to owning a maximum of 250 outlets. If the franchisee wants to open more outlets it must invite a third party to join the ownership. Any franchisee that currently runs more than 250 outlets needs to adjust to the regulation within five years.

All franchise holders with more than 250 outlets must share ownership of all new outlets with SMEs. Large franchise holders must also divest a partial stake in any outlet they currently own over 250, so that the number of fully-owned branches does not exceed 250.

Franchisors and franchisees can also choose the capital investment route to expand beyond the 250-outlet limit, whereby a third party may join the ownership of any additional outlets. For outlets requiring start-up capital of more than Rp10 billion (US\$1 million), companies owning more than 250 branches must divest at least 40% of their ownership above 250. For outlets requiring less than Rp10 billion in start-up capital, they will be obliged to divest 30% of their stake above 250. However, an exemption will be provided for opening new outlets in remote areas like Papua.

Master franchisee and franchise are required to use minimum of 80% local products for ingredients and production facilities in their restaurant operations.

### 4. Import license (ML Code)

Mainly affect food manufacturers and only food service players that import their own ingredients.

All imported products in Indonesia must be registered with Indonesia's National Agency of Drug and Food Control, BPOM (Badan Pengawas Obat dan Makanan) before clearance through the customs and be labeled in accordance with the Indonesian requirements. Importers, distributors or retailers dealing in unregistered products are in breach of the regulations and subject to penalty including confiscation of products. Upon approval, a registration number is issued (ML number<sup>20</sup> for imported products; MD number for locally-manufactured products).

### 5. Labelling requirements<sup>21</sup>

All imported food and beverages need to be labelled in Bahasa Indonesian language and must contain:

- brand name
- name of product (type of food)
- list of ingredients
- net weight or net content or drained weight (if applicable)
- name and address of parties that produce or import the products into Indonesia
- registration number
- date, month and year of minimum durability

Halal certification in Indonesia is required for all food derived from animal products, and recommended for companies whose products are targeting the mass retail market.

<sup>18</sup> Indonesia's 2010 Negative Investment List according to the Presidential Regulation 36/2010

<sup>19</sup> Franchising rule to slap limit on KFC, McDonald's

<http://www.thejakartapost.com/news/2013/02/16/franchising-rule-slap-limit-kfc-mcdonald-s.html>

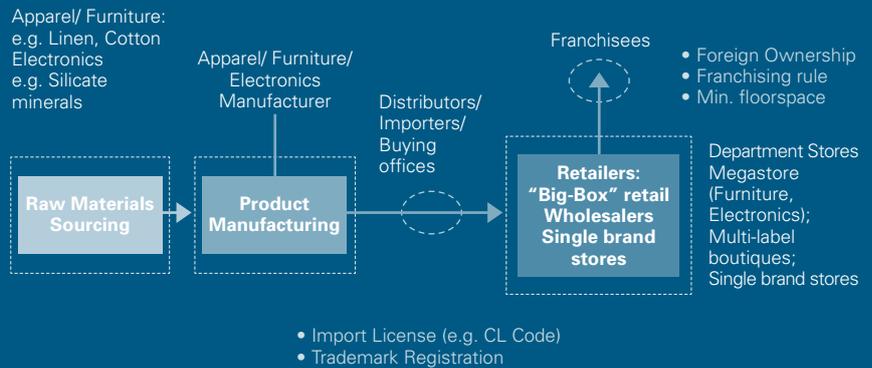
<sup>20</sup> ML numbers (abbreviation of "Makanan Luar" or "Imported Food") are importer-specific, and are required for every product or SKU (stock-keeping unit) with any variance in ingredient mix.

To obtain a ML code, manufacturers have to first appoint an authorised distributor since only the respective appointed Indonesian distributors are allowed to apply for ML code. The objective of this regulation is to prevent counterfeit products. A distributor is not allowed to be wholly foreign-owned as foreign shareholding is capped at 95%.

<sup>21</sup> National Agency of Drug and Food Control at [www.pom.go.id](http://www.pom.go.id)

# Business Opportunities in F&B and Retail Industries

## Retail Retail Industry Value Chain

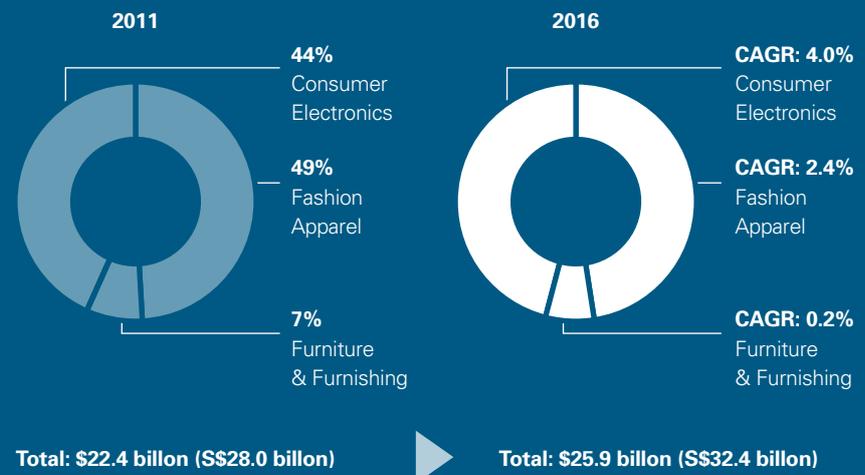


The competitive landscape for Singapore companies in Indonesia's retail sector can be broadly classified into three main categories, namely (1) fashion apparel; (2) furniture; and (3) consumer electronics.

### Market size and potential

In 2011, Indonesia's retail sector (fashion apparel, furniture and consumer electronics) was valued at Rp224.0 trillion (S\$28.0 billion), and was projected to grow to Rp259.2 trillion (S\$32.4 billion) by 2016, at a CAGR of 2.9%. Fashion apparel and consumer electronics are expected to remain the two largest segments by 2016. Singapore retailers can target these segments as they are large and fast growing. See below for a breakdown of the respective sub-segments of Indonesia's retail sector<sup>22</sup>.

### Indonesia's Retail Industry Apparel; Furniture; Consumer Electronics



Source:  
Euromonitor

<sup>22</sup> Apparel in Indonesia; Consumer Electronics in Indonesia; Furniture and Furnishing Stores in Indonesia, Euromonitor

## Business Opportunities in F&B and Retail Industries

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Since the release of the Presidential Decree No.118/ 2000 allowing foreign retailers to operate in the country, Indonesia has enjoyed strong interest from foreign investors recognising Indonesia's retail potential. Indonesia has seen investment across all sectors of its retail landscape such as department stores (Parkson, Central Retail Corp and Lotte); retailing (Uniqlo and AEON); consumer electronics (Best Denki and Infinite); and furniture (IKEA) alongside large-scale local retailers, such as Matahari, PT Mitra Adiperakasa, Electric City and ACE Hardware. Most foreign companies are found in segments that target the middle to high income groups, and are in large cities (such as Jakarta, Surabaya, Bandung and Medan).

Most Singapore companies are presently found in the fashion apparel and furniture segments of Indonesia's retail industry, featuring multi-brand operators and general merchandisers, individual fashion brand operators, as well as furniture retailers.

### **Mode of market entry**

#### ***JV and Franchising***

Other than joint ventures, franchising, usually with a local company, is one of the two most common entry modes by Singapore retailers. In light of heightening competition, franchising is a quick way for foreign retailers to grow their chain stores amid intensifying competition. A local partner is usually beneficial in helping the foreign company navigate Indonesia's retail landscape. There are some regulations limiting foreign companies to only operate in retail space exceeding 1,200 sqm and department stores of 2,000 sqm or more. A recent regulation (released in 2012) also limits the number of franchised outlets to 150 stores, and each modern store must carry at least 80% local products (See Page 24 for more information on regulations concerning retailers).

#### ***Distribution***

This is mainly applicable to manufacturers of retail goods, as they seek to push their products into Indonesia's department stores/ specialty stores through working with Indonesian distributors, importers and buying offices. Some of the regulations that companies could face when exporting to Indonesia may include getting import licenses (e.g. CL code for cosmetics), trademark licensing and meeting the necessary labelling requirements (See Page 24 for regulations on retail goods manufacturers).

# Business Opportunities in F&B and Retail Industries

## Competitive landscape of Indonesia's retail sector

<b>Fashion apparel</b>	<p><b>Department Stores/ General merchandiser</b>            Ramayana (Ramayana Lestari Sentosa)            Golden Trully (PT Golden Retailindo)            The Grand Palace (PT. Berca Ritel Grup)            Matahari Department Store (CVC Capital Partners)            Sogo, Seibu, Debenhams, Lotus (PT Mitra Adiperkasa)            Centro (PT Tozy Sentosa – Parkson Holding Sdb Bhd)            Central (Central Retail Corporation – CRC)            Lotte Department Store (Lotte Group)            AEON (PT AEON Indonesia)            Gallery Lafayette            Metro (PT Metropolitan Retail Mart – Metro Holdings)            Star Department Store            Pojok Busana</p> <p><b>Brand operators</b>            PT Mitra Adiperkasa            PT Trans Fashion            PT Metrox Lifestyle            Pedder Group            Fast Retailing (Uniqlo)            Charles &amp; Keith            FJ Benjamin            BYSI            PT Gagan (Promod, Cache)            (X) SML            Nyla            Minimal            Delami group (The Executive, Colorbox, Et cetera, Choya, Woods, Lee)            Gaudi            Magnolia            Bata            Body &amp; Soul</p>
<b>Consumer electronics</b>	<p><b>General merchandiser</b>            ACE Hardware            Electric City            Best Denki            Infinite            Courts Asia</p> <p><b>Portable consumer electronic retailers</b>            PT. Global Teleshop            PT. Trikonsel Oke Tbk.            PT. Erajaya Tbk.</p>
<b>Furniture &amp; furnishing</b>	<p><b>General merchandiser</b>            IKEA            Courts Asia</p> <p><b>Furniture retailers</b>            Furnimart            Informa            Vinoti Living            MER Furniture Center            Index            Habitat            Cellini            Vivere            Melandas            Da Vinci            Veranda</p>

\*The above table is a sample listing of concepts observed in Jakarta. This is not representative of an exhaustive listing.

## Regulations concerning the retail sector

### 1. Foreign ownership<sup>23</sup>

Under Indonesia's negative investment list, retail businesses must be operated based on 100% local capital. This regulation applies for:

- a supermarket with business area less than 1200 sqm
- b minimarket with business area less than 400 sqm
- c department store with business area less than 2000 sqm
- d convenience store
- e jewellery retail business

However, for retail businesses other than those stated above, there is no normative statement on maximum percentage of ownership that foreign companies can own.

### 2. Trademark registration

Trademark registration currently operates on first-to-file basis. This may result in potential trademark squatting issues where a brand may have been registered in Indonesia, and companies may need to negotiate with the relevant entities/ individuals to get the trademark back.

### 3. Franchising rule (modern stores)<sup>24</sup>

In Oct-2012, the Trade Ministry announced a regulation. Under this new regulation, privately owned companies will be allowed to set up a maximum of 150 franchise outlets, and franchise holders are required to set aside as much as 80% of their inventory for locally made products.

For franchisors who already have more than the specified number of outlets, there will be a grace period of a maximum of five years from the effective date of the Regulation before compliance will be required. Companies can still expand their number of outlets above 150 but a min. of 40% of the total number of new expanded outlets must be franchised to other parties. During this grace period, however, the franchisor must release at least 20% of the excess number of outlets to be franchised each year.

Exemptions from having to franchise additional outlets above the 150 outlet applicable threshold rate applies when the business is 1) not making a profit, as evidenced by financial statements audited by a public accountant, or 2) are unsuccessful in finding local business players to be franchisees as evidenced by findings of a team of auditors.

### 4. Labelling requirements

All imported retail goods needs to be labelled in Bahasa Indonesian language and must contain:

- Product labels
- Name and/ or brand name
- Name and address of manufacturer (for local manufacturing)
- Name and address of importer (for imported goods)
- Country of origin
- Washing instruction & size (fashion apparel)

\*The above regulations are for illustrative purposes and are presented according to best knowledge. Readers are advised to check on latest information from the Indonesian government.

<sup>23</sup> Indonesia's 2010 Negative Investment List according to the Presidential Regulation 36/ 2010

<sup>24</sup> New retail franchising rule will help prevent monopoly, says govt  
<http://www.thejakartapost.com/news/2012/11/01/new-retail-franchising-rule-will-help-prevent-monopoly-says-govt.html>

# Strategies

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**Singapore companies should seek to form alliances with strong Indonesian partners with the resources, capability and right market connections to quickly scale up and capture market share. Branding and innovating to suite the local taste is a key ingredient to business success.**

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## **Growing Singapore companies' footprints in Indonesia**

### **Partnership for success: Partnering strong Indonesian companies to scale up**

Competition in Indonesia for the country's huge consumerism potential is intensifying with growing interest from foreign companies in light of Indonesia's growing affluence and fast developing retail landscape. Companies such as L'Oreal, Nestle and Procter & Gamble are among consumer goods firms investing in Indonesia. Existing local companies (such as Lippo Group, PT Mitra Adiperkasa and PT Fastfood Indonesia) are also expanding to gain a stronger foothold in developed cities, such as Jakarta, as well as making headway into Tier 2 and 3 cities throughout Indonesia.

Given Indonesia's competitive market landscape, Singapore companies should form alliances with strong Indonesian partners with the resources, capability and right market connections to help them quickly scale up and capture market share in Indonesia. Indonesian conglomerates and companies may serve as potential franchisees, distributors or JV partners as they facilitate the penetration of Singapore's F&B and retail brands into Indonesia's consumer market (see "Mode of market entry" of respective sections for more details).

Finding an Indonesian partner is also critical to doing business successfully in Indonesia. This is because in some industry sectors such as food services, an Indonesian partner is required as foreign ownership is capped at 51%. In addition, a significant portion of the Indonesian economy is dominated by Indonesian conglomerates.

# Strategies

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## **Mergers: A market entry mode for Singapore companies**

In addition to working with partners for organic growth through outlet expansion, Singapore companies can also look at M&A as an alternative approach for faster access to the Indonesian consumerism market. Some Indonesian companies may present favourable synergistic benefits, good access to valuable resources and capabilities and be attractive partners for mergers. Singapore companies may explore the M&A route as a quick way to enhance their portfolio of brands, capture value chain extension and market share as well as to gain access to valuable distribution and retail network, management talent, resources and capabilities.

## **Working with Big-Box retailers/ e-commerce companies to penetrate Indonesia's consumer market**

Smaller Singapore companies may explore penetrating Indonesia's consumer market by leveraging on the platforms of existing "Big-Box" retailers that carry multiple brands in their outlets. Some of them may also have e- or m-commerce platforms capable of tapping a new generation of internet savvy consumers with rising internet penetration and social networking. These platforms may serve as new channels for Singapore companies to gain access to Indonesian consumers and test demand for their products. Given the rapid rise in internet penetration, mobile usage and social networking in Indonesia, e-commerce may be an emerging channel for Singapore F&B and retailers to complement traditional store-front retailing in driving sales and reaching out to the Indonesian consumer.

## **OEM Manufacturing: Navigating rising cost pressures**

Singapore F&B and retail companies currently face challenges from rising cost pressures from manufacturing in Singapore (as a result of labour, raw materials and rentals)<sup>25</sup> and the challenges of exporting (such as import license and taxes). In practice, companies may want to look into local manufacturing via third-party OEM first before setting up proprietary manufacturing facilities in Indonesia.

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<sup>25</sup> Rising costs, uncertain global demand and regulation key business concerns, Jan-2013  
<http://business.asiaone.com/A1Business/News/Story/A1Story20130109-394429.html>

## **Reaching out to the Indonesian consumer**

### **Raising awareness of Singapore F&B and retail products in Indonesia**

Singapore companies generally benefit from the Singapore branding which enjoys high credibility among Indonesian consumers. However, despite the strong credibility, brand awareness of individual Singapore F&B and retail product brands remains weak relative to leading global brands and strong local brands, resulting in poorer performance of individual Singapore product brands when compared to competitors. Singapore companies can raise the visibility and awareness of individual product brands amongst consumers by participating in brand promotion events (such as in supermarkets, department stores, and shopping malls). This will also encourage more interest from potential partners and distributors, in turn boosting market penetration of Singapore F&B and retail products in Indonesia.

### **Localise product innovation to suit local taste and preferences**

Product innovation has also taken shape with more companies devoting resources to understand local and cultural trends, and adapting product offerings and services to suit local Indonesian tastes and preferences. This is a critical factor to succeeding in Indonesia's consumer landscape. Giordano, for instance, has adapted their apparel designs according to local tastes and emphasised their offering of lightweight clothes designed to suit the local consumer preferences<sup>26</sup>. McDonalds' understanding of the local Indonesians' need for nasi (rice) and fried chicken as their regular staple has led them to introduce the 'Panas Special' which has been well-received.

### **Advertise to reach out to the Indonesian consumer**

Today, more companies are engaged in aggressive promotional and marketing efforts to reach out to the Indonesian consumer to capture the Indonesian Rupiah. For instance, fast food chains such as KFC (PT Fast Food Indonesia) and Es Teler 77 have increased their marketing efforts beyond traditional advertising media (such as TV commercials and mass media advertisements), to include online marketing using social media (Facebook, Twitter) to appeal to young consumers. This provided new opportunities for brand advertising and for food services companies to connect with their existing and new customer bases. Consumers responded favourably to the trend, with many becoming fans or members to the brand. This established brand loyalty and substantially drove sales of chain food services brands<sup>27</sup>. Food service operators are also offering more promotions targeted at specific times of the day (for example breakfast, lunch, dinner, and tea) to attract more customers and prevent them from switching to competitors.

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<sup>26</sup> Apparel in Indonesia, Euromonitor

<sup>27</sup> Consumer Foodservice in Indonesia, Euromonitor

# Market Outlook

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**Indonesia's long-term structural potential for consumerism remains fundamentally sound despite short-term business uncertainties. Through due diligence in selecting the right local partner, Singapore companies can ride on this growth to capitalise on these opportunities.**

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While Indonesia's economic outlook in the next few years is expected to remain positive and strong domestic consumption is forecast to continue, investors should watch out for changes in the business environment.

## **Dynamic Investment Climate**

Indonesia will be holding its third Presidential elections in mid-2014, and incumbent president Susilo Bambang Yudhoyono would be stepping down to make way for a new president as he cannot seek a third term<sup>28</sup>. Nonetheless, Indonesia has assured foreign investors of Indonesia's sound macroeconomic fundamentals and commitment to economic reform. As with all elections, Singapore companies should keep watch over the new cabinet line-up and any specific post-Elections policies that may impact their businesses.

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<sup>28</sup> Denny Indrayana (2008) Indonesian Constitutional Reform 1999-2002: An Evaluation of Constitution-Making in Transition, Kompas Book Publishing, Jakarta

# Market Outlook

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## **Economic Potential of the ASEAN Economic Community**

The 10 member states of ASEAN have begun plans to create an ASEAN Economic Community (AEC) by 2015, with the goal of creating a single competitive market bloc of over 600 million people. When fully realised, the AEC will potentially liberalise flows of goods and services and will involve harmonisation of rules and regulations, tariff reductions as well as the streamlining of administrative procedures. Some businesses have begun preparing themselves to meet the challenges and opportunities of the AEC. Thailand's Central Retail Corporation, for instance, is opening its first Central Department Store in Jakarta in 2014, and aims to tap opportunities when the AEC takes effect in 2015, as part of a long-term plan to become the leading retail chain in ASEAN<sup>29</sup>. Singapore companies can position themselves to tap into the economic potential of the AEC in the long term. Indonesia, being the largest regional consumption market, would be a good start.

## **Indonesia's long-term outlook remains sound**

Indonesia's long-term structural potential for consumerism remains sound as Southeast Asia's largest economy is projected to have the world's largest middle class after China and India by 2030. It is expected to benefit from rapid urbanisation, rising income levels, favourable evolving demographic patterns and changing lifestyle trends. As with all emerging economies, Singapore companies may be faced with some business uncertainties in the market. Therefore, choosing the right partner and the right market entry strategy will be pivotal.

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<sup>29</sup> Thailand's Central to try its luck in Indonesia's tight retail market  
<http://www.thejakartapost.com/news/2012/07/30/thailand-s-central-try-its-luck-indonesia-s-tight-retail-market.html>

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## **International Enterprise Singapore**

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