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Brands Bet on Indonesia as Spending Booms

By PATRICK BARTA

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The Plasa Andalas mall in Padang, Sumatra. Major brands are expanding beyond Jakarta as the country's other cities reap commodity wealth.

SAMARINDA, Indonesia—International companies are betting Indonesia will become Asia's next big consumer market after China and India—in part because of booming jungle outposts like this one.

Boom in the Jungle

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Here in Samarinda, a coal-mining center on the far eastern edge of Borneo, the population has more than tripled since 2000, and incomes are rising rapidly. Ford

Motor Co. has added its first dealership and Honda motorcycle salesmen say they can't get motorbikes fast enough to keep up with demand.

Borneo Boomtown

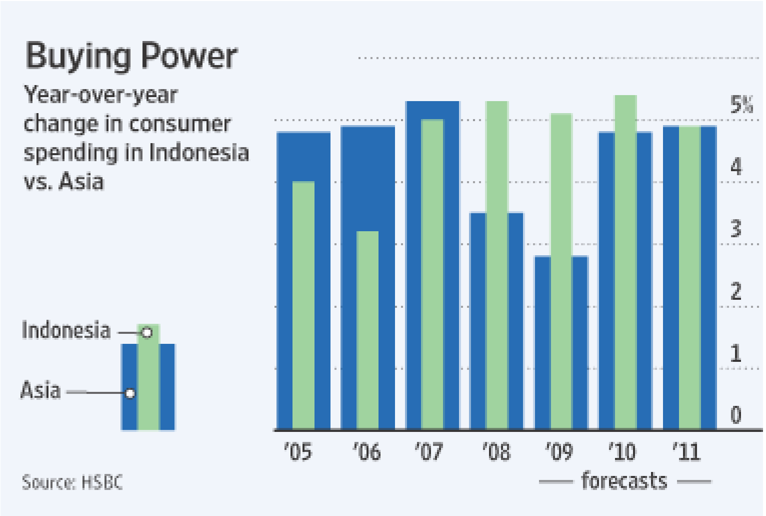
Second-tier cities like Samarinda are driving Indonesia's economic resurgence, and foreign companies are taking note. WSJ's Patrick Barta reports.

Variations of that pattern are being repeated across this vast archipelago nation. With sales of cars and motorbikes set to rise 15% or more this year, Ford dealers are adding a new showroom nearly every six weeks. In January, European private equity group CVC Partners agreed to pay more than $770 million for a controlling stake in one of country's largest retailers, PT Matahari Department Store, which plans to add 150 new outlets, including one just opened in Samarinda.

H.J. Heinz Co. said in February that Indonesia played a major role in pushing Asia sales, including chili sauces, up 41% last year. It also recently predicted a 23.1% increase in packaged food spending in Indonesia between 2009 and 2011—a faster rate of growth than India and China, which were expected to grow 20.0% and 14.3%, respectively.

With 240 million people, the world's fourth-largest population behind China, India and the U.S., Indonesia has long promised to be one of the world's biggest consumer markets. But it has lagged behind other developing nations because of political instability and disappointing growth after the Asian financial crisis of 1997-98.

That has started to change in the past several years, as Indonesia stabilizes, with a democratically elected government and surging sales of commodities such as coal, natural gas and palm oil to China.



Last year, Indonesia posted the second-highest personal spending growth in Asia, behind China but ahead of India. Private consumption climbed 5.1% compared with 0.4% growth in Asia excluding China. On Wednesday, Jakarta's stock market hit an all-time high, supported by confidence in the economy.

Unilever's Indonesian arm, which sells soaps, ice cream and other consumer goods, said in March that 2009 sales shot up 17%—well above previous years and among the fastest rates in the world for Unilever. Maurits Lalisang, president director of PT Unilever Indonesia, says he is adding new distribution depots and plans to double his business in the next four years. "Indonesia is going to get richer," he says, and "if people get richer, I have a lot of opportunity."

Indonesia's resurgence as a consumer market is the latest evidence that developing Asia, which for years relied primarily on exports for growth, is becoming more self-reliant as it develops a bigger middle class and its own domestic demand.

Indonesia still rates poorly in international indexes measuring corruption and ease of doing business, and many foreign companies remain wary of expanding there. Income levels are low compared to other emerging markets, with GDP per capita of just $4,000, less than half the level of Brazil—though more than India.

The country also isn't industrializing as rapidly as China and other emerging markets, which could limit its growth in future years, says HSBC economist Frederic Neumann in Hong Kong.

Even so, "it's a very strong market" for consumer-spending gains, he says.

Powering the rebound, analysts say, is surprising strength in once-ignored second-tier cities like Samarinda, which in some cases are posting growth rates approaching 10% a year, on par with China, analysts say.

The better-known capital of Jakarta, a city of more than 8 million people, used to dominate Indonesia's political and economic landscape. But farther-flung areas, including the islands of Sumatra, Sulawesi and Indonesian Borneo, also known as Kalimantan, have a far greater share of the natural resources desired by China.

These areas are also benefiting from political reforms after the fall of former dictator Suharto in the late 1990s aimed at decentralizing the country. Such "regional autonomy" reforms, which return more tax revenue to local governments and give them more authority, mean some $33 billion in federal money will be transferred from Jakarta to outer provinces this year, compared to $6.5 billion in 2001. "There's a lot more cash circulating in the provinces now," says Nick Cashmore, an analyst at CLSA, an investment bank. "The Wild West is where this country is going to have its future, not Jakarta."

Carved out of the forest along the eastern edge of Borneo, Samarinda had just four cars in the 1960s, according to Masroen Rusli, a 71-year-old local entrepreneur whose investments include one of the city's first hotels. Population has swelled to 750,000 from about 200,000 in 2000, and new mansions are sprouting within a stone's throw of operating coal mines.

Disbursements from the central government and revenue from mining have pushed the city government's budget to 2.3 trillion Indonesian rupiah ($250 million), from about 300 billion rupiah at the beginning of the last decade.

"We have excess money," says Muhammad Faisal, a spokesman for the city. He says it recently began paying local teachers a bonus of 1 million rupiah, or about $110, every month.

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Reuters

A man shops in Matahari retail department store in Jakarta in February.

The city has added a new sports stadium, a massive new bridge spanning the milky-brown Mahakam River, and a $55 million mosque—with space for 70,000 people—that city leaders tout as the largest in Southeast Asia. A new airport and container port are under development.

Ford opened its first dealership in 2007 and now sells some 60 vehicles a month, a 30% increase from two years ago. Honda has added five new dealers in the past three years. The manager of the local Lembuswana mall, Deny Tombatu, says the global financial crisis had "zero impact" on mall traffic last year, as spending kept rising.

Arman Usman, 26, says he spends about 5 million rupiah ($550) a month on discretionary items, including 3 million rupiah on clothes. One recent night he was wearing black pin-striped trousers and a giant belt buckle with an image of a U.S. $100 dollar bill on the front. To finance his spending, he sells about 100 million rupiah worth of electronic foot and body massagers each month from a shop in a newly built mall with outlets for Adidas, Pizza Hut and Giordano, a Hong Kong-based clothing retailer. "I'm a gadget freak," he says, with a Bluetooth headset in his ear and two mobile phones clipped to his belt. "I love shopping."

At a large Honda dealership nearby, meanwhile, staff say roughly a third of the customers pay in cash, including Paijin, a 41-year-old university administrator, who like many Indonesians goes by one name.

He was buying his third motorbike in as many years recently—a green and white Honda—and says he might buy a fourth one next year so that everyone in his family, including his wife and two children, can have one. He earns roughly 5 million rupiah per month and paid 16 million rupiah for the newest bike, he says.

"I consider this a big-spending area," he says, referring to Samarinda. He can't afford a car yet, he adds, but "I hope to someday."

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