Understanding the Indonesian Consumer

McKinsey&Company

CONFIDENTIAL

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What does the Indonesian consumer want? The 4 Trillion question

Ranking by overall GDP

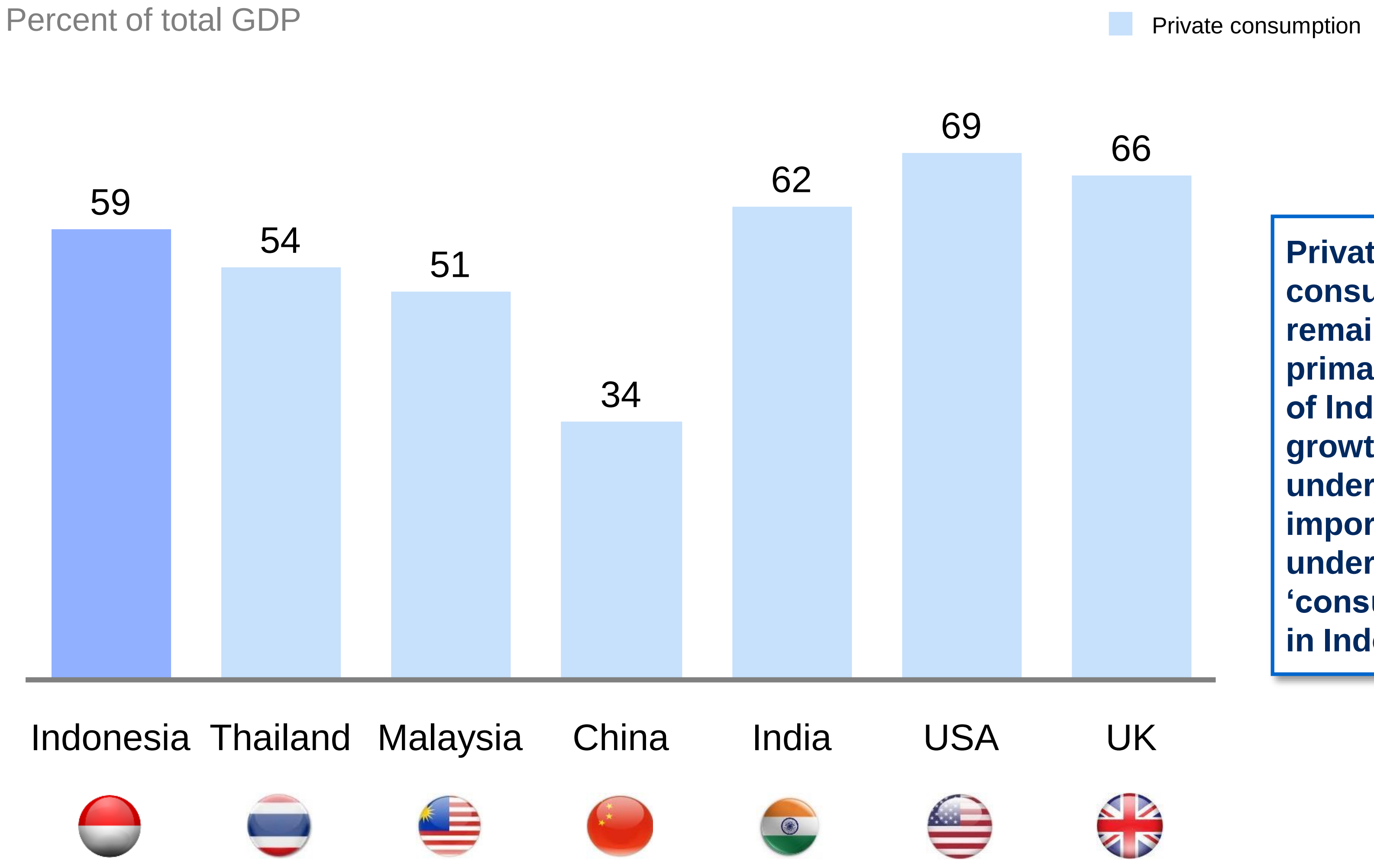
Ranking	1990	Ranking	2000	Ranking	2010	Ranking	2030	Trillion USD 2010 PPP trillion
1	US	1	US	1	US	1	China	38.49
2	Japan	2	Japan	2	Japan	2	United States	24.62
3	Germany	3	Germany	3	China	3	India	23.27
4	France	4	UK	4	Germany	4	Japan	5.55
5	Italy	5	France	5	France	5	Brazil	5.28
6	UK	6	China	6	UK	6	Russia	4.82
7	Canada	7	Italy	7	Brazil	7	Indonesia	4.28
8	Spain	8	Canada	8	Italy	8	Germany	4.05
9	Brazil	9	Mexico	9	India	9	United Kingdom	3.67
10	China	10	Brazil	10	Canada	10	Mexico	3.20
⋮	⋮	⋮	⋮	⋮	⋮			
25	Indonesia	28	Indonesia	18	Indonesia			

Indonesia projected to transform from a top 30 to a top 10 economy in just 25 years

SOURCE: McKinsey Global Growth model: Citigroup

Private consumption is a significant contribution to GDP in Indonesia, understanding Indonesian consumers is fundamental to driving growth

Contribution of private consumption to GDP, 2013



Private consumption remains a primary driver of Indonesia's growth, underlining the importance of understanding 'consumerism' in Indonesia

SOURCE: WMM

Indonesian consumers are the second most optimistic in the world

Consumer confidence index (>101 optimism)

Global average **98**

India **126**

Indonesia **125**

Philippines **115**

Thailand **113**

China **111**

SOURCE: Nielsen Q3 2014 consumer confidence

Between now and 2030, a wide range of Indonesian consumer markets should experience rapid growth

Annual consumer spending in Indonesia

	Compound annual growth rate (CAGR), 2010–30, %	2030 projected $ billion[1]
Financial services (savings and invest.)	10,5	565
Leisure	7,5	105
Health care	6,2	13
Education	6,0	42
Personal items	5,3	16
Food and beverage	5,2	194
Apparel	5,0	57
Telecom	4,7	19
Transportation	4,6	30
Housing and utilities	4,5	26

Overall 2010–30 CAGR:
7.7%

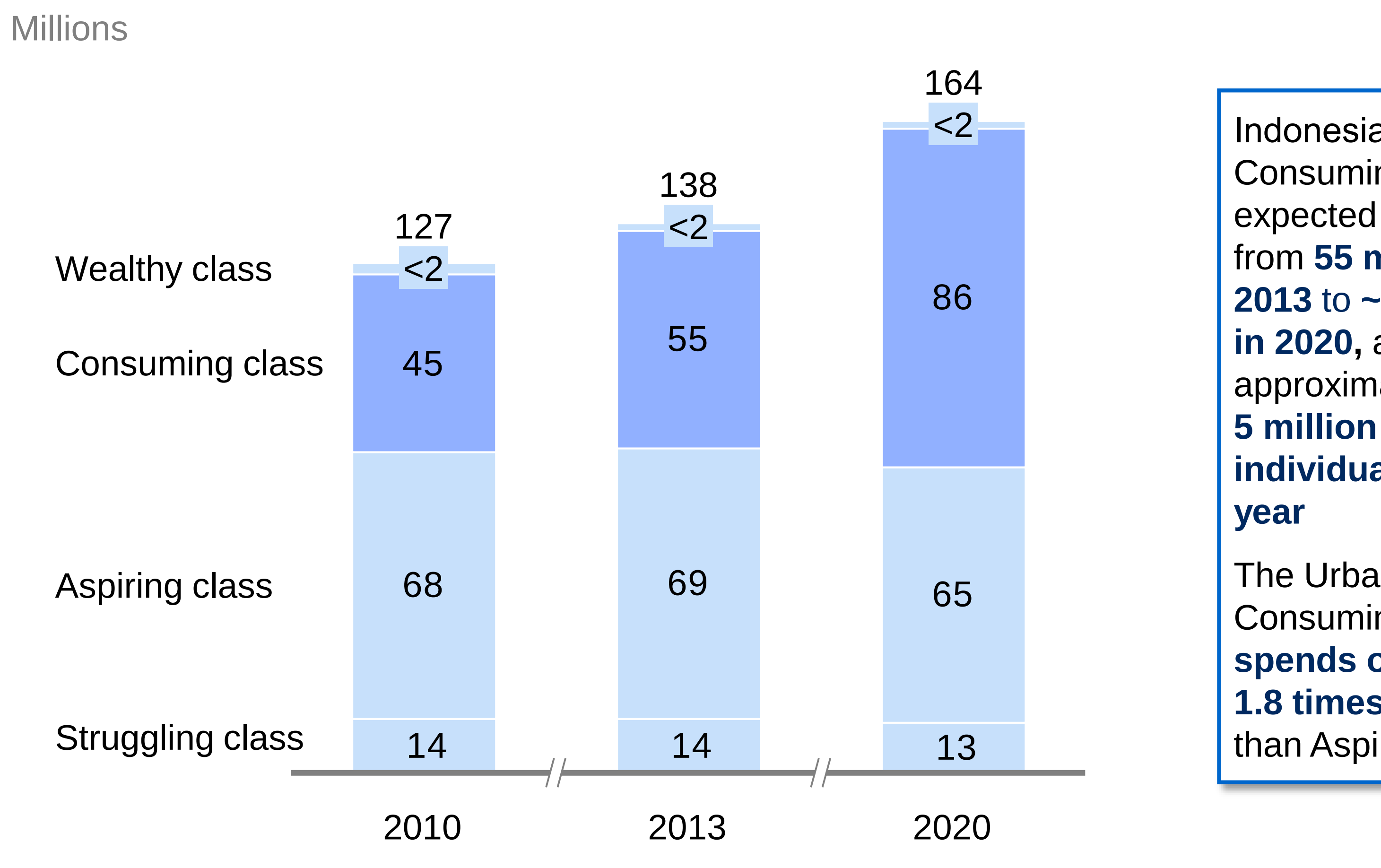
Total 2030 projected:
~$1,070 billion

1 In 2010 prices

SOURCE: Canback Global Income Distribution Database (C-GIDD); Indonesia's Central Bureau of Statistics; 2011 McKinsey survey of 5,500 Indonesian consumers; McKinsey Global Institute analysis

The Urban Consuming Class presents a sizeable and growing market: adding a population equivalent to that of Singapore's each year

Indonesian urban population



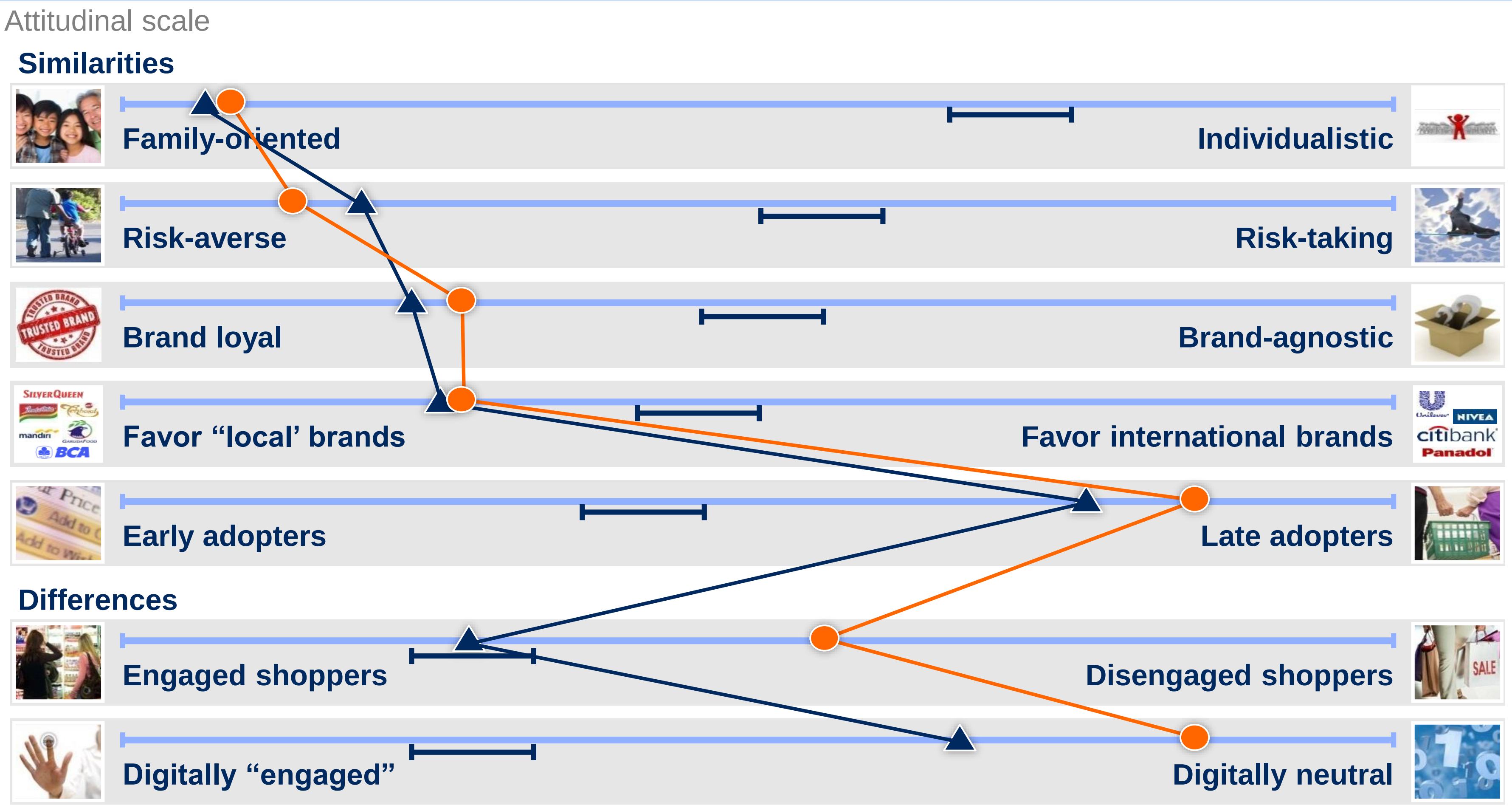
Indonesia's Urban Consuming class is expected to grow from **55 million in 2013** to **~85 million in 2020**, adding approximately **5 million individuals each year**

The Urban Consuming class **spends on average 1.8 times more** than Aspiring class

SOURCE: McKinsey Consumer Insights Indonesia 2013

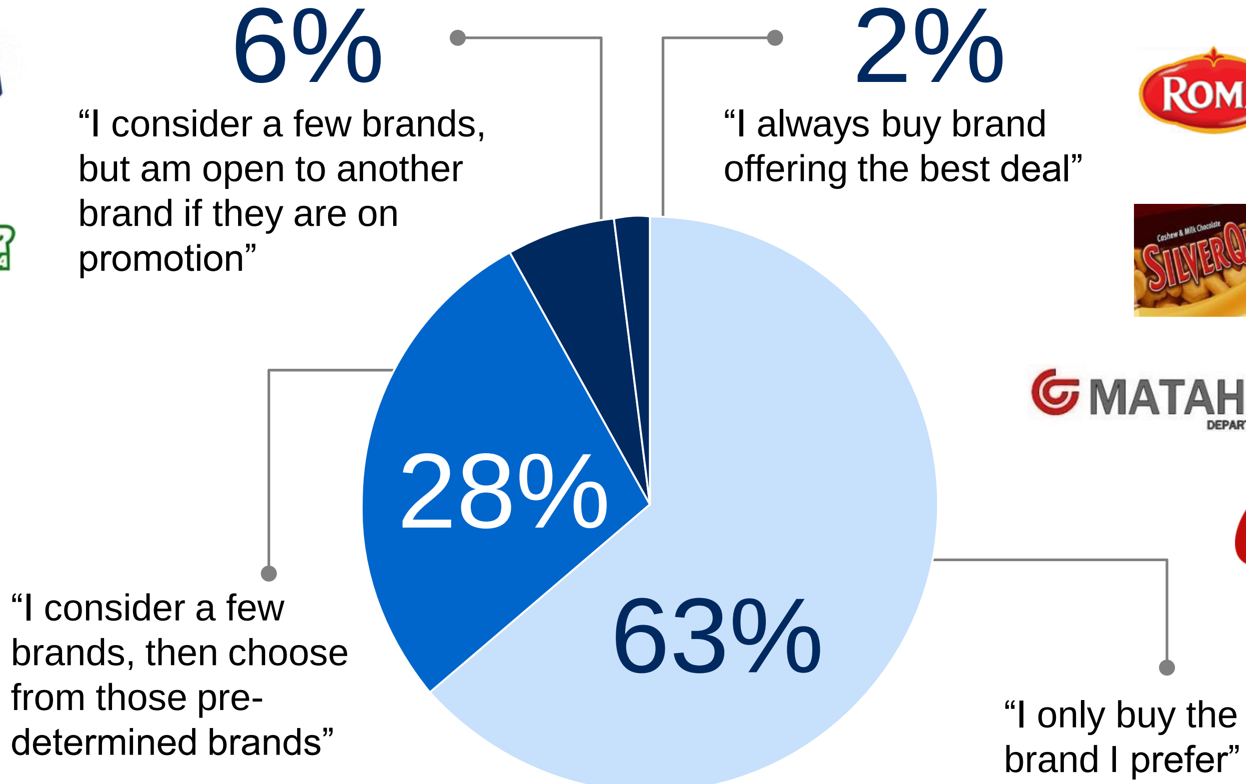
Independent of social class, Urban Indonesians share defining consumer characteristics – but differ in some shopping behaviors

Prevailing Indonesian attitudes



Indonesians display very high affinity to purchase branded products and are highly brand loyal

% of people when buying food and beverage in Indonesia



Urban Indonesians are risk averse and brand-loyal; They pick brands and products they know and trust. **Private label penetration of grocery is 1.5%**[1] versus regional peers – Thailand 2.5%, Malaysia 2.6%, Singapore 3.2%

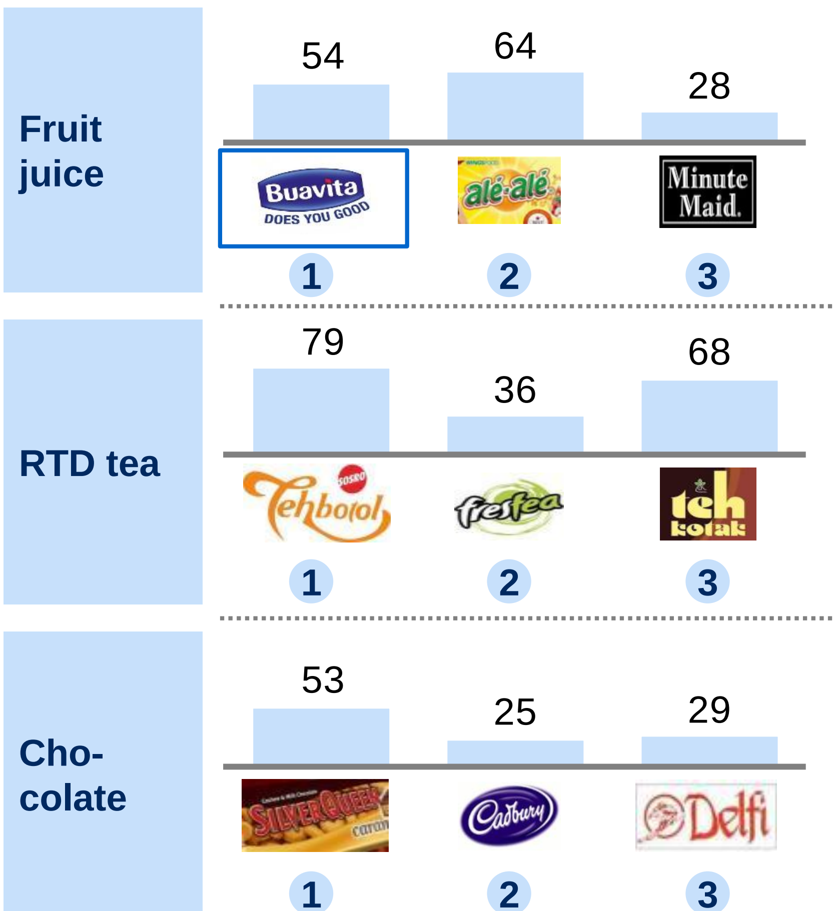
1 Categories: grocery, beauty and home, hygiene

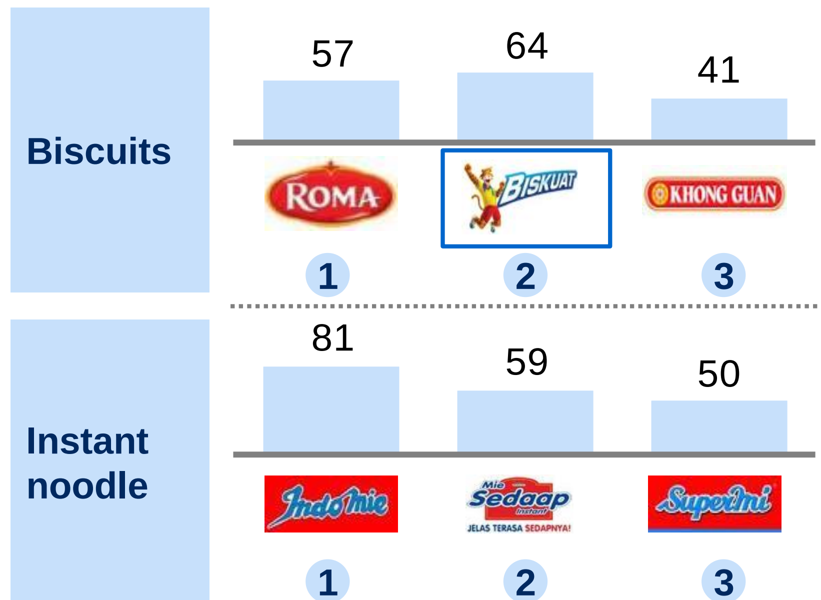
SOURCE: McKinsey Consumer insights Indonesia; Euromonitor

And in fact, brand loyalty is highest towards brands perceived as local

"It is a local Indonesian brand"

% that answered positively





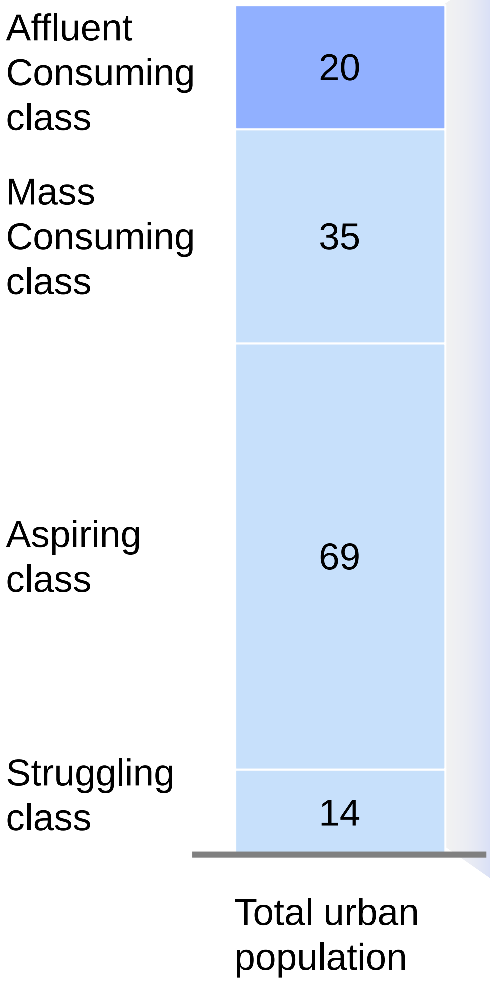
- **Buavita** was acquired by Unilever
- **Biskuat** was created by Danone – and acquired by Kraft in 2007. Danone has successfully developed an Indonesian value proposition

SOURCE: McKinsey Consumer Insights Indonesia 2013

The upper echelon of the Consuming class – the Affluent Consuming – is starting to break away in their attitudes towards consumption

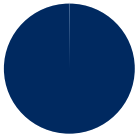
Urban population, in million people, 2013

Maximum distinction   No distinction

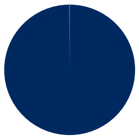


Distinction between Affluent and Mass

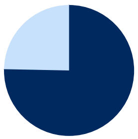
Self-Rewarding



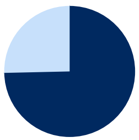
Financially Savvy



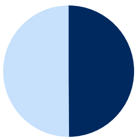
Premiumizing



Early adopters

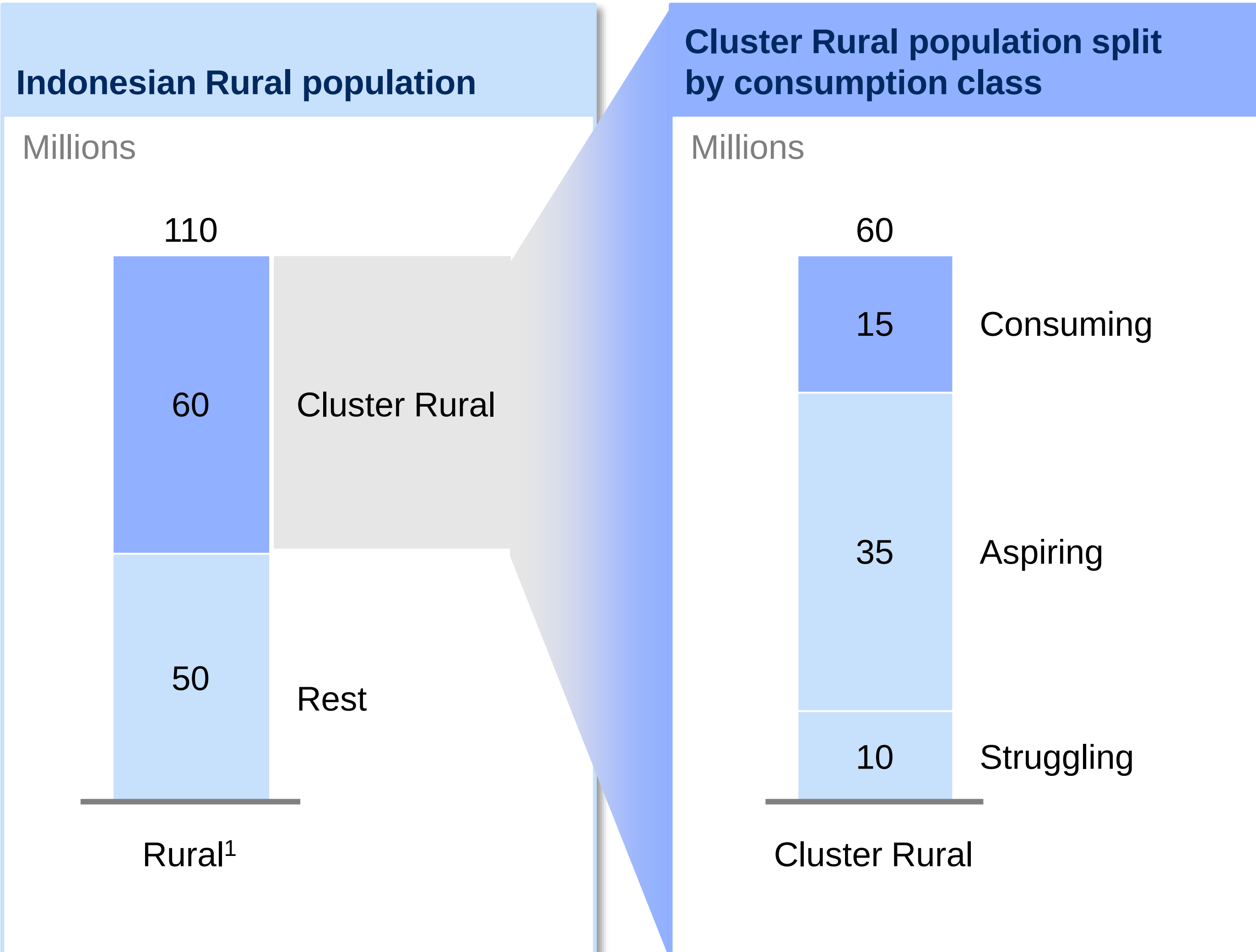


Digitally connected



SOURCE: McKinsey Consumer Insights Indonesia 2013

Cluster Rural presents a commercially attractive segment of the population with 15 million individuals in the Consuming class



- **Cluster Rural** population is defined as rural population **living in a rural area[1] with in 50km of a city center** that has an urban population >250,000
- **Of 60 million** Cluster Rural population, **15 million belong to Consuming class**

1 Rural classification based on BPS

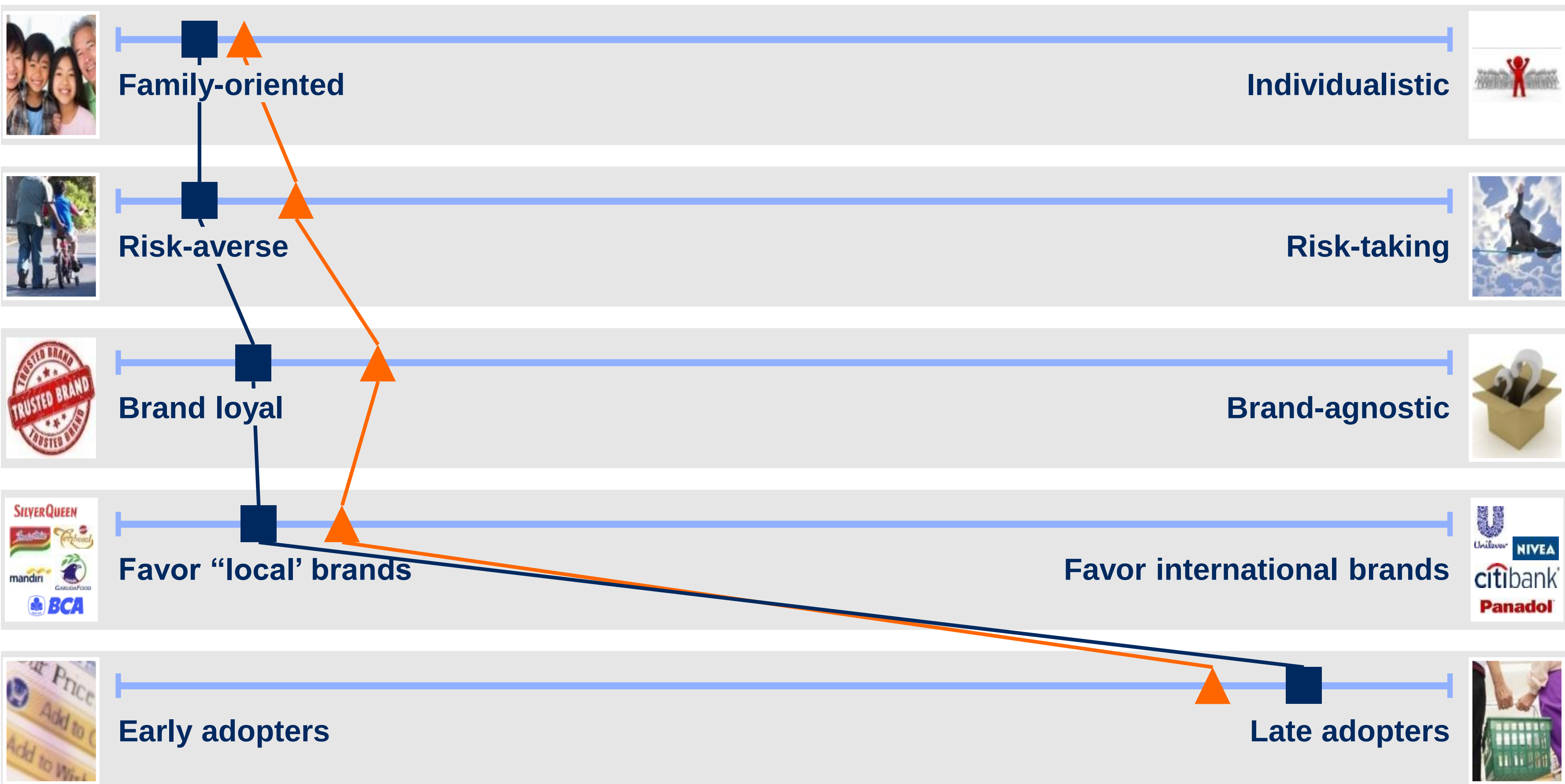
SOURCE: McKinsey Consumer Insights Indonesia 2013

Cluster Rural Consuming class exhibits largely similar attitudes as the Urban Consuming class on prevailing Indonesian characteristics

■ Cluster Rural Consuming class ▲ Urban Consuming class

Prevailing Indonesian attitudes

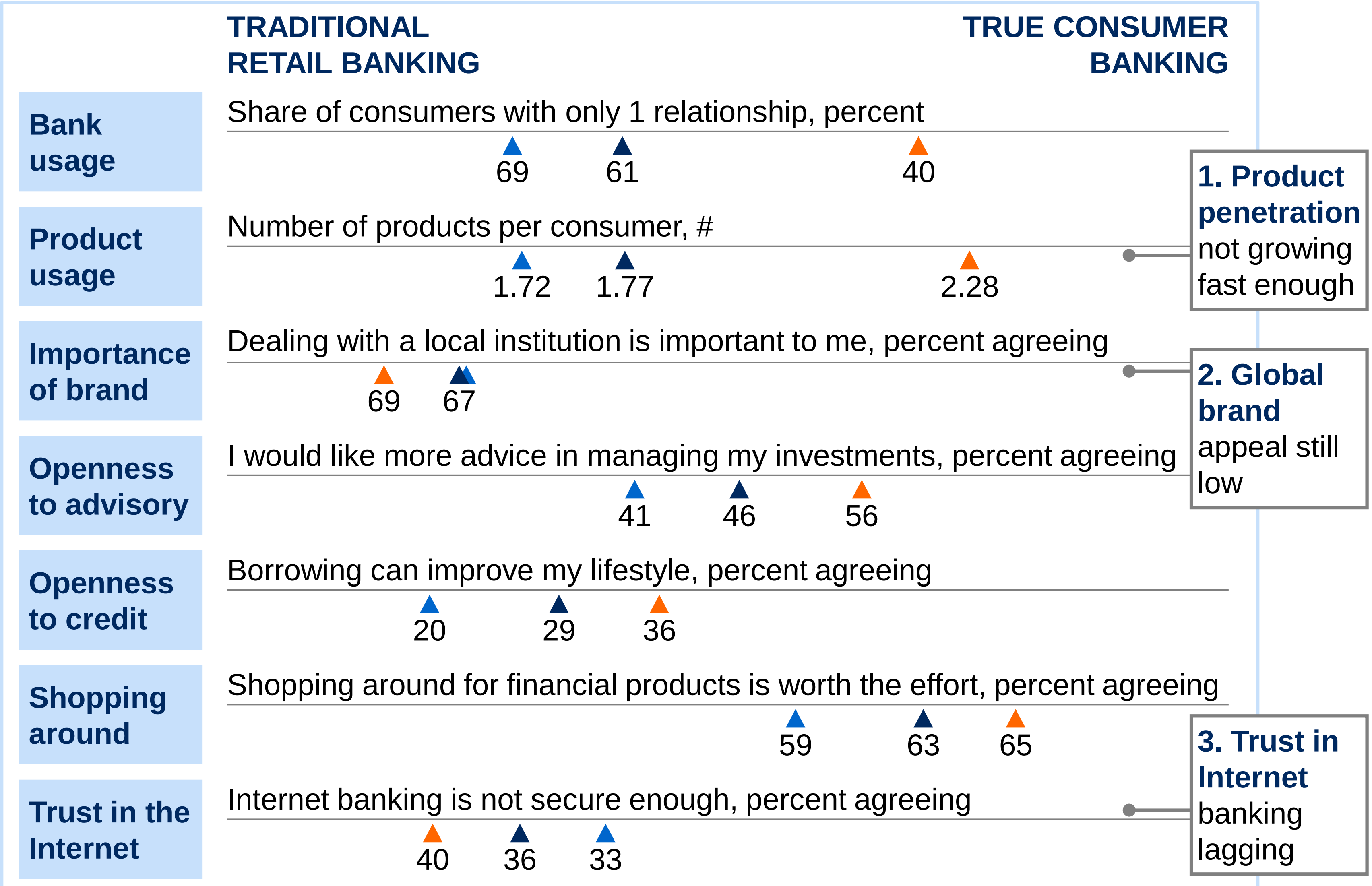
Attitudinal scale



SOURCE: McKinsey Consumer Insights Indonesia 2013

From traditional retail to true consumer banking – product usage, Internet banking and appeal of global brands continue to lag

▲ 2011 ▲ 2013 ▲ 2013 SES A



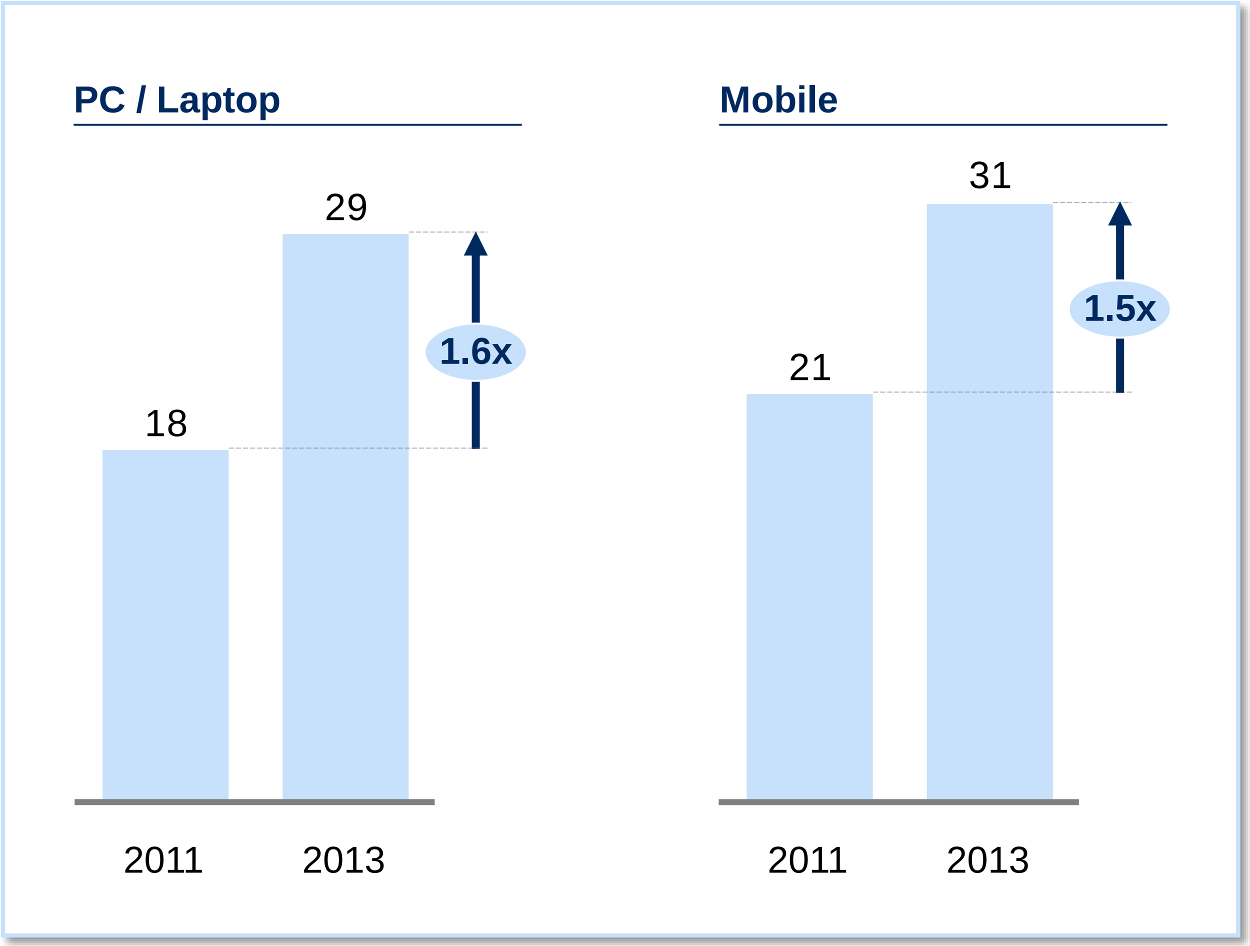
SOURCE: Consumer insights Indonesia 2013

Internet usage in urban Indonesia has grown by 40% over the past 2 years

URBAN

Did you use the internet in the past 12 months through a PC, laptop or mobile phone?[1]

Percent of respondents in urban population answering ‘yes’



1 Of urban population between ages 18-65

SOURCE: McKinsey Consumer Insights Indonesia 2013, MGI Cityscope

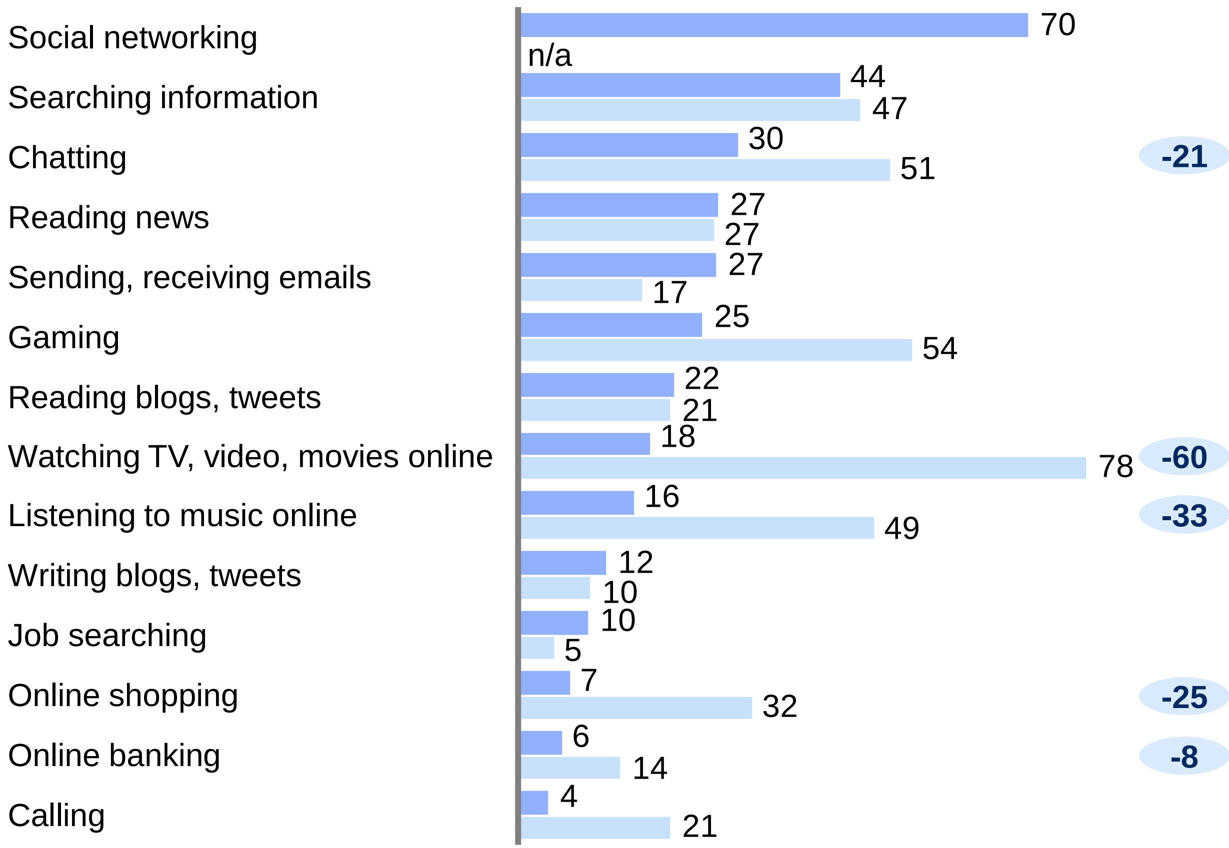
Social networking is by far the leading use of the internet – commercial activities or media consumption have not yet boomed

URBAN

xx Difference to Chinese mass market | Urban Indonesia | Chinese mass market

Have you done the following activities on a PC/laptop the last 12 months?[1]

Percent responding "Yes"

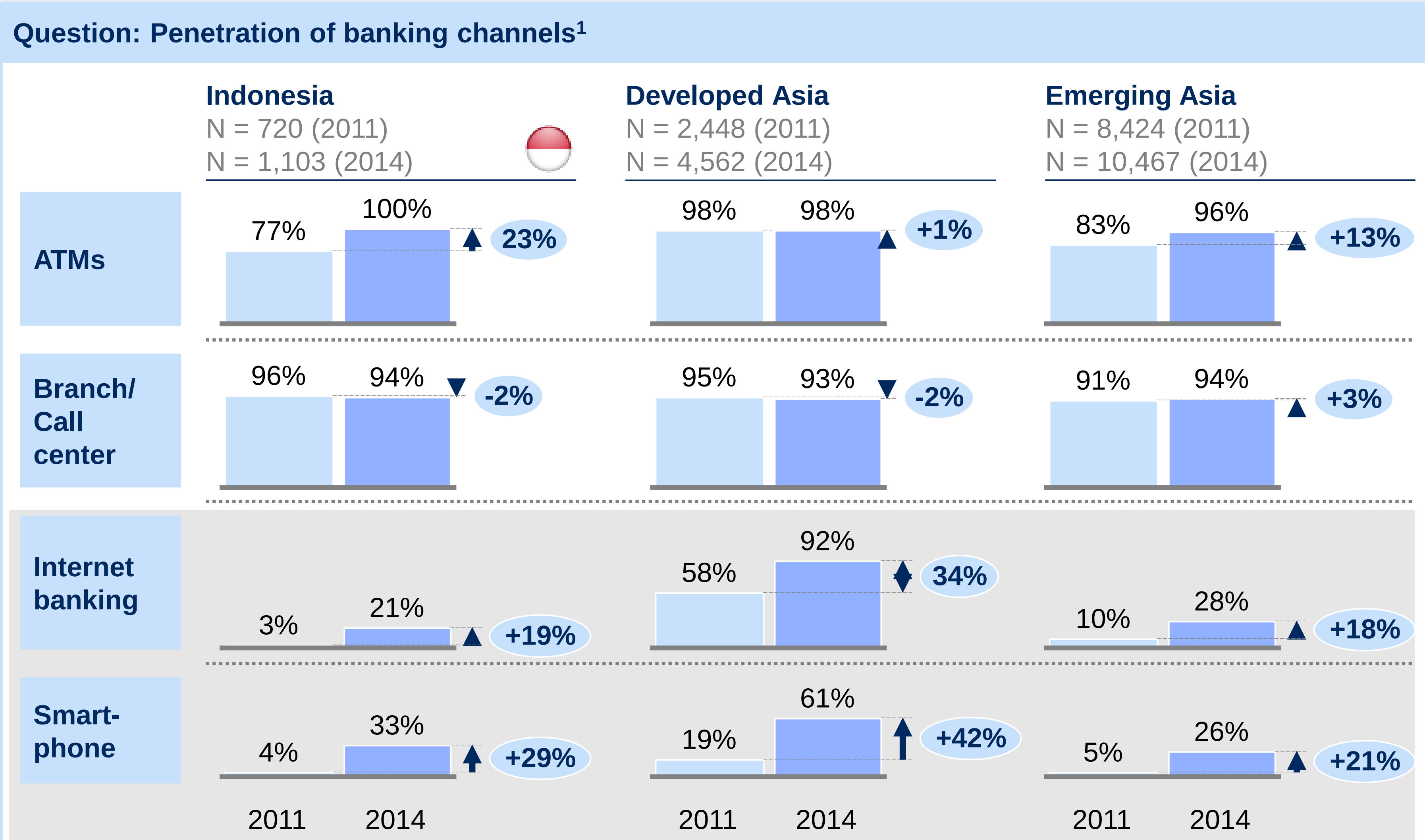


- **Social networking and searching information predominant use of internet**
- **Opportunity for marketers to drive further digital media consumption in Indonesia**
- **Commercial activities** such as online shopping and banking continue to have a **low penetration**, especially **relative to Chinese mass market**

1 Question asked to the 29% of the population that cited using internet via PC/laptop in past 12 mos.

SOURCE: McKinsey Consumer Insights Indonesia 2013

Smartphone banking in Indonesia is growing rapidly; penetration has already exceeded desktop-based Internet banking



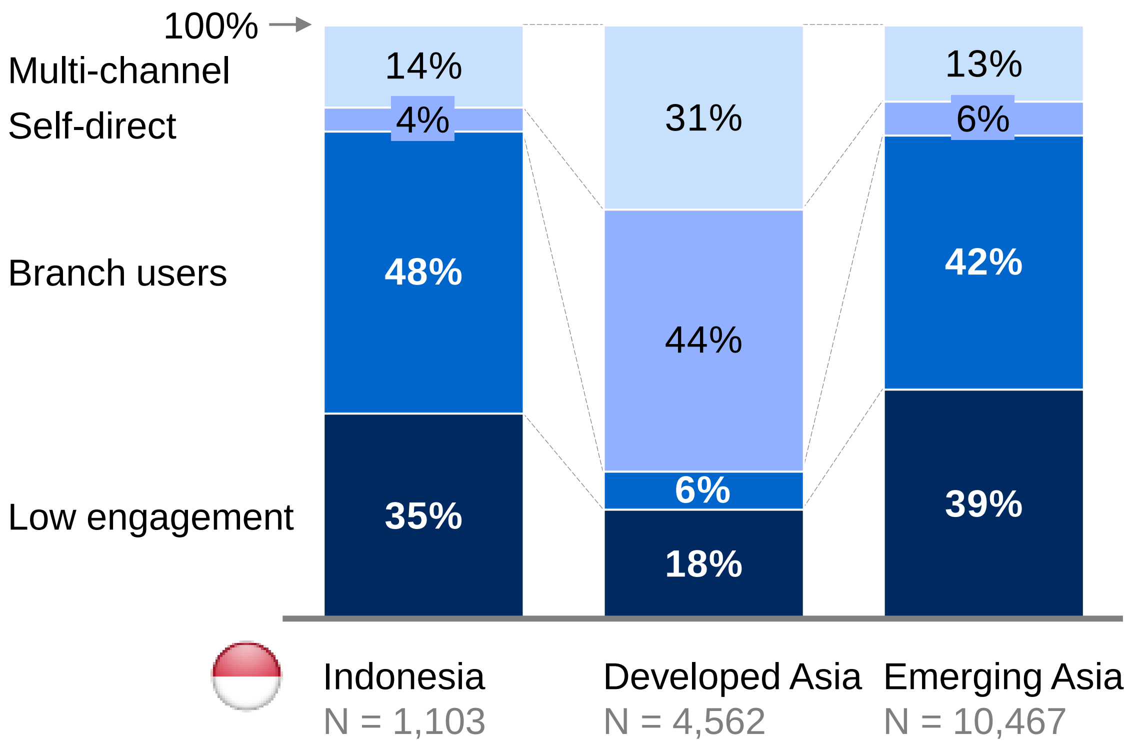
1 Penetration based on whether respondent uses the following channels or not

SOURCE: McKinsey Asia PFS Survey 2014

Most consumers still use branches at least once a month

Behavior of customers based on usage of channels

% respondents



1 **Multi-channel:** Visits a branch at least every month and uses digital banking at least once every 2 weeks
Self-directed: Uses digital banking at least once every 2 weeks, but visits branch less than once every month
Branch users: Visits branch at least once every month, but uses digital banking less than once every 2 weeks
Low engagement: Visits branch less than once every month and uses digital banking less than once every 2 weeks

SOURCE: McKinsey Asia PFS Survey 2014

Branches are used for more complex services; however, digital platforms fast becoming comparison-shopping channel of choice

Top channel

Consumers intend to perform the following banking activities via different channels[1]

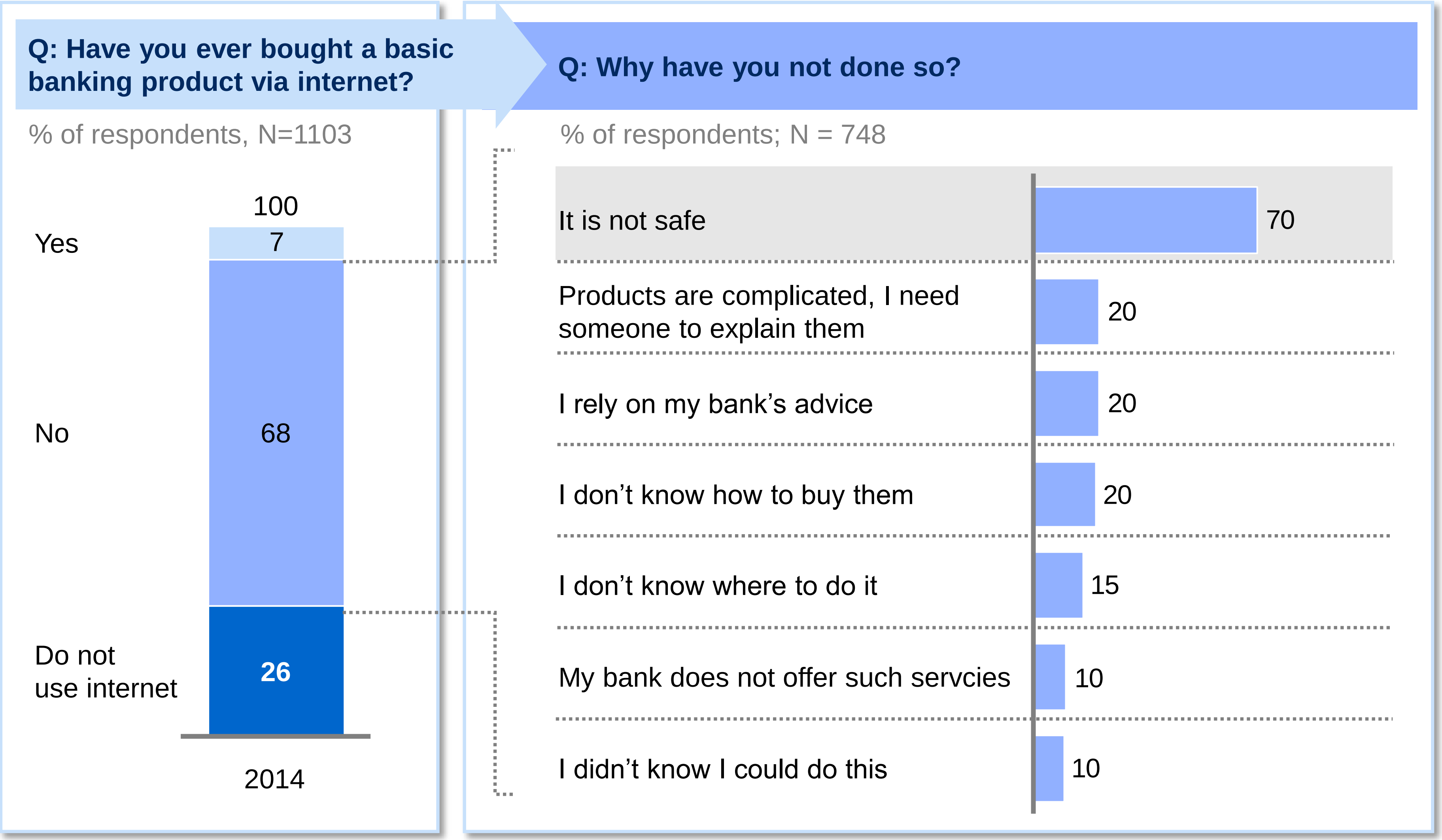
% preference for each channel to perform activities, N=1,103

		Internet banking	Smartphone	ATM	Branches and call center
Less complex transac-tions	Pay bills	20	24	37	18
	Transfer money	17	21	40	22
	Balance inquiry	18	23	41	18
Complex transac-tions	Compare rates on products	32	31	7	30
	Exchange currency	14	12	0	74
	Get product advice	24	18	8	51
	Apply for products	16	16	9	59

1 Question asked was likelihood of performing the following activities via different channels in the next 12 months

SOURCE: McKinsey Asia PFS Survey 2014

The main issue is digital security



SOURCE: McKinsey Asia PFS Survey 2014

Thank You