

CHAPTER I

INTRODUCTION

I.1 Background

I.1.1 Fast Moving Consumer Goods Business in Indonesia

Fast Moving Consumer Goods (FMCG) are types of consumer goods that has fast displacement. These goods can be categorized as food, cosmetics, home cleaning, cigarettes, and others. FMCG is not limited by the type of good, but rather characterized by its fast consumption.

Due to its nature as goods that are consumed quickly, consumers will frequently purchase these items. The most universal feature of FMCG products is the use of packaging. This gives consumers the convenience of storing, consuming, and disposing of it. FMCG producers tend to use a variety of machines and technology to meet market demand.



Figure 1.1 List of FMCG companies in Indonesia

Source: McKinsey & Nielsen (2015)

In Indonesia, there are many major players of FMCG in this industry, However, in the category of food and beverages companies such as Indofood and Unilever dominate the market. With a population of around 260 million, Indonesia is a country suitable for FMCG businesses.

I.1.2 Opportunity in the Food FMCG Industry

According to a research conducted by McKinsey (2013), consumer spending in food and beverages will grow at a rate of 5.2 percent a year. This growth will amount to 194 billion USD in 2030.

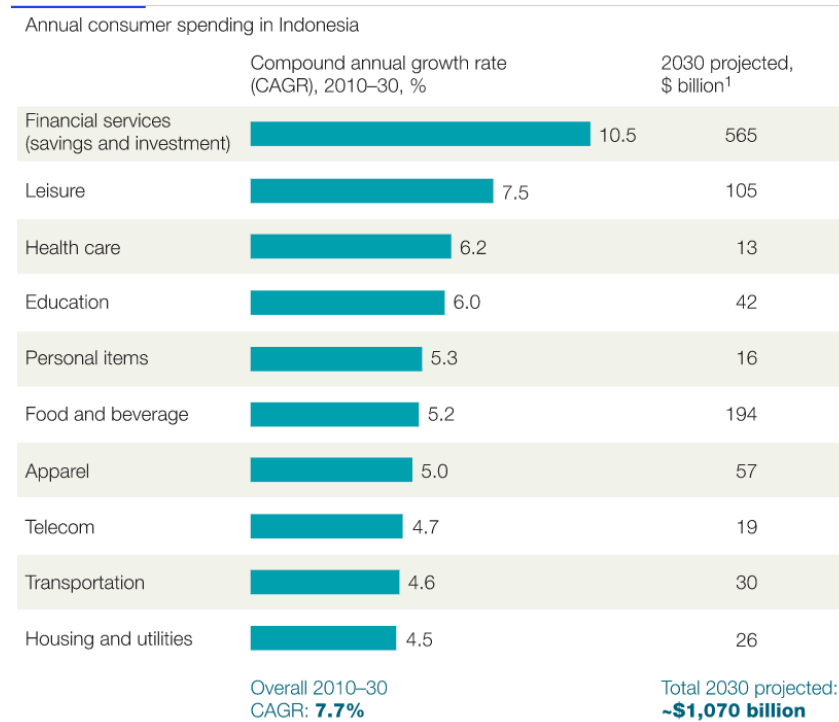


Figure 1.2 Projection of Indonesian consumer spending 2010-2030

Source: McKinsey (2013)

The graph above shows that the growth of food and beverages are lower than other sectors such as financial services, leisure, etc. However, in terms of total consumer spending, the food and beverages sector rank the second highest after financial services.

BRAND FOOTPRINT 2017 INDONESIA (URBAN) RANKING TOP 20




Rank 2017	Brand Name	Manufacturer	CRP (m)	Penetration% 2017	Frequency 2017
1		Indofood	1.230	98	44
2		Wings	688	95	25,4
3		Santos Jaya	624	84	26
4		Unilever	579	89	23,1
5		Wings	577	88	23
6		Friesland Campina	539	90	21
7		Unilever	474	87	19,1
8		Unilever	431	93	16,3
9		Ajinomoto	422	74	20
10		Indofood	419	88	16,7

Figure 1.3 List of brands most purchased by urban consumers 2017

Source: Kantar Worldpanel (2018)

The figures above shows the survey results of the highest brand footprint from 8500 samples of urban Indonesian household which represents 28 million or 85% of total households within the Indonesian urban area (Kantar Worldpanel, 2018). Among the top 10 brands, there are two brands on the 4th and 9th place that constitutes as seasoning powder. The brand Royco and Masako has a household penetration of 89% and 74% respectively. This shows that seasoning powder are one of the top purchases by urban households and plays a key role in Indonesian diets.

A survey conducted by McKinsey (2014) on 5500 consumers across 44 cities and rural areas highlights four key findings on the Indonesian market. The first finding is that the consuming class which comprise of 55 million urban and 15 million rural Indonesians will be the most anticipated segment for businesses. These 70 million individuals are becoming more educated in their consumption and their choice of products.

Another finding is that the GDP contributed by urban Indonesians will increase from 74 percent to 86 percent in 2030. The article also mentions “five hidden gem

cities” in Indonesia which despite the lower population will demonstrate increasing disposable incomes and consumption behaviors.

In terms of retail channels, traditional channels such as wet markets and *warungs* still dominate retail sales in Indonesia. However, there has been a continuing trend in the increasing share of modern market which is lead by the high growth in convenience stores. This phenomenon is also observed by USDA Foreign Agriculture Service.

Lastly, Indonesian consumers trust and prefer local brands. The reason for this preference is due to their perception that local companies provide more value due to a better understanding of Indonesian consumers. Unfortunately, foreign companies are still able to tap into this market through localization and acquisition strategies.



Figure 1.4 Annual sales of Grocery Retailers

Source: USDA Foreign Agriculture Service (2018)

According to Kantar Worldpanel Indonesia (SWA, 2017), FMCG companies need to improve their performance by adopting three new product trends: health, comfort and happiness. In food FMCG, increasing public awareness of health encourages consumers to adjust to a healthy lifestyle and start switching to products that offer health benefits and is made from natural ingredients. Consumers are looking for

products that can support a healthier life, this encourages the market growth of product categories that offer health benefits such as cereals and cheese.

Currently the market for premium packaged food and beverage products that are labelled “natural” and “organic” are dominated by foreign brands, these products are priced very high which makes it inaccessible to middle-income families. Indonesian consumers are becoming more educated with a growing concern in living a healthy lifestyle.

The World Bank (2017) indicates that Indonesia has at least 52 million people that are considered middle class which currently accounts to 43 percent of household consumption. Moreover, around 8 to 9 million of Indonesian are expected to enter the middle and affluent class per year (Boston Consulting Group, 2013). Based on these facts, the author identifies an opportunity by providing moderately priced products that can compete in quality against these imported products.

I.2 Problem Formulation

According to the background which has been expounded and the opportunities that have been identified, the formulated problem that is proposed is:

1. What the feasibility of OKAYA as a food FMCG business?

I.3 Purpose and Objectives

The purpose of this final report is to analyze the feasibility of developing a food FMCG business based on the plan’s implementation. The objectives of this final project report are:

1. Analyzing the external environment and industry of FMCG business
2. Designing a value proposition for premium stock powder
3. Identifying OKAYA’s customer segment and positioning
4. Analyzing the implementation of OKAYA FMCG business

I.4 Scope of the Problem

This project report examines issues in the establishment of operational processes and in marketing strategies. The implementation location will be conducted in Jakarta for 4 months starting from March 2019 to July 2019.

I.5 Research Method

The study of OKAYA's business development strategy will use descriptive methods. The research will cover aspects of planning to implementation and analyses the outcome and evaluating it based on the plan from various perspectives.

I.6 Writing Systematics

The systematics of writing this project contains 5 (five) chapters, consisting of:

Chapter I: Introduction

Contains the background of the Indonesian economy and the FMCG industry, problem formulation, purpose and objectives, problem boundaries, research methods, and writing systematics.

Chapter II: Theoretical Review

Contains a theoretical foundation that explains the analytical tools the author will use to analyze the external environment such as PEST analysis and Porter's Five Forces, the business with SWOT analysis, Value Proposition Design, and Business Model Canvas. Afterwards, the author will explain the tools and theories used to construct the marketing plan, operational plan, and financial projection.

Chapter III: Business Analysis and Strategy

Contains business analysis and strategy that begins with a description of the business. Continuing with analyses of the external environment which includes PEST analysis and Porter's Five Forces, and analyses of business such as SWOT analysis, Value Proposition Design, and Business Model Canvas. Lastly, the author will describe the implementation plan for March to June 2019 in the form of a marketing plan, an operational plan, and a financial projection.

Chapter IV: Analysis of Business Implementation

Contains a detailed account on the results from the implementation of the marketing plan and operational plan. Afterwards the author will analyze the gap between the plan and implementation with reference to external sources such as theories and empirical research.

Chapter V: Conclusion and Suggestions

Contains conclusions and suggestions obtained from the results of this final project report.