Indonesia Furniture Market Analysis; (1st draft); 20/10/16

“The show would be a domestically focused Interiors event sitting beside an existing homewares show called Mosaik. We do not believe we can get regional traction with coverage across the SE Asia due to competitive events in the region as well as another local Interiors event which we have been assured will not run in 2017 and we will get endorsement for. With this in mind, it would be great to understand better the size of the price in mainland Indonesia. The market is potentially huge with a population of over 260 million. We know who the associations are / the competitive events etc. but are in need of some more information”

1. Size of the middle classes in Indonesia?

In short:

Depending on how this is measured, anywhere between 11-75+ million (!) representing up to around $350 billion of total wealth in the most generous estimates. Without question, disposable incomes are rising quickly and in line with ongoing national economic growth. This demographic is increasingly urbanised and has increasing demand for, and access to, modern / international retail.

In detail:

There’s no standard definition for “middle class” - the Asian Development Bank’s criteria is the most frequently quoted in reference to ASEAN countries, i.e. population with daily per capital expenditure between US$2-$20 per day. By this measure its middle class was estimated at approximately 74 million by Boston Consulting Group in 2012 – more than the entire population of Canada, and BCG projected this to double by 2020 which would make it the world’s third largest middle class after China and India.

Another frequently used definition is of the “consuming class” – individuals with net annual income of or above $3,600 (i.e. the upper half of ADB’s measure). McKinsey counted 45 million members of this group in the same year, which it estimated would increase to 135 million by 2020.

The World Bank estimates that Indonesia’s Gross National Income per capita rose from $560 to $3,630 between 2000 and 2014 and close to 80% of Indonesian households are expected to have combined annual earnings of more than US$5,000 by 2017.

Credit Suisse Research Institute’s 2016 Global Wealth Report takes all assets into account rather than annual income, and argued that the country’s middle class has more than tripled in US dollar terms since 2000 and has risen fivefold in rupiah. According to this analysis, the middle class constitutes 4.4% – or around 11 million - of the country’s total population who make up 23% - or $351 billion - of Indonesia’s total wealth of US$1.54 trillion (or an average of approximately $31,000 per person).

Regardless of which approach is taken, all agree that the population’s disposable wealth is following a similarly impressive growth rate to its overall economy. The country is already Southeast Asia’s largest economy, generating nearly half of the region’s GDP with $861.9 billion in 2015. It has been the world’s third fastest expanding economy - after China and India - over the last 10 years, registering growth at more than 6% per annum (bar 2009 which was lower, at +4.5%, due to the global financial crisis). It is widely predicted to be in the top 7 largest economies in the world by 2030. Its key drivers include:
an increasingly youthful population - nearly 60% is below 30 years of age;

- a fast expanding population – currently growing at around 3 million a year

- rapid urbanization, fuelling a rise in incomes and the ability for consumers to spend increasing amounts on discretionary items (the number of Indonesians shifting to urban areas is expected to reach 71% of the total population, or 209 million people, by 2030)

- development of modern retail channels within these large urban centres

- very high domestic consumption, with consumer spending at ~57% percent of GDP (significantly higher than the corresponding figures for neighbouring, largely export-driven nations such as China, Malaysia and Thailand)

This remarkable growth will provide business opportunities in the consumer sector worth an estimated US$1 trillion by 2030. In fact, Indonesia’s retail sector has already benefited from the increase in domestic purchasing power, with retail sales having risen at an annual rate of 12% between 2008 and 2012; total retail sales CAGR is forecast at 12.9% between 2013 and 2017.

2. What’s the appetite like for International brands – where is this demand coming from?

In short:

Traditionally a very insular market, appetite for international brands is now clearly increasing across all forms of retail. This trend is being driven by a younger, wealthier and more urbanised population with greater access to international culture and communications.

In detail:

Commentary on this issue tends to be anecdotal, but consistent: Indonesia has historically been a very domestically focused market dealing in nationally produced products and services, but this is now changing quickly.

Although most retail in Indonesia still consists of “fragmented” (i.e. traditional, independent, locally owned stores), rapid development in real income and spending power, the growing youth of the population, urbanisation and increasing exposure to Western entertainment and culture are all stimulating an increasingly international, brand oriented market.

Modern, internationally focused retailing is emerging as the preferred channel for points of sale among the urban middle class – a trend demonstrated by the gradual establishment and success of large shopping malls featuring many international brands over the last few years. Ace and IKEA provide notable examples in the homeware space.
and department stores like Marks and Spencer, Next, Debenhams and Harvey Nichols have all recently opened stores based in major cities. Modern retail channels are forecast to reach US $87 billion in 2017 – twice the revenues seen in 2010.

3. Who are Indonesia’s best export trade links for Interiors products with and what do they export to them?

Indonesia currently exports around US $2 billion worth of furniture and handicraft annually and is among the top 20 furniture exporters worldwide. This is however still a relatively small part of the global furniture export market, which has been estimated at around US $140 billion per year. China is the top player with around US $56 billion worth of this market and Vietnam also a significant Asian force. Last year, Indonesian Industry Minister Saleh Husin stated the government’s ambition that their exports would reach US $5 billion by 2019.

The main recipient markets for Indonesian furniture exports are Western Europe, USA, Japan, China, Malaysia and Australia (ref: Indonesia Ministry of Trade) and it has an established reputation particularly within the field of outdoor furniture from teak, bamboo and rattan as well as carved furnishings - wooden furniture comprising the lion’s share of Indonesia’s furniture exports at 58% (ASMINDO).

4. Indonesia exports a lot of wood to Saudi Arabia – can you find out what for; is it for manufacturing?

In short:

The vast majority is for either construction or furniture manufacturing – I’m looking for a sensible breakdown of this and will update you once I have one.

In (more) detail:

Ventures Middle East’s ‘Future Outlook of the Wood Industry in the GCC’ report from 2013 asserted that Saudi Arabia (as a consumer) and the UAE (as a consumer and a re-exporter) are the two largest markets for imported wood in the GCC.

Saudi Arabia’s demand for wood products is diverse and largely satisfied by imports. World Bank figures places Indonesia as the second largest exporter of wood to KSA at over US $300 million in 2014. MIT’s OEC analysis breaks this down as 84% in plywood or laminates, 8.2% in fibreboard and 7.2% in charcoal (as below).

Ventures assert that the construction sector is the single biggest driver of these materials in these markets. Imported hardwood products are mostly used in wooden furniture manufacturing, whereas softwood products are used in both traditional furniture manufacturing and the construction sector (for concrete forming, scaffolding and other applications such as pallets, crates, boxes etc.) Somewhat obviously, MDF and plywood are also becoming a preferred substitute amongst furniture manufacturers due to their price advantage.
5. Biggest Interiors imports come from region – Singapore, Malaysia, Korea and China – what are these products and what is the interiors market gap which Indonesia cannot service themselves?

I haven’t got very far with this yet I’m afraid, although as you will see below, several of the more notable Indonesian manufacturers / retailers have roots in Singapore and Malaysia going back several decades, and most of these seem to operate in the overwrought rococo / chintz end of the market rather than in simpler Indonesian styles.

Perhaps the Singaporean / Malaysian market has simply specialized in this type of furniture for much longer than local Indonesian manufacturers due to the need to service its traditionally larger expat populations, and so cornered the regional market? China may simply be attributable to it being such a massively dominant exporter to all markets. I shall keep digging.

6. A breakdown of market potential by sector and size would be great please – Commercial, Retail, Hospitality, Residential etc.?

Again, I haven’t been able to find a sensible analysis of this yet but will update you once I have.

7. Who are the leading Interior retail outlets in the market place (Top 5) – not international brands like Carrefour etc.?

As noted above, Indonesian retail is dominated by small independent store owners, collectively known as “fragmented trade,” but modern retail – including larger, mall based hypermarkets and department stores – is now taking hold. I haven’t been able to find a league table of domestic interior retailers yet – which may continue to prove elusive as most appear to be privately owned - but some notable domestic players include:

- **Olympic Furniture** ([www.olympicfurniture.co.id](http://www.olympicfurniture.co.id)): 49 branches with 30 distribution points to supply products to more than 3,600 traditional stores and 250 modern retail outlets
- **Furnimart** ([www.furnimart.co.id](http://www.furnimart.co.id)) – owned by Olympic?
- **Informa Furnishings** ([www.informa.co.id](http://www.informa.co.id)) hold stock of over 35,000 products; largest showroom in Serpong at 25,000m2; sales materials stress that they specialize in international goods
- **Vinoti Living** ([www.vinotiliving.com](http://www.vinotiliving.com)) established in 1999; has a range of showrooms offering both domestic and international furniture
- **Vivere** ([www.viverecollection.com](http://www.viverecollection.com)) home furnishing and accessory retail chain founded in 2003 with 10 major showrooms across Indonesia

International players – several of which are franchised by local companies in order to speed market access and adoption, include:

- **Ace Hardware** ([www.acehardware.co.id//about](http://www.acehardware.co.id//about)): 57 stores nationwide
- **IKEA / PT Hero Supermarket** ([www.indonesia-investments.com/business/indonesian-companies/hero-supermarket/item226](http://www.indonesia-investments.com/business/indonesian-companies/hero-supermarket/item226)) – caused a major splash in 2014 upon opening its first outlet in the greater Jakarta area
- **Da Vinci** ([www.davinciasia.com/about.php](http://www.davinciasia.com/about.php)) established in Singapore in 1978, it has a strong presence in Indonesia and its largest showroom occupies 12 floors of the 35-floor Da Vinci Tower in Central Jakarta (its remaining floors are apartments decked out in their products)
- **Cellini** ([www.cellini.co.id](http://www.cellini.co.id)) Singaporean manufacturer with over 50 retail show rooms in South East Asia and 22 in Indonesia
- **Courts** ([www.courts.co.id](http://www.courts.co.id)): Singaporean IT, electrical and furniture retail chain. Although only contributing 2.1 per cent of group revenue over the last year, Indonesia had a 148% growth in revenue over the same period.
8. Are there any currency issues in regards to taking money in and out of the country?

As the answer to your next question also points out, Indonesia does not score spectacularly well on certain international trade metrics. However, I haven’t been able to find any compelling reference to this being a significant problem so far. Although it’s been in an ongoing, gentle decline against the dollar, the Rupiah has been a relatively stable and predictable currency over the last five years.

9. What hurdles would international companies have to overcome if entering into the market?

If judged in terms of most key emerging markets, Indonesia appears to be a reasonably straightforward environment for international companies to establish themselves in. Critically, Indonesia’s politics are pretty stable and the government is making progress in improving its laws and business regulations. Although not purely judged around market entry, the World Bank’s 2015 “Ease of Doing Business” index placed Indonesia at 109 out of 189 nations:

Consultancy / trade attaché guidance frequently recommends finding strong domestic partners in order to be able to navigate the regulatory and business landscape, generate greater brand awareness and scale up and capture market share quickly. Other popular market entry strategies appear to include undertaking OEM manufacturing within Indonesia, working with big-box retailers, or identifying merger and acquisition opportunities.

Despite this relatively positive context for prospective market entrants, the market does present certain clear challenges:

- fragmented geography (spread across some 6,000 inhabited islands), size and diversity
- distributed population of almost 250 million people
- often somewhat bureaucratic business environment
- regulations can be confusing, and sometimes implementation can be inconsistent
- high logistics costs
- poor infrastructure
- business culture where companies will rarely respond to emails
- strong business case less important than being a trusted partner

In short, as the UK Department for Trade’s website currently puts it: “Doing business in Indonesia takes patience and perseverance. Companies should be prepared to invest time and resources in regular visits over a period of months, sometimes years, before seeing returns. The rewards of doing business in Indonesia can be considerable. However it can take time to develop the necessary relationships before any financial returns materialise. Companies should recognise this and plan their business entry strategy accordingly.”